ANNUAL REPORT 2023

On the frontpage:
Kevin Anhamm, the Arla Innovation Farm in Central Europe, Kampt-Lintfort, Germany.

In the heart of North Rhine-Westphalia, Germany, Kevin Anhamm operates the first Central European Arla Innovation Farm alongside his wife Rebecca, one full-time employee, one part-time employee and two trainees. This means that there is now an innovation farm in each of the four European Arla areas. These farms serve as testing grounds for new ideas and projects aimed at enhancing our carbon footprint on farm.

At Kevin's farm, the key areas of focus include feed efficiency, biodiversity and, in particular, animal welfare. Kevin places great importance on the well-being of his 295 Holstein dairy cows with 180 female offspring, and is committed to ongoing investments in this aspect. Kevin strives to continually develop his farm and remain at the forefront of modern agriculture. The external opening of the Central European Innovation Farm is scheduled for April 2024.

ABOUT THIS REPORT

This is our detailed annual report of Arla's financial and sustainability performance, risks, strategy and governance. It includes our consolidated financial statements and our externally audited sustainability statements.

In 2022, we integrated our financial and sustainability (ESG) reports into one comprehensive report to enhance transparency in our reporting and provide our stakeholders with a holistic view of our company's performance and long-term value creation. In 2023, we made further changes to the report to align with the European Sustainability Reporting Standards (ESRS) structure and requirements following the EU Corporate Sustainability Reporting Directive (CSRD), which Arla is obliged to implement in 2025.

ESRS structure and requirements
According to the ESRS, companies are required to disclose their Environmental, Social and Governance (ESG) information in a dedicated section called 'Sustainability Statements', placed within the management review section. To meet this requirement, the ESG data section, which was placed after the financial statements in last year's report, is now integrated into the Environmental, Social and Governance sections on pages 28-86.

In the first chapter of the sustainability statements, we give a detailed account of our double materiality assessment and provide an overview of the ESRS topics that we determined as material. In the following sections, we report on our impacts, ambitions, policies, strategies, actions, resources and progress towards targets for each of these material topics. Use the little coloured page tags to navigate and understand the page structure. For a detailed overview of all the ESRS disclosure requirements addressed in this report, please refer to page 154.

Consolidated financial statements
In this condensed report, the consolidated financial statements on pages 87-144 do not include the parent company financial statements. These are included in the report submitted for the authorities in Denmark. The structure of the consolidated financial statements is unchanged compared to the structure in the annual report 2022.

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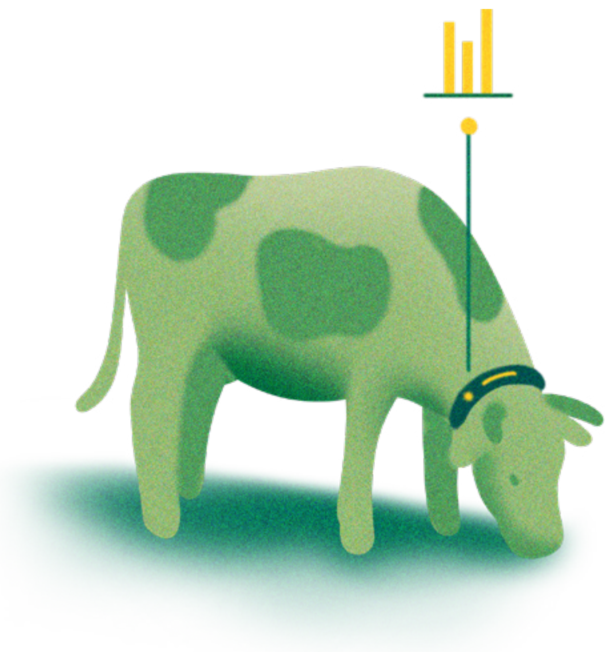

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INTRODUCTION

ARLA® SKYR

Arla's wide range of nutritious and affordable products create value for consumers in 146 countries across the world.

STRENGTHENING THE FOUNDATION FOR A SUSTAINABLE FUTURE

With changing market conditions and a rapid transition from the extraordinary circumstances of 2022, 2023 marked a significant year for Arla and our 7,999 farmer owners. Thanks to the strong execution by our farmer owners, employees and management, Arla once again demonstrated our agility in navigating through these challenging market conditions. I am incredibly proud of our solid results, both financially and in terms of sustainability goals, in the ever-changing landscape of 2023.

2023 was a year of two halves. Production costs rose while milk prices experienced a substantial decline in the first half of 2023. Since then, the market adjusted, and milk prices stabilised and improved towards the end of the year, but some production costs remained at a high level. Adjusting the economy on the farms simultaneously with these shifting conditions in an uncertain market has been a challenge for many farmer owners.

The average pre-paid milk price in 2023 was 44.1 EUR-cent/kg, which is 14.7% lower than the extraordinarily high price level of last year. Nevertheless, the solid financial results allowed for a competitive milk price and a supplementary payment of EUR 270 million, equivalent to 2.07 EUR-cent per kg of owner milk, above the level set in Arla's Retainment Policy, subject to the final approval of the Board of Representatives.

Sustainability is a challenge we cannot ignore and is crucial to meet the markets needs. With the steps taken this year, we are turning a challenge into an opportunity. As an owner, I am proud that we take responsibility for the environmental challenges by investing our time and capital in making the changes happen. We do not sit idle, but dare to be proactive and take on the task through innovation and action.

Our Sustainability Incentive model, launched in the summer of 2023, builds upon a long-standing data and science-based approach to how we in Arla can reduce our carbon footprint. In 2023, EUR 226 million was paid out related to the Climate Check payment and the incentive payment for the last six months of the year.

The results for 2023 show that our overall strategy is working as intended and that we are able to accelerate our efforts. CO_2e emissions for owner milk were reduced to an average of 1.08 per kg of milk compared to 1.12 the previous year, highlighting our effective approach and firm commitment to leading the future of dairy in value creation and sustainability.

With the introduction of the Sustainability Incentive model and the new customer programme, the value-add happening on our owners' farms has been even further strengthened. We are pleased with the results of the year and will continue working towards our goals of creating long-term value for our farmers, our customers and our society.

JAN TOFT NØRGAARD
Chair of the Board of Directors

COMPETITIVE RETURNS IN A DEFLATED DAIRY MARKET

Arla demonstrated its robustness in a deflated dairy market by returning to strong branded growth after a slow first half of the year, reaffirming a positive outlook for the first half of 2024. This was not least demonstrated by supplementary payments to our farmer owners of 2.07 EUR-cent/kg of milk or a total EUR 270 million for the full year. which is well above the 1.5 EUR-cent/kg that we committed to in our retainment policy.

As expected, the 2023 dairy market plummeted from an all-time high at the end of 2022, putting companies and farm economy under pressure. In the second half, the market slowly started to recover. While commodity prices remained at a lower level compared to the past couple of years, the level in second half was high compared to pre-Covid levels.

In this volatile market, Arla's robustness and ability to maximise price fluctuations and maintain growth in market shares in branded positions were once again reaffirmed. Our revenue of EUR 13,674 million was almost on par with the revenue for 2022, but increased costs of goods sold combined with general cost inflation led to a performance price decrease of 8.1 EUR-cent/kg to 47.0 EUR-cent/kg of milk against the all-time high performance price in 2022. This result is 15% above the last 5-year average.

While we maximised a difficult commercial landscape, our firmly embedded efficiency programme helped keeping our performance competitive, delivering EUR 114 million in net savings, which was above expectations. Unfortunately, negative currency effects cut into our profits, especially the historically low SEK, but also GBP, USD, Nigerian Naira, Bangladeshi Taka, and the heavily devalued Argentinian peso.

Brands returned to volume growth after challenging first half

For our brands, it was a year of two halves. In the first half, consumers continued to trade down to cheaper products due to inflation, impacting our strategic branded volume-driven growth negatively across Europe and International. However, we were able to maintain volume growth for brands like Starbucks™, Puck®, Arla® Protein and Arla® Pro. As inflation eased in the second half, all our brands regained volume growth momentum. Our strategic branded revenue growth for the full year ended at -0.7%, which was better than expected due to significant growth of 4.1% in the second half.

Ground-breaking steps for sustainability

Demand for sustainability actions continued to build, and Arla and its farmer owners responded by further reducing CO_2e emissions by 4 percentage points in scope 1 and 2 and by 3 percentage points in scope 3 in 2023. We have made substantial investments in sustainability and will continue to do so through our strong financial position. We are proud of not only being able to systematically decarbonise dairy, but also to add a second and third building block for how we are accelerating the transition together with our farmer owners.

While the first building block, the annual Climate Check on farm, was introduced in 2020, we activated the second block, the Sustainability Incentive model in 2023. Through this model, EUR 226 million was distributed to farmer owners based on their sustainability activities. Nearly 97% of our farmer owners submitted their data and uploaded almost 44,000 files to document their on-farm activities.

The third building block was introduced later in the year with the Customer Sustainability Programme, which commercialises our farmers' progress by giving key customers access to claimable CO_2e reductions and specific on-farm projects. By measuring, incentivising and commercialising on-farm sustainability actions at scale, our clear operating model translates science-based targets into tangible actions and monetary value, providing each farmer with a clear path to improve sustainability and economy on farm, while offering new value for our customers. This ground-breaking approach is one of our best proof-points of how we are creating the future of dairy.

Outlook for 2024

We anticipate continued volatility on multiple levels. While difficult to predict the full year, the first half of 2024 looks brighter than 2023. Uncertainty remains as growing unrest around the world and the related economic slowdown can potentially impact our business negatively. However, global demand for dairy remains strong, and we expect to regain branded growth and to improve our performance compared to 2023. We remain committed to delivering our Future 26 ambitions and continuing our efforts to be a leading role model for sustainable dairy.

PEDER TUBORGH

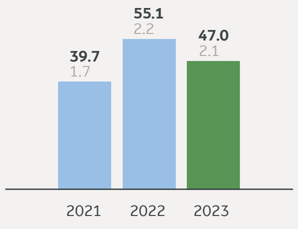
CEO of Arla

2023 PERFORMANCE AT A GLANCE

F26 Competitiveness

47.0

PERFORMANCE PRICE
EUR-CENT/KG

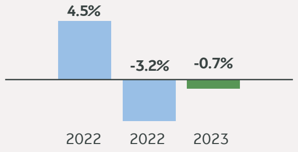


● Supplementary payment

F26 Value creation

-0.7% ●

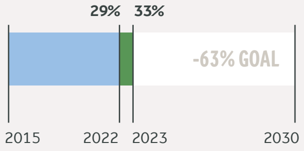
STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH[1]



F26 Sustainability

4%p ●

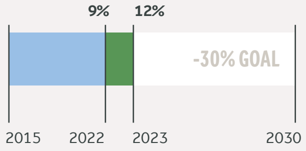
SCOPE 1+2 EMISSIONS
REDUCTION IN 2023



F26 Sustainability

3%p ●

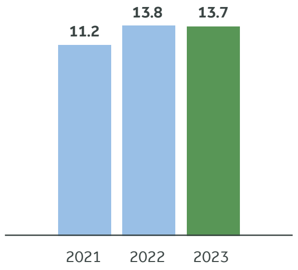
SCOPE 3 EMISSIONS[2]
REDUCTION IN 2023



F26
Read more about our Future 26 strategy on page 11.

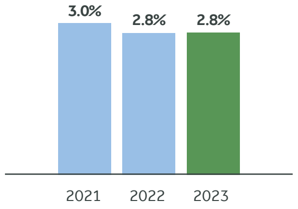
13.7 ●

REVENUE
EUR BILLION



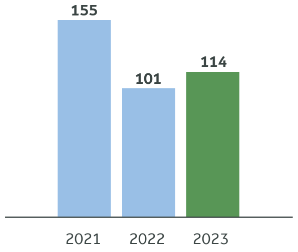
2.8% ●

PROFIT SHARE[3]
OF REVENUE



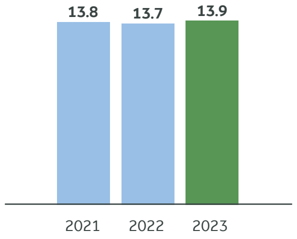
114 ●

NET EFFICIENCIES[4]
EUR MILLION



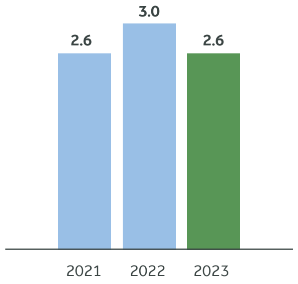
13.9

MILK VOLUME[5]
BILLION KG



2.6 ●

LEVERAGE



● Within guidance
○ Outside guidance

[1] -0.3% excluding our Russian business which was divested in the first half of 2022.
[2] Per kg of milk and whey.
[3] Based on profit allocated to owners of Arla Foods amba.
[4] Between 2021 and 2022, we altered the methods of creating efficiencies due to the start of our new strategy period. 2022 and 2023 numbers are therefore not fully comparable with historic numbers related to our previous efficiency programme, Calcium.
[5] Standardised milk: 4.2% fat, 3.4% protein; 2021 and 2022 numbers are restated accordingly.

FIVE-YEAR OVERVIEW

Financial key figures

EUR million	**2023**	2022	2021	2020	2019
Performance price					
EUR-cent/kg owner milk	47.0	55.1	39.7	36.5	36.3
Income statement					
Revenue	13,674	13,793	11,202	10,644	10,527
EBITDA	1,079	1,001	948	909	837
EBIT	600	529	468	458	406
Net financials	-145	-80	-61	-72	-59
Profit for the year	399	400	346	352	323
Profit appropriation for the year					
Individual capital	41	39	42	41	61
Common capital	69	74	83	81	123
Supplementary payment	270	269	207	223	127
Balance sheet					
Total assets	8,299	8,746	7,813	7,331	7,106
Investments in property, plant and equipment	445	373	452	478	425
Investments in right of use assets	88	56	69	102	81
Non-current assets	4,788	4,611	4,668	4,413	4,243
Current assets	3,511	4,135	3,145	2,918	2,863
Equity	3,052	3,168	2,910	2,639	2,494
Non-current liabilities	2,650	2,915	2,446	2,296	2,304
Current liabilities	2,597	2,663	2,457	2,396	2,308
Net interest-bearing debt including pension liabilities	2,850	2,986	2,466	2,427	2,362
Net working capital	1,104	1,442	810	679	823
Cash flows					
Cash flow from operating activities	1,151	184	780	731	773
Cash flow from investing activities	-519	-443	-482	-488	-571
Free cash flow	632	-259	298	243	202
Cash flow from financing activities	-592	269	-330	-293	-136
Acquisition of enterprises	-26	-11	-	-	-168

Financial key figures

EUR million	**2023**	2022	2021	2020	2019
Financial ratios					
Profit share	2.8%	2.8%	3.0%	3.2%	3.0%
EBIT margin	4.4%	3.8%	4.2%	4.3%	3.9%
Leverage	2.6	3.0	2.6	2.7	2.8
Interest cover	11.1	19.6	23.7	16.8	12.0
Equity ratio	36%	35%	37%	35%	34%
Inflow of standard milk (mkg)					
Inflow from owners in Denmark	5,277	5,185	5,185	5,224	5,214
Inflow from owners in the UK	3,412	3,360	3,345	3,320	3,262
Inflow from owners in Sweden	1,925	1,876	1,896	1,905	1,863
Inflow from owners in Germany	1,646	1,637	1,683	1,732	1,712
Inflow from owners in the Netherlands, Belgium and Luxembourg	798	757	749	742	734
Inflow from others	816	858	968	1,043	1,314
Total inflow of raw milk	13,874	13,673	13,826	13,966	14,099
Number of owners					
Owners in Sweden	1,996	2,108	2,236	2,374	2,497
Owners in Denmark	1,948	2,105	2,274	2,357	2,436
Owners in Germany	1,329	1,429	1,497	1,576	1,731
Owners in the UK	1,981	2,053	2,127	2,241	2,190
Owners in the Netherlands, Belgium and Luxembourg	745	797	822	858	905
Total number of owners	7,999	8,492	8,956	9,406	9,759
Environmental, social and governance					
Progress towards 2030 CO_2e reduction target (scope 1 and 2) market-based	-33%	-29%	-25%	-24%	-12%
CO_2e scope 3 owner milk (kg)	1.08	1.12	1.15	1.15	1.15
CO_2e scope 3 per kg of milk and whey (kg)	1.14	1.18	1.20	1.21	1.21
Progress towards 2030 CO_2e reduction target (scope 3 per kg milk and whey)	-12%	-9%	-7%	-7%	-7%
Average number of full-time employees	21,307	20,907	20,617	20,020	19,174
Gender diversity, Board of Directors	25%	25%	13%	13%	13%

HIGHLIGHTS 2023

2023 WAS DOMINATED BY MARKET VOLATILITY AND SHIFTING CONSUMER BEHAVIOUR. NONETHELESS, WE MANAGED TO WEATHER THE STORM, WORKED HARD TO ADJUST, AND KEPT UP THE PACE OF OUR BUSINESS AND SUSTAINABLE TRANSFORMATION.

SUSTAINABILITY INCENTIVE MODEL LAUNCH

In July 2023, we launched the Sustainability Incentive model and issued the first payouts, and the initial results confirm the model's potential and versatility. The model is a point-based system, in which the farmers can collect points based on their emission-reducing activities on the model's 19 different levers and earn additional payouts corresponding to their actions. In 2023, we managed to lower scope 3 emissions per kilo milk and whey by 3 percentage points and 12% in total compared to our 2015 baseline.

Read more on page 35.

EUR 226M

Incentive pool redistributed in 2023

This sum covers incentive model payments to farmers for the last six months of the year as well as 1 EUR-cent/kg of milk for submitting their Climate Check data.

EFFICIENCY PROGRAMME DELIVERS ABOVE EXPECTATIONS

Our efficiency programme, Fund our Future, exceeded our expectations in 2023, delivering net savings of EUR 114 million from significant efficiency initiatives within digitalisation, logistics and production optimisation, as well as insourcing activities.

Read more on page 16.

INVESTING IN THE FUTURE

As set out in Arla's Future 26 strategy, we continued to invest in growing our strategic business in 2023. Investments in intangibles, property, plant and equipment, including right of use assets, amounted to an all-time high EUR 601 million (2022: EUR 521 million), and our strong leverage of 2.6 supports our capability to invest in the years to come.

CUSTOMER SUSTAINABILITY PROGRAMME

As part of our ambition to lead in a more climate-efficient dairy production, we launched a new customer programme in 2023 that simultaneously accelerates sustainability efforts on farm and helps customers achieve their reduction targets for scope 3. The Customer Sustainability Programme was first launched in October in the UK, where the first commercial agreements were signed, and we will roll out the programme to more retail and foodservice customers across our European core markets during 2024.

Read more on page 36.

ARLA® PROTEIN GROWS VOLUMES SIGNIFICANTLY

In 2023, Arla® Protein continued to shine as a remarkable success story. With its natural, high-protein, low-sugar and low-fat offerings, Arla® Protein captured the broad attention of consumers living an active life across all backgrounds and lifestyles. By emphasising the fuelling power of protein and offering an array of delicious products like milk-based beverages and puddings, Arla® Protein struck a chord with consumers, resulting in volume growth of 60.6% in 2023.

Read more on page 17.

BUSINESS MODEL

SECURING THE HIGHEST VALUE FOR OUR FARMERS' MILK WHILE CREATING VALUE FOR THEIR GROWTH

Arla is the fourth-largest dairy producer in the world based on milk intake. As a cooperative, our focus is on maximising the value from our milk, and with our cooperative set-up this means that all the benefits from the sale of Arla products lead back to our farmer owners, who actively contribute to sustainability efforts and invest in the business to enable development and the well-being of future generations.

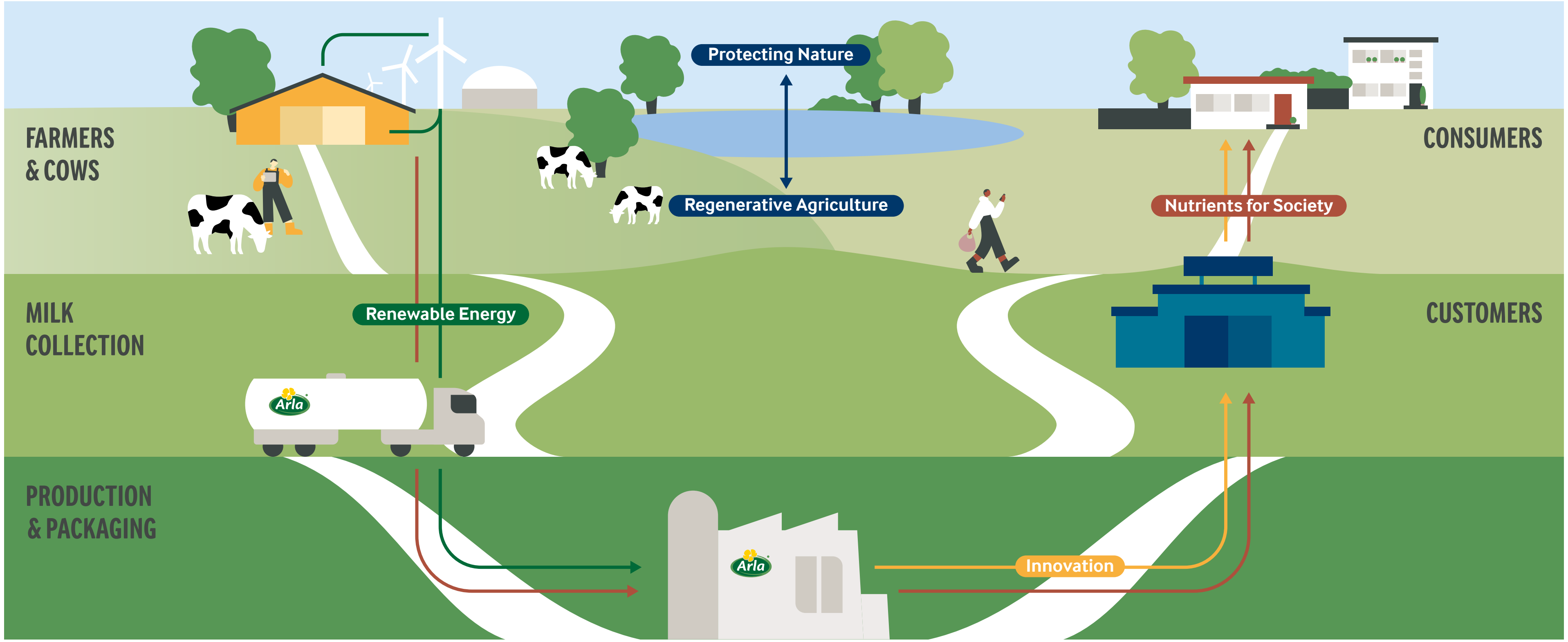
Farmers and cows
We have 7,999 farmer owners who oversee a herd of over 1.5 million cows. Their primary business goal is to produce milk in a sustainable and profitable manner, ensuring the well-being of the cows and preserving the surrounding environment. Our farmers are rewarded for their sustainability actions through our incentive model. Read more on page 35.

Milk collection
Every year, we collect approximately 13.9 billion kg of raw milk, primarily sourced from our owners across seven countries.

Production and packaging
We operate 59 production and packaging sites, producing 6.4 billion kg of nutritious dairy products annually. Our facilities create jobs worldwide, offering safe conditions and fair wages. Furthermore, we enhance the value of our owners' milk through innovation, branding and marketing. The profits are distributed among the owners through the milk payment system.

Customers
Our products are distributed in 146 countries, catering to a diverse range of customers, including supermarket chains, foodservice and business-to-business. The key to our success lies in fostering strong collaboration and working towards a shared objective of delivering exceptional service to consumers while minimising the environmental impact of shopping.

Consumers
Through our efforts, we nourish millions of individuals, prioritising their health and well-being. Our approach focuses on innovative solutions, promoting positive food habits and ensuring affordable access to nutrition for low-income consumers. Read more on pages 68-73.



FUTURE 26 – OUR STRATEGY

BRINGING HEALTH AND INSPIRATION TO THE WORLD, NATURALLY

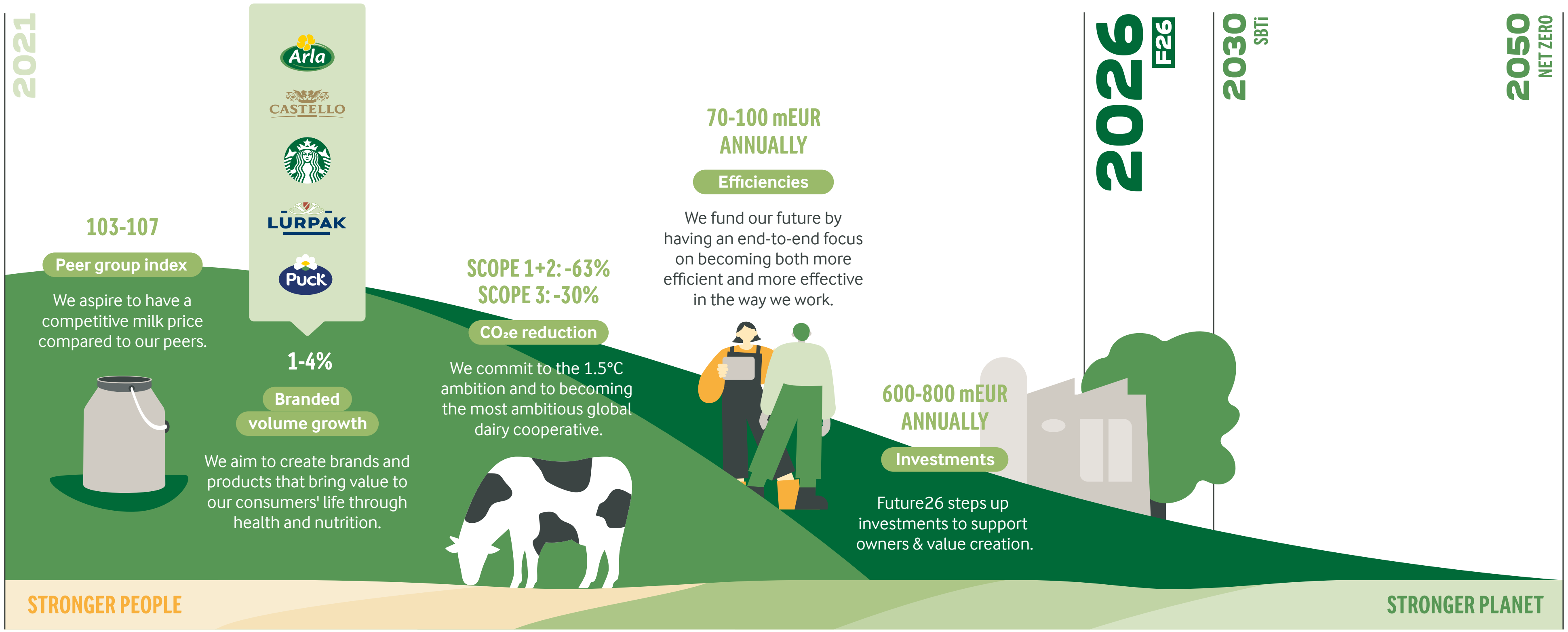
Creating the future of dairy
Arla aims to be a leader in driving sustainable change in our industry and in the food sector. While the global demand for dairy is rising, consumer preferences are evolving. Sustainability is becoming a key factor in food choices, and addressing poor diets and malnutrition is essential. To tackle these challenges, we are committed to re-thinking our food system through our Future 26 strategy and in close collaboration with our customers, positioning Arla as part of the solution, offering solutions for healthy and sustainable growth in our business.

Despite continued market volatility, we maintained a competitive milk price to our farmer owners in 2023. We made progress on our major strategic objectives, and we demonstrated strong performance in several product categories as well as in our foodservice and ingredients businesses (AFI).
See pages 15-23 for further details.

We continued to lead the way in promoting sustainability and addressing climate change and global food accessibility. A major milestone in 2023 was the introduction of our Sustainability Incentive model to support and reward our farmer owners in reducing their climate footprint.
See page 35 for further details.

Our 2030 science-based targets guide us on our path towards carbon neutrality, and we progressed well on both scope 1 and 2 as well as scope 3 emission reductions in 2023.
See pages 33-42 for further details.

In addition, we made substantial progress on our digital and innovation activities, which are integral to our Future 26 strategy. To improve efficiency, we focused on end-to-end processes and digital optimisation. We also made significant investments in transformational areas outlined in Future 26.
See page 16 for further details.



LURPAK®

Our premium butter brand Lurpak®, sold in 100 countries across the world, reached a milestone in Australia selling more than 5 million kg of products in 2023.

PERFORMANCE REVIEW

NAVIGATING VOLATILITY AND GETTING BACK TO GROWTH

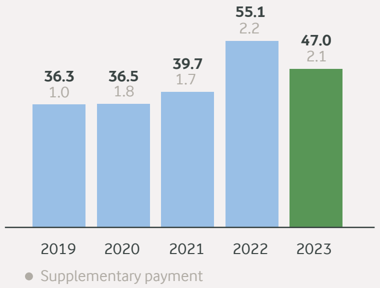
2023 was in many ways a year of two halves. From the end of 2022 and into the beginning of 2023, we saw a rapid drop in commodity prices as both supply and demand reacted to the record high price level present in late 2022. Later in the year, there was a notable resurgence in demand due to the more affordable price levels and a stagnation in global milk supply. This led to a slight increase in commodity prices once again.

During this volatility, we saw firm underlying business performance and solid market share developments in our branded positions, which returned to volume growth of 4.1% in the second half of the year after a challenging first half. We took ground-breaking steps on sustainability actions, and saw accelerated emission reductions both within the business and especially on farms. We also saw our efficiency programme delivering above ambition level, and a robust financial position with improved leverage.

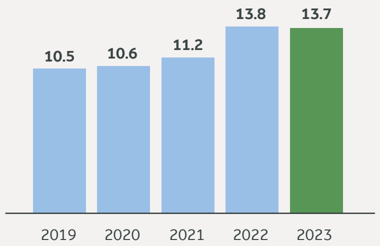
As a result of the significantly lower commodity prices, a higher cost base due to inflation as well as headwind from adverse foreign exchange rate developments, our average performance price decreased by 14.7% compared to 2022, from 55.1 EUR-cent/kg to 47.0 EUR-cent/kg. However, this level still surpassed the 5-year average by 15%. The supplementary payment of 2.07 EUR-cent/kg of milk was well above the guaranteed 1.5 EUR-cent/kg of milk as per our retainment policy. Revenue decreased slightly to EUR 13.7 billion, down from EUR 13.8 billion in 2022. In 2023, earnings were mainly driven by rising commercial margins, while commodities were under pressure.

Looking into 2024, our main focus is to continue being competitive. We aim to achieve this by maintaining the growth momentum gained in the second half of 2023. Additionally, we will manage volatility in dairy prices and intake. Furthermore, we will navigate external factors such as foreign exchange rate developments, consumer purchasing power, and geopolitical tensions

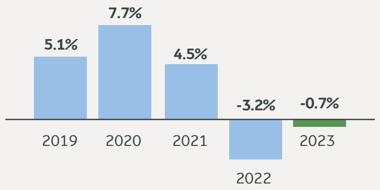
47.0
PERFORMANCE PRICE
EUR-CENT/KG



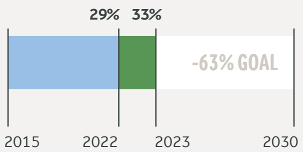
13.7
REVENUE
BILLION EUR



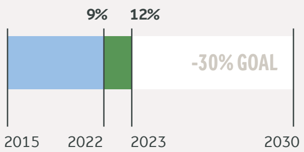
-0.7%
STRATEGIC BRANDED VOLUME-DRIVEN REVENUE GROWTH



4%p
SCOPE 1+2 EMISSIONS
REDUCTION IN 2023



3%p
SCOPE 3 EMISSIONS
REDUCTION IN 2023



TORBEN DAHL NYHOLM
CFO of Arla

EXTERNAL MARKET OVERVIEW

AS A GLOBAL BUSINESS, WE ARE IMPACTED BY THE VOLATILITY OF THE EXTERNAL MARKET. IN 2023, THIS VOLATILITY WAS REFLECTED IN DECLINING COMMODITY PRICES, INFLATIONARY PRESSURE, SHIFTING CONSUMER BEHAVIOURS AS WELL AS CHALLENGING FOREIGN EXCHANGE RATE DEVELOPMENTS.

Continued geopolitical turbulence

2023 unfortunately saw the high levels of geopolitical turbulence continue. The war in Ukraine continued, and the conflict in Israel and Palestine escalated. Besides dire humanitarian consequences, the turbulence also drove uncertainty and volatility in global markets in 2023.

Rapid dairy commodity price decrease in the beginning of 2023

In the wake of the dairy commodity price hike in 2022, driven by high demand and constrained supply, we as forecasted saw a rapid price normalisation towards the end of 2022 and into the beginning of 2023. This happened as demand cooled off as a consequence of the cost of living and price levels, while global milk supply increased, driven by price levels as well as lower energy, feed and fertiliser costs.

Notably, the price normalisation resulted in EU mozzarella prices decreasing by 38%, while skimmed milk powder (SMP) dropped by 29% from October 2022 to February 2023. The commodity price decrease was followed by a period of relative stability in the second and third quarter as supply and demand appeared in balance. However, towards the end of 2023, dairy commodity prices started to rise again. This happened primarily within the EU region where SMP increased by 24% from August to December.

Inflationary pressure eased off during year

The high inflationary pressure from 2022 continued into the initial months of 2023. However, the pressure eased off during the year, and the European average 2023 inflation is projected at 6.5%[1], down from 9.3% in 2022 with relatively high inflation in the UK, Sweden and Germany and lower inflation in Denmark and the Netherlands. Global inflation also declined, however it remained at a higher level of 6.9% (2022: 8.7%). The inflation levels were high in Africa and the Middle East and lower in North America, South East Asia and China. Decreasing energy prices drove the declining inflation as energy shortage uncertainties were reduced, while mainly packaging, ingredients and salaries remained at a high level.

Decrease in economic activity

In an effort to mitigate inflationary pressure, central banks continued to raise interest rates in the first half of 2023, maintaining them at a high level throughout the year. This contributed to a further decrease in economic activity. Consequently, global GDP growth is projected at 3.0%[1] in 2023 (2022: 3.5%). Within the euro area, the projected growth rate for 2023 is 0.7% (2022: 3.3%). Conversely, developing countries showed more robust growth projections, with an anticipated rate of 4.0% in 2023 (2022: 4.1%).

Changing consumer behaviour

Due to inflation and rising living expenses, European consumers continued to adopt cost-saving measures affecting the dairy category in the first half of 2023. The decline in retail dairy consumption slowed down during the year as inflationary pressure started to ease off and wages increased, and towards year-end we saw dairy consumption increase again, resulting in a flat development in retail dairy consumption across the EU region for the full year 2023. In response to the cost pressure, European consumers also continued to trade down from branded products to private label offerings while actively seeking value through promotions, resulting in a decrease to branded consumption, mainly in the butter, spreads and margarine (BSM) retail category, as especially consumers in the UK, NL and DE reduced category consumption. Global dairy demand was on average marginally down compared to 2022.

Challenging foreign exchange rate development

In 2023, several key currencies for Arla weakened versus the euro. Especially the SEK experienced a substantial decline of 7.3% in the average rate for the year, while the USD and GBP saw minor declines of 2.8% and 2.0% respectively. We also experienced an adverse impact from devaluations in Argentina (356% devaluation in 2023), Bangladesh and Nigeria.

Farmer costs remain at high level

Following the unprecedented inflation in most on-farm costs in 2022, some costs decreased throughout 2023 as conditions began to normalise, mainly due to decreases in feed, fertiliser and fuel prices. However, this was to a large extent offset by increases in other costs, such as labour and interest rates.

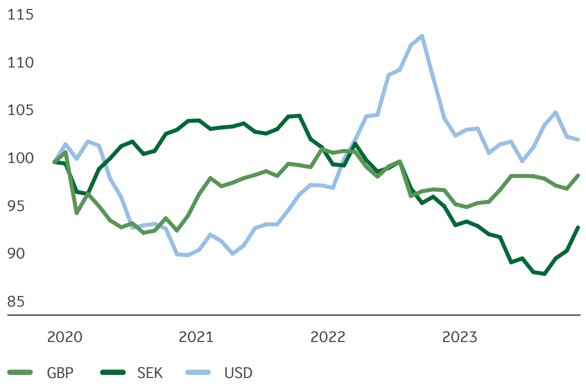
Lower farmgate milk prices

Driven by the commodity price normalisation, farmgate milk prices decreased significantly across all major dairy-producing regions during 2023. In the EU-27, average farmgate milk prices reduced by 20.8% compared to 2022. On-farm costs did not experience a similar decrease, which among other factors led to a stagnation of milk supply during the year.

From an Arla point of view, total standardised milk supply increased from 13.7 to 13.9 billion kg. The increase came from owner milk which increased by 1.9%, driven by the first half of the year, while contract milk decreased by 4.9%. The volume increase in owner milk was seen across all markets.

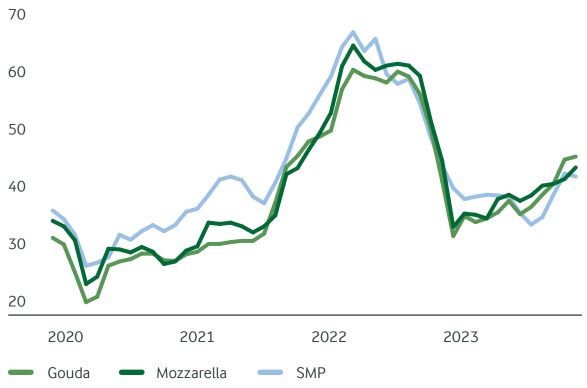
[1] IMF, World Economic Outlook, October 2023

Development in foreign exchange rates



Source: Nord Pool Group

Commodity prices
EU-cent/kg, Milk Utilisation Equivalent

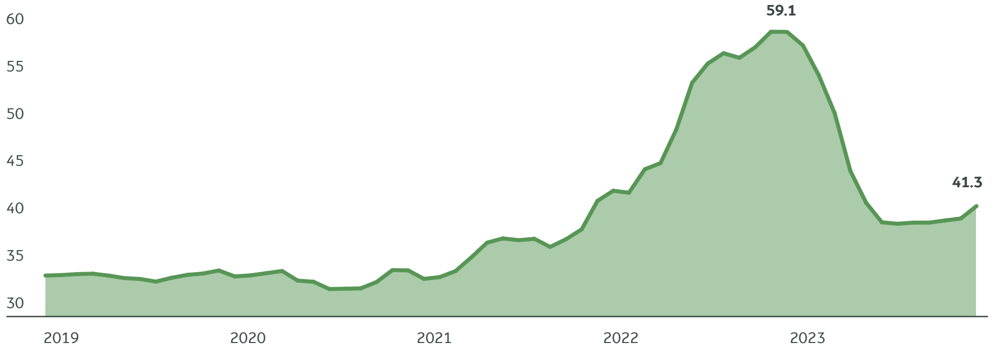


Source: GDT

PERFORMANCE OVERVIEW

ARLA'S MISSION IS TO SECURE THE HIGHEST VALUE FOR OUR FARMERS' MILK WHILE CREATING OPPORTUNITIES FOR THEIR CONTINUED GROWTH. OUR COMMITMENT TO MAXIMISE BOTH SHORT- AND LONG-TERM VALUE FOR OUR OWNERS REQUIRES STRONG EXECUTION ON ALL LEVELS OF THE BUSINESS.

Average pre-paid milk price for our owners
EUR-cent/kg of milk



Milk price decrease driven by declining commodity prices

Arla's average pre-paid milk price decreased by 15.0% to 44.1 EUR-cent/kg in 2023 (2022: 52.0 EUR-cent/kg). Our performance price, which measures the value Arla adds to each kg of our owners' milk, decreased by 14.7% to 47.0 EUR-cent/kg (2022: 55.1 EUR-cent/kg). The decrease in the performance price was primarily driven by declining commodity prices and adverse foreign exchange rate effects, mainly from SEK but also a negative impact from GBP, USD, and ARS (Argentine Peso).

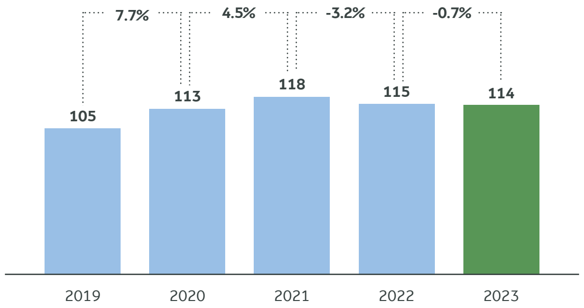
Additionally, an increase in operational costs, excluding raw milk, to EUR 6,964 million (2022: EUR 6,175 million) further contributed to the decline in performance. The rise in operational costs, excluding raw milk, was primarily due to changes in inventory values resulting from decreasing milk prices. Furthermore, inflation, mainly affecting staff costs, packaging and ingredients, also contributed to higher operational costs.

Revenue decrease driven by foreign exchange rate developments

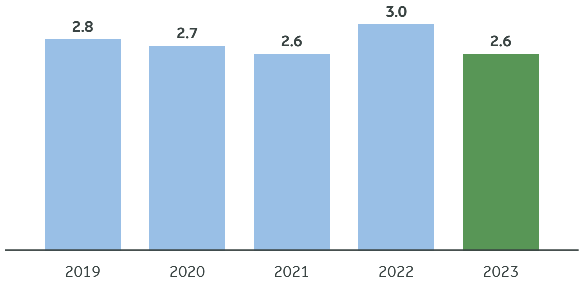
During 2023, revenue decreased by 0.9% to EUR 13.7 billion (2022: EUR 13.8 billion), with most of the decrease occurring in the second half of the year. Revenue was negatively impacted by adverse foreign exchange rate effects of EUR -344 million, primarily driven by lower SEK, GBP and USD.

Prices contributed negatively to revenue by EUR -204 million, with a negative price impact in Global Industry Sales (GIS) and our ingredients business (AFI) being offset by higher commercial prices. Decreasing branded volumes were offset by higher volumes in GIS which combined with higher milk intake gave a volume impact on revenue of EUR 429 million.

F26 **Strategic branded volume-driven revenue growth, indexed to 2018**
%



Financial leverage development
Target range: 2.8-3.4



Restored retail and foodservice margins due to branded price retention

In 2023, retail and foodservice margins were high due to strong branded price retention in a decreasing commodity price market, mainly due to the first half of the year with normalisation effects towards year-end. The high price environment in the first half of the year negatively impacted our branded volumes sold through retail. However, we saw growth return in the second half of the year as prices normalised and consumer purchasing power increased. Despite the market volatility in recent years, overall branded volumes in 2023 were still at a significantly higher level than before Covid-19 measured on a 2018 index. In total, strategic branded volumes decreased by 0.7% in 2023.

Retail volumes decreased by 1.3% with volumes in retail, excluding discounters, decreasing by 2.0%, partly offset by discounters increasing by 7.7%. Our foodservice business delivered 2.3% branded volume growth in 2023 (2022: 9.2%).

Fund our Future savings above expectations

Our transformation and efficiency programme, Fund our Future, delivered above expectations and reached net savings of EUR 114 million despite volume headwind. This was driven by a significant number of efficiency initiatives, including shop floor digitalisation, logistic route efficiencies, recipe and pack optimisations as well as insourcing of specialist areas within marketing and IT.

Accelerated on-farm emission reductions

We continued the positive momentum from last year and reduced our scope 1 and 2 emissions by 4 percentage points in 2023, and in total by 33% compared to our 2015 baseline. The reduction was mainly a result of energy optimisations at sites and the impact from new green power purchase agreements (PPAs).

We also accelerated our on-farm emission reductions and reduced scope 3 emissions per kg of milk and whey by 3 percentage points (2022: 2 percentage points), and in total by 12% compared to our 2015 baseline. The reductions were a direct outcome of ongoing climate initiatives implemented on farms and especially driven by fertiliser use and manure handling for the herds. We expect the introduction of the Sustainability Incentive model in 2023 to support our emissions focus in the coming years. Read more about how our farmers reduce their emissions on pages 35-36.

Net profit within target range

In 2023, we achieved a net profit of EUR 380 million[1], or 2.8% of revenue, which is within our target range of 2.8-3.2%. Profit was mainly driven by high retail and foodservice prices, however with a normalisation towards the end of the year.

Other comprehensive income impacted by lower energy prices and foreign exchange rate fluctuations

Other comprehensive income was EUR -199 million (2022: EUR 156 million). The net cost of EUR 199 million consisted of negative value adjustments of hedge instruments amounting to EUR -141 million and negative value adjustments of net assets measured in foreign currencies (translation effect) amounting to EUR -47 million. The lower value of our hedge instruments, which reduces our short-term foreign exchange rate profit exposure and secures our future interest and energy costs at a certain level, was due to generally lower energy prices and foreign exchange rate fluctuations.

Robust financial position

We kept our robust financial position in the volatile market in 2023. Our leverage landed at 2.6, which is an improvement from 2022 (3.0) and below our target range of 2.8-3.4. This was due to a higher EBITDA and lower level of net interest-bearing debt, driven by decreased funds tied up in net working capital, explained by lower inventory and trade receivables.

Operating cash flow improved significantly

Cash flow from operating activities increased to EUR 1,151 million (2022: EUR 184 million). The trend towards a normalisation of milk prices in 2023, on the back of the unusually high level at the end of 2022, meant that the adverse effect on funds tied up in net working capital positions from last year was partly released during 2023. Net working capital contributed positively with EUR 320 million compared to EUR -707 million last year. In addition, cash flow from operating activities improved due to a higher EBITDA, partly offset by higher paid interest expenses.

Increased level of investments

We continued to invest in significant projects to support future growth within our strategic business areas. Investments in intangibles, property, plant and equipment, including right of use assets, amounted to EUR 601 million (2022: EUR 521 million). More specifically, we continued to invest in a capacity increase for milk-based beverages in Esbjerg, Denmark, and growth for Arla Foods Ingredients. Additionally, new projects, including the investment in butter capacity in Holstebro, Denmark, were undertaken.

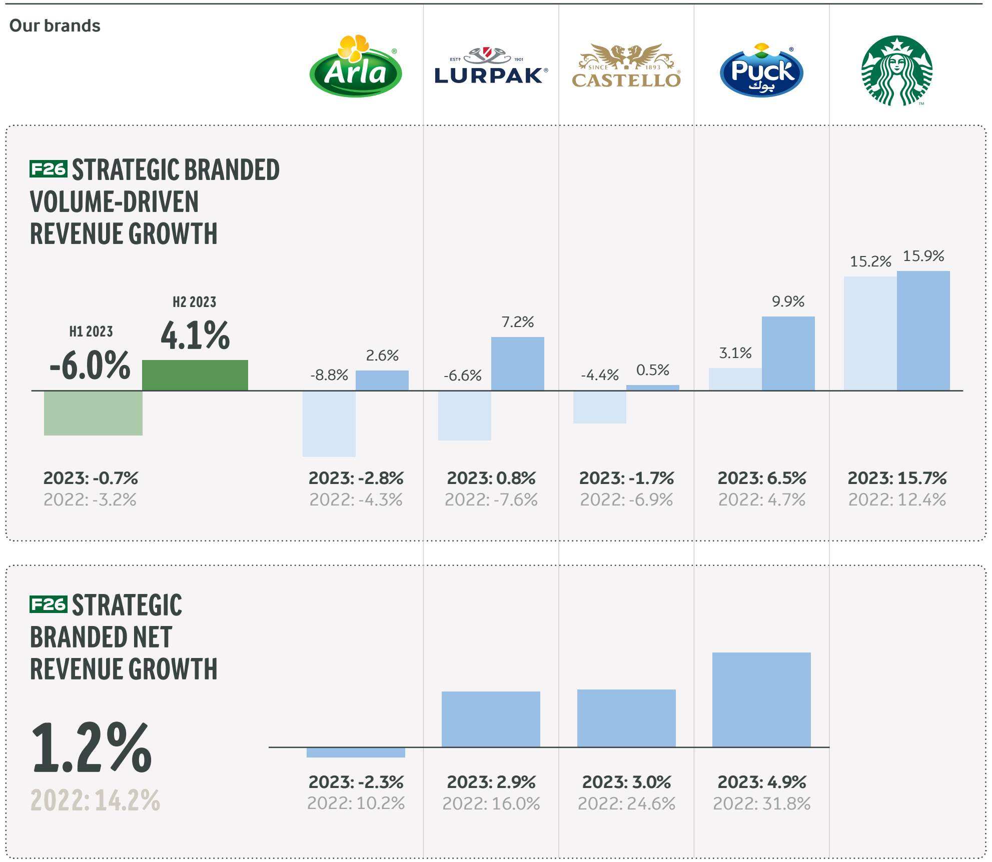
Lower net interest-bearing debt

Net interest-bearing debt decreased to EUR 2,850 million (2022: EUR 2,986 million). The free operating cash flow of EUR 643 million (defined as cash flow net of operating and investing activities) was partly used to pay farmer owners in the form of a supplementary payment for 2022 and a half-year supplementary payment for 2023, and partly to repay maturing loans and to reduce utilisation of other short-term interest-bearing credit facilities.

[1] Excluding non-controlling interests' share of profit

GLOBAL BRANDS

OUR STRATEGIC GLOBAL BRANDS ARE AT THE HEART OF OUR BUSINESS AND THEY DRIVE THE MAJORITY OF ARLA'S VALUE CREATION.



In 2023, we saw branded revenue increase by 1.2% to a record high level of EUR 6,375 million (2022: EUR 6,300 million) due to higher prices with an underlying decrease in branded volume-driven revenue growth of -0.7% (-3.2% in 2022). This was mainly the result of the high price level of 2022 continuing into the beginning of 2023, resulting in consumers trading down to cheaper products and in general buying less dairy products. However, in the second half of the year, we saw significant improvement in volume growth of 4.1% attributed to the decrease in price levels, stronger purchasing power and increased marketing spend.

Arla® brand

Our Arla® brand with its various successful sub-brands covering multiple categories such as milk, yogurt, cream, powder and cheese, was generally challenged in 2023, with branded volumes declining by 2.8% compared to 2022, bringing volumes back to pre-Covid levels. The volume decrease was partly offset by higher prices, which resulted in a 2.3% revenue decrease to EUR 3,618 million in 2023 (2022: EUR 3,702 million). Some of our sub-brands experienced exceptional volume growth despite higher price points. Arla® Protein grew volumes by 60.6%, and our food-service brand Arla® Pro also experienced growth of 2.2% during the year. From a market perspective, the UK performed well with a branded volume growth of 5.9%. Arla® was recognised as Europe's most popular dairy brand by the 2023 Kantar Brand Footprint report.

Lurpak®

Our brand Lurpak® experienced revenue growth of 2.9% to EUR 772 million (2022: EUR 750 million). Volumes increased by 0.8% compared to 2022 with an underlying decrease in first half-year volumes due to high price levels, offset by a second half-year where we saw consumer demand increase as prices normalised. In the European market, volumes decreased by 0.6% mainly driven by the UK, however with a marked improvement in the second half due to a new pack and price strategy. International markets maintained strong growth of 3.5%, mainly driven by South East Asia and Rest of the world.

Castello®

Our speciality cheese brand, Castello®, decreased by 1.7% in volumes compared to 2022. However, due to higher prices, revenue improved by 3.0% to EUR 246 million (2022: EUR 238 million). The branded cheese category and in particular speciality cheese, where Castello® operates, struggled in times of inflation and recession, which also affected Castello® in core European markets. In international markets, volumes increased by 1.4%, spearheaded by growth in South East Asia and partly due to new product launches.

Puck®

Puck®, our leading brand in MENA, overall grew volumes by 6.5%, with revenue growing by 4.9% to EUR 526 million (2022: EUR 504 million). We saw strong growth in the mozzarella and shredded cheese, cooking and cream cheese categories supported by increased efforts in communication, in-store activation and product sampling, which led to better market penetration.

Starbucks™

Our Starbucks™ ready-to-drink (RTD) coffee assortment, available in more than 50 countries in Europe, the Middle East and Africa, delivered 15.7% volume growth in 2023, with a revenue increase of 13.7%. The volume growth was mainly driven by our European business, which grew by 21.8% based on strong brand performance, portfolio developments with strong growth in the chilled classics 750 ml platform and increased distribution across markets. Our International business grew a bit slower by 5.8% and was more adversely impacted by the inflationary environment and economic uncertainty.

EUROPE

OUR EUROPEAN COMMERCIAL SEGMENT SPANS EIGHT COUNTRIES IN NORTHERN AND WESTERN EUROPE. WE CREATE VALUE FOR OUR FARMER OWNERS BY BRINGING BRANDS LIKE LURPAK®, ARLA® AND STARBUCKS™ TO CONSUMERS ACROSS THE CONTINENT.

In 2023, revenue increased by 2.7% to EUR 7,984 million (2022: EUR 7,771 million), mainly driven by price increases executed in 2022 continuing into the start of 2023. Due to high inflation and elevated dairy prices, branded dairy volumes were under pressure in 2023, however consumers started returning to branded products in the second half of the year. In total, we saw a decrease in branded volumes of 1.3% against a decline in the general branded European retail category of approximately 2%. The butter and spreadable category declined by approximately 5%, but our Lurpak® brand only declined by 0.6%.

Despite the challenging environment that in particular affected Sweden negatively, our Netherlands/Belgium/France cluster achieved 6.9% branded growth and the UK 2.2%.
Several of our European focus areas performed well in 2023. This included Arla® Protein growing by 60.5%, Starbucks™ by 21.8% and Arla® Pro by 7.2%. We also launched an ambitious bid to scale up Arla® Protein and Arla® Skyr in France through a new long-term partnership.

As part of our ambition to be a leader in sustainability, we launched a new customer programme across Europe. A first for the industry, this will develop solutions to help customers achieve their reduction targets for scope 3 and accelerate sustainability efforts on farm. Several major customers joined the programme in 2023.

STARBUCKS™ CHILLED COFFEE

Despite shifting consumer behaviour in Europe, our Starbucks™ ready-to-go coffee drinks continued their growth journey and grew volumes by 21.8%.

Strategic branded volume-driven revenue growth

-1.3%

2022: -4.2%

Revenue
EUR million

7,984

2022: 7,771

Revenue growth

2.7%

2022: 17.4%

Share of total Arla revenue

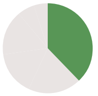
58.4%

2022: 56.3%

UK

2.2%
2022: -7.3%
Strategic branded volume-driven revenue growth

2.4%
2022: 18.3%
Revenue growth



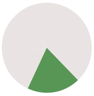
Share of EU revenue
2023: 38.3%
2022: 38.5%

In 2023, brands initially faced declining volumes due to high dairy commodity prices and inflation in the UK. However, cost reductions enabled a rebound in the second half, leading to growth in branded volume and market shares. In total, the business grew branded volumes by 2.2% and revenue by 2.4% to EUR 3,060 million (2022: EUR 2,989 million), with strong growth in Arla® Protein, Starbucks™ and Arla® Pro growing by 66.4%, 26.2% and 8.5%, respectively. In October, we launched the Customer Sustainability Programme to commercialise on-farm sustainability efforts.

SWEDEN

-5.1%
2022: -3.9%
Strategic branded volume-driven revenue growth

-3.7%
2022: 11.4%
Revenue growth



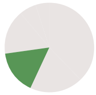
Share of EU revenue
2023: 19.2%
2022: 20.5%

Strategic branded volumes decreased by 5.1% as increased inflation and interest rates, combined with a weakened SEK, impacted Swedish households' purchasing power and consumer shopping behaviour. This resulted in a category decline in dairy with an increased share of private label. Our performance in the market significantly improved in the second half of the year, mainly driven by yellow cheese, cottage cheese and quark. Arla Sweden's revenue decreased by 3.7% to EUR 1,536 million (2022: EUR 1,594 million), in large part due to the 7.3% decrease of the SEK versus the euro.

DENMARK

-0.2%
2022: -1.1%
Strategic branded volume-driven revenue growth

4.1%
2022: 20.3%
Revenue growth



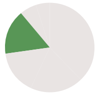
Share of EU revenue
2023: 15.8%
2022: 15.5%

Revenue increased by 4.1% to EUR 1,258 million (2022: EUR 1,208 million) despite pressure from consumer behaviour still adjusting to increasing focus on low prices, attractive promotions and discount channels. Impact from market trends resulted in price decreases as well as volume pressure. Overall, our brands remain in a strong position, and strategic branded volumes only declined by 0.2%. Arla® Organic was under pressure with a volume decline of 7.1% due to consumers trading down and shifting towards private label. However, Arla® Protein, Starbucks™ and Castello® grew volumes by 98.9%, 25.0% and 8.7%, respectively.

GERMANY

-5.4%
2022: -7.7%
Strategic branded volume-driven revenue growth

4.6%
2022: 20.9%
Revenue growth



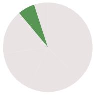
Share of EU revenue
2023: 15.7%
2022: 15.4%

Revenue increased by 4.6% to EUR 1,253 million (2022: EUR 1,198 million) mostly from pricing carry-overs on private label and brands. Continued high inflation led to discounter growth and a general reduction in consumer spending, and our branded volumes decreased by 5.4%, mainly driven by a decrease of 21.1% for our Kaergarden® brand. However, the foodservice business (Arla® Pro), Starbucks™ and Arla® Buko delivered strong growth of 69.6%, 25.0% and 7.5%. respectively.

THE NETHERLANDS, BELGIUM AND FRANCE

6.9%
2022: 1.3%
Strategic branded volume-driven revenue growth

10.3%
2022: 23.1%
Revenue growth



Share of EU revenue
2023: 6.1%
2022: 5.7%

In 2023, our business in the Netherlands, Belgium and France achieved double-digit revenue growth of 10.3% to EUR 489 million (2022: EUR 443 million). This was driven by volumes and favourable prices in the first half of the year. Both the retail and foodservice business showed consistent volume and revenue growth across all three markets. Notably, our brands Starbucks™, Lurpak®, Arla® Pro and Arla® Skyr delivered growth rates of 19.1%, 16.7%, 16.6% and 16.4%, respectively, leading to overall branded volume-driven revenue growth of 6.9%.

FINLAND

-2.4%
2022: -1.8%
Strategic branded volume-driven revenue growth

14.6%
2022: 9.7%
Revenue growth

Share of EU revenue
2023: 4.9%
2022: 4.4%

Strong revenue growth in both retail and foodservice resulted in total revenue growth of 14.6% to EUR 388 million (2022: EUR 339 million), driven by price increases. Branded volumes decreased by 2.4%, driven by the retail segment which declined by 3.4% due to the high price environment, while the foodservice channel only decreased branded volumes by 0.3%. Despite the overall volume decrease, we saw the Arla® Protein brand grow branded volumes by 24.3%.

INTERNATIONAL

OUR INTERNATIONAL SEGMENT ENCOMPASSES AROUND 140 COUNTRIES ON SIX CONTINENTS. OUR KEY BRANDS IN THE SEGMENT INCLUDE PUCK®, ARLA DANO®, LURPAK®, CASTELLO® AND STARBUCKS™.

Revenue in the International segment reached EUR 2,471 million (2022: EUR 2,437 million[1]), equalling growth of 1.4%[2]. Despite higher price levels, branded volume growth remained positive with 1.9% growth[3]. We saw good progress in the majority of our International business, and were able to manage macroeconomic challenges in emerging markets such as devaluation of currencies, like we saw in Bangladesh and Nigeria, and high inflation impacting consumer behaviour and reducing demand.

On a regional level, we saw strong branded growth in MENA, South East Asia and RoW, while we experienced a decline in China and West Africa. From a brand perspective, the volume growth was mainly driven by Puck® growing by 6.6%.

[1] Excluding the divestment of our Russian business
[2] 0.3% including the divestment of our Russian business
[3] 0.4% including the divestment of Russia

ARLA® PRO

Our foodservice business delivered strong growth of 12.9% in our biggest international market, MENA.

Strategic branded volume-driven revenue growth[3]

1.9%

2022: 1.0%

Revenue
EUR million

2,471

2022: 2,437[1]

Revenue growth[2]

1.4%

2022: 19.2%

Share of total Arla revenue

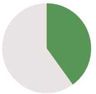
18.1%

2022: 17.7%

MIDDLE EAST AND NORTH AFRICA

4.2% Strategic branded volume-driven revenue growth
2022: 4.3%

3.2% Revenue growth
2022: 31.3%



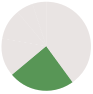
Share of International revenue
2023: 40.3%
2022: 39.6%

MENA increased revenue by 3.2% to EUR 996 million in 2023 (2022: EUR 964 million), and continued the branded growth journey with 4.2% branded volume growth in 2023. This was driven by strong performance in most markets and brands. Notably, we experienced 12.9% branded volume growth in the foodservice business, and our key brand in the region, Puck®, grew volumes by 6.9%, gaining market shares in both the cheese and cream categories.

REST OF THE WORLD

3.2% Strategic branded volume-driven revenue growth[1]
2022: 8.6%

5.4% Revenue growth[1]
2022: 8.6%



Share of International revenue
2023: 24.3%
2022: 23.4%

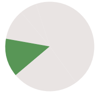
Revenue increased by 5.4% to EUR 601 million in 2023 (2022: EUR 570 million) due to a high price environment and branded volume growth of 3.2%. Branded growth was positive despite the negative impact from customers trading down from branded products to private label and discounters gaining market shares. The main driver was Starbucks™ which increased branded volumes by 10.6% in 2023.

[1] Russia was divested in the first half of 2022, impacting year on year comparison in 2023. Branded revenue growth and revenue growth including Russia was -3.6% and 0.8%

NORTH AMERICA

0.3% Strategic branded volume-driven revenue growth
2022: -0.6%

-2.0% Revenue growth
2022: 20.1%



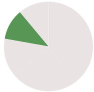
Share of International revenue
2023: 13.8%
2022: 14.2%

In 2023, our revenue experienced a decline of 2.0% to EUR 340 million (2022: EUR 347 million). We managed to achieve modest growth of 0.3% for our brands within a volatile market setting, mainly driven by the Tre Stelle® brand in Canada growing volumes by 2.0%. However, this was to a large extent offset by Puck® volumes decreasing by 12.0%. We saw positive branded growth of 0.8% in Canada, while USA decreased by 0.4%, mainly driven by cheese and cooking categories.

SOUTH EAST ASIA

3.9% Strategic branded volume-driven revenue growth
2022: 21.3%

-1.1% Revenue growth
2022: 49.4%



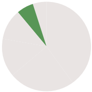
Share of International revenue
2023: 10.7%
2022: 11.0%

Revenue decreased by 1.1% to EUR 266 million in 2023 (2022: EUR 269 million), mainly due to the challenging macroeconomic situation in Bangladesh where, despite several price increases in the market, our revenue decreased due to significant negative currency devaluations. This was partly compensated by strong revenue growth in both the Philippines and Indonesia. Branded volumes increased by 3.9%, mainly driven by Lurpak® increasing by 47.4%. Foodservice remained an important growth driver in South East Asia, growing by 2.8%.

CHINA

-20.7% Strategic branded volume-driven revenue growth
2022: -44.1%

8.7% Revenue growth
2022: -44.3%



Share of International revenue
2023: 5.8%
2022: 5.4%

With the European milk price levels declining, we regained competitiveness for our UHT products in the Chinese market, contributing to a revenue increase of 8.7% to EUR 142 million (2022: EUR 131 million). Branded growth decreased by 20.7% due to a decline in milk and butter sales, however this was more than offset by increased private label volumes. Our Early Life Nutrition (ELN) business grew revenue by 17.4% after we obtained registration for three ELN brands in the market.

WEST AFRICA

-8.8% Strategic branded volume-driven revenue growth
2022: -17.8%

-18.8% Revenue growth
2022: 1.3%

Share of International revenue
2023: 5.1%
2022: 6.4%

Our 2023 revenue in West Africa was significantly impacted by the currency devaluation in Nigeria. Revenue declined by 18.8% to EUR 127 million in 2023 (2022: EUR 157 million). The following inflation led to a decline in the milk powder category, impacting our branded volume growth. As a consequence, branded volumes decreased by 8.8% due to a volume decrease of 6.1% for the Arla Dano® brand. During 2023, we opened our Arla farm in Kaduna, which was well received by society and the authorities, boding well for further backwards integration in Nigeria.

ARLA FOODS INGREDIENTS

ARLA FOODS INGREDIENTS (AFI) IS A GLOBAL LEADER IN WHEY-BASED INGREDIENTS THAT ARE USED IN A WIDE RANGE OF CATEGORIES FROM INFANT, CLINICAL AND SPORTS NUTRITION TO DAIRY AND BAKERY. IN ADDITION, WE MANUFACTURE CHILD NUTRITION PRODUCTS FOR THIRD PARTIES. AFI IS A 100% OWNED SUBSIDIARY OF ARLA.

AFI's 2023 performance was driven by a continuous effort to produce new innovations, and despite market price volatility, our ingredients business kept a strong momentum during 2023.

However, AFI faced a very dynamic market environment and was especially subject to exceptionally volatile market prices for whey and lactose-based ingredients as well as foreign exchange rate volatility such as the devaluation in Argentina, where AFI has a production site. AFI saw a benefit from underlying market developments such as a strong demand for our specialised whey protein products, combined with raw material and energy prices normalising after record high levels. All in all, this resulted in higher growth in the value-add segment of 10.4% (2022: 6.8%) but a revenue decrease of 6.3% to EUR 963 million in 2023 (2022: EUR 1,028 million).

In 2023, AFI acquired full ownership of MV Ingredients in the UK. The full ownership of MV Ingredients brought AFI additional permeate volumes and a new source of WPC raw material to enable further growth. The value-add share decreased slightly as sourced volumes saw an upward trend.

Implementation of our Future 26 strategy continued at full force: AFI entered into a Joint Development Agreement with Novonesis to develop new generations of highly specialised proteins based on precision fermentation. Also, a major investment programme was initiated at Danmark Protein to increase capacities of our unique protein solutions. Finally, we began an investment in a new permeate dryer at our plant in Argentina.

The Advanced Nutrition business, primarily producing early life nutrition products, was challenged during 2023 following rising production costs and strategic customers facing difficult market conditions in China. However, we introduced new customers in 2023, bringing the performance on a par with 2022 levels.

ARLA® PROTEIN

AFI's whey based ingredients are used in a wide range of categories, such as infant, clinical and sports nutrition.

Growth of the value-add segment

10.4%

2022: 6.8%

Value-add share

79.7%

2022: 80.4%

Revenue
EUR million

963

2022: 1,028

Share of total Arla revenue

7.0%

2022: 7.5%

GLOBAL INDUSTRY SALES

IN ADDITION TO OUR RETAIL CHANNELS, WE CONDUCT BUSINESS-TO-BUSINESS SALES OF CHEESE, MILK POWDER AND BUTTER TO OTHER COMPANIES TO USE AS INGREDIENTS IN THEIR PRODUCTION, ALSO ALLOWING US TO BALANCE OUR MILK THROUGHOUT THE YEAR.

European and global dairy commodity market prices decreased rapidly in the beginning of 2023 due to increased milk production, weak demand due to high prices and lower Chinese import volumes. In the second half of 2023, mainly driven by a decreasing milk production, we saw commodity prices starting to recover.

In total, revenue from Global Industry Sales decreased by 10.9% in 2023, driven by the lower commodity prices. Despite higher volumes handled in Global Industry Sales, the overall share of milk solids sold through Global Industry Sales increased to 27.4% (2022: 23.6%). This increase was mainly driven by lower sales volumes in other parts of our business and a higher overall milk intake.

ARLA® KO

Our Global Industry Sales model allows us to balance our milk throughout the year.

Share of milk solids sold through Global Industry Sales

27.4%

2022: 23.6%

Revenue
EUR million

2,256

2022: 2,531

Revenue growth

-10.9%

2022: 50.1%

Share of total Arla revenue

16.5%

2022: 17.6%

2024 OUTLOOK

WE FORESEE 2024 TO BE ANOTHER CHALLENGING YEAR WITH VOLATILE MARKET CONDITIONS. HOWEVER, WE EXPECT THE POSITIVE MOMENTUM OF OUR BRANDS, EFFICIENCIES AND SUSTAINABILITY EFFORTS TO CONTINUE.

Looking ahead to 2024, we anticipate another challenging year with volatile market conditions, driven by external factors such as continued pressure on consumer spending, foreign exchange rate developments and geopolitical tension and uncertainty.

In late 2023, lower prices and stronger purchasing power stimulated demand for dairy which, combined with global milk supply stagnation, moved commodity and farm prices upward. This helped relieve economic pressure on farmers and created more stable milk supply and prices.

For our brands, the momentum from late 2023 is expected to continue into the first half of 2024. We anticipate branded volume growth for 2024 as a whole of 1.0-3.0%, despite a more uncertain market and a lower growth outlook for the second half of the year.

For revenue, it takes expectations to a range of EUR 13.2-13.7 billion, as sales prices towards the end of 2023 are at a lower level than the record high levels present at the beginning of 2023. The profit share is expected to be between 2.8 and 3.2%, and leverage between 2.4 and 2.8, driven by an expected strong cash flow. We expect to keep a firm momentum through our efficiency programme and to deliver savings in the range of EUR 85-105 million.

Through our climate strategy, including the Incentive model, we will keep the current pace in our efforts to reduce our climate impact. This is expected to enable us to reach our 2030 emission reduction targets – a 63% reduction in scope 1 and 2 emissions and a 30% reduction in scope 3 emissions per kg of milk and whey – by leveraging the strong momentum fuelled by the important milestones achieved in 2023.

	Outlook 2023[1]	Results 2023	Outlook 2024
F26 STRATEGIC BRANDED VOLUME-DRIVEN REVENUE GROWTH	-2.0 ~ - 1.0%	-0.7%	1.0-3.0%
REVENUE EUR BILLION	13.2-13.7	13.7	13.2-13.7
PROFIT SHARE	2.8-3.0%	2.8%	2.8-3.2%
F26 EFFICIENCIES EUR MILLION	85-105	114	85-105
LEVERAGE	2.4-2.8	2.6	2.4-2.8
F26 SCOPE 1+2 EMISSIONS PERCENTAGE POINTS	REDUCTION	-4%P	REDUCTION
F26 SCOPE 3 EMISSIONS PERCENTAGE POINTS	REDUCTION	-3%P	REDUCTION

[1] As announced in the 2023 half-year report

RISKS AND OPPORTUNITIES

As a global company, we closely monitor, evaluate and adjust to external risks and opportunities in the markets we operate in.

STARBUCKS™ FRAPPUCCINO

RISK GOVERNANCE

AS A GLOBAL COMPANY WITH THE AMBITION TO LEAD SUSTAINABLE DAIRY, ARLA ENCOUNTERS VARIOUS RISKS AND OPPORTUNITIES. EFFECTIVE RISK MANAGEMENT IS CRUCIAL FOR GENERATING AND PROTECTING VALUE, ENSURING THE CONTINUITY OF OUR OPERATIONS AND ACHIEVING OUR STRATEGIC GOALS.

Risk identification, assessment and mitigation

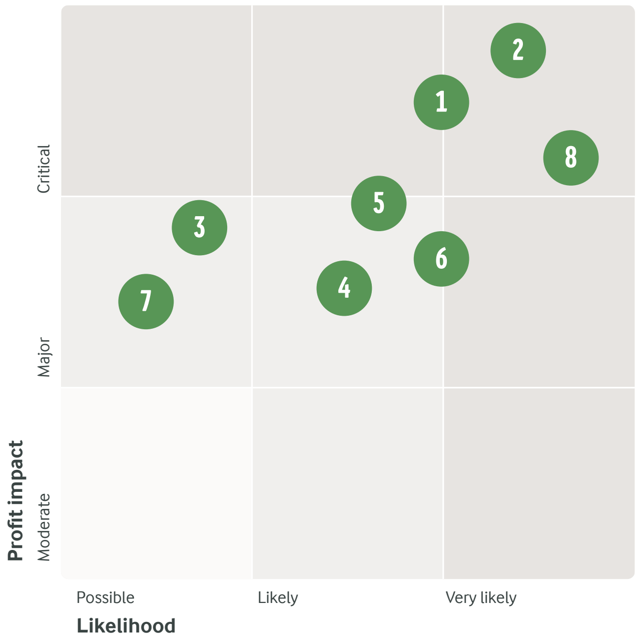
In 2023, we further strengthened our risk management process by enhancing the approach across business units, ensuring a shared understanding and clear roles for risk identification, assessment and mitigation. We continued to roll out our enterprise risk management framework, improving our risk infrastructure, communication and documentation.

Arla's risk management focuses on identifying and minimising risks and uncertainties, mitigating internal and external impacts, and capitalising on business opportunities to maximise value. Our risk owners continuously monitor trends that may affect Arla in the future to identify key risks. These risks are evaluated using a two-dimensional heat map that measures their potential impact on operating profit and the likelihood of occurrence.

The Executive Management Team (EMT) and the Board of Directors (BoD) regularly review and evaluate the most significant risks. The BoD is responsible for maintaining a strong risk and compliance management system as well as an internal control system. The EMT is accountable for the risks and is responsible for ensuring effective risk mitigation and identifying related opportunities. The EMT examines our risk map and the top risks are presented to the BoD. Both the EMT and BoD take measures to avoid unnecessary risks and mitigate others. The process is adaptable, allowing for prompt assessment of unforeseen risks, such as the war in Ukraine and the Israel-Gaza conflict.

Risk description

Peripheral risks: These risks are outside of our management's direct control.
Market-specific risks: These risks are considered managed within the strategic and business planning process.
Company-specific risks: These are risks Arla can directly manage and mitigate. They serve as a starting point for the development of global policies and internal control procedures.



Peripheral risks
1. Climate-related regulatory changes
2. Geopolitical instability and economic turmoil

Market-specific risks
3. Transformation of consumer behaviour
4. Loss of competitiveness in branded portfolio
5. Loss of international competitiveness due to increased production costs

Company-specific risks
6. IT disruptions, including major cyber attacks
7. Major product quality and safety issues
8. Currency volatility

Corporate risk management

UNDERSTAND

Identification
· Risk map or catalogue
· Classification of risk types.

Evaluation
· Estimates of the probability of occurrence
· Assessment of risk impact

Reporting
· Monthly risk reports
· Early-warning indicators
· Risk in value management

PLAN

Planning
· Risk in operative planning
· Risk in strategic planning
· Risk in investment valuation
· Risk-return portfolio management

ACT

Risk response
· Peripheral
· Market-specific
· Company-specific

Crisis management
· Contingency measures
· Business continuity measures
· Communication measures

Arla's risk position

		Risk description	Risk development	Category	Potential impact	Mitigating actions
1	**Climate-related regulatory changes** Read more about climate-related risks on page 43-44	A number of climate-related regulations impacting the dairy industry are discussed both at EU level and in individual European countries. This includes an emission levy on industry operations and agriculture.	Increased	Peripheral risk	· Higher production costs on farm · Lower milk volumes · Reduced flexibility of operations	· Continued implementation of on-farm activities to reduce CO_2e emissions · Incentivising farmers to reduce their CO_2e emissions (the first payment was paid out in 2023) · Actively reducing emissions in our own operations, and staying alert to potential reduction in milk intake
2	**Geopolitical instability and economic turmoil**	As a global company, Arla is exposed to global political and economic instability or recession, including the continued war between Ukraine and Russia as well as the Israel-Gaza conflict.	Increased		· Economic instability and recession affect demand for dairy, exchange rates and commodity prices · Political unrest or wars can affect the global food value chain through for example a shortage of animal feed and disruption of logistics net-works These, in turn, could impact our milk volumes and profitability	· Balancing our growth between higher and lower risk markets in our International segment · Increasing the agility of our supply chain
3	**Transformation of consumer behaviour**	Constant transformation of consumer preferences is a given in the food industry, but the fastening pace and the volatility of these trends could significantly affect our business.	Decreased	Market-specific risks	· Loss of market share and sales volumes if Arla's sustainable transfor-mation does not match the speed of changing consumer trends	· Understanding and closely tracking consumer needs · Providing a wide range of options to consumers seeking more sustaina-ble meal choices · Ensuring consumers understand the nutritional and health benefits of our products and brands
4	**Loss of competitiveness in branded portfolio**	In the current recessionary environment there is a risk that consumers choose more low-cost alternatives.	Decreased		· Our brands are at the core of our value generation model. Slow development in branded revenue will impact profitability negatively · Price pressure on our branded products could make our brands less competitive on the market	· Keeping our branded portfolio relevant and affordable to our consumers through innovation and strong sales execution
5	**Loss of international competitiveness due to increased production costs**	Relatively high production costs in Europe put pressure on the competitiveness of products exported to international markets.	Increased		· On our key growth markets in International, we are in many instances competing with dairy companies based outside of Europe. These companies have a competitive edge over Arla if the current level of input costs is maintained	· Maintaining a cost-efficient supply chain by evolving to be less dependent on our European sites by exploring possibilities in production and sourc-ing on our international markets where we have strategic commercial interests
6	**IT disruptions, including major cyber attacks**	High dependency on IT systems and operations, combined with a growing trend in crimeware targeting manufacturing companies, poses a significant operational risk.	Increased	Company-specific risks	· Disruption of operations, and potential damage to our ability to manufacture, deliver and sell our products	· Strengthening our processes around IT operations, and mitigating IT security vulnerabilities · Security awareness building and support to Arla colleagues through newly established Chief Information Security Office (CISO)
7	**Major product quality and safety issues**	We have a complex and long value chain with a large variety of products. Ensuring that our products are safe to consume and are appropriately labelled, and keeping our employees safe and healthy, are key to the success of Arla.	Stable		· Major product quality and/or food safety issues may lead to a loss of brand reputation and reduced trust in our products · Downgrade of products may lead to financial losses	· We are constantly improving our quality and food safety management programmes · Food safety and compliance with health and safety regulations are a top priority across our supply chain
8	**Currency volatility**	As a significant part of Arla's revenue is generated in curren-cies other than EUR or DKK, our key financial risk relates to the fluctuation of currencies in our global markets.	Stable		· Currency deterioration increases sales prices in the individual markets, affects Arla's competitiveness and potentially impacts revenue and profit · Arla has owners in several countries, including the UK and Sweden. Purchase of owner milk and operations in countries outside the euro zone means that our performance price measured in EUR is exposed to fluctuations in GBP and SEK, and also in currencies like NGN, ARS and BDT	· Centralised currency exposure management · Reducing short-term exposure through hedging activities Read more in Note 4 to the financial statements on pages 118-119.

SUSTAINABILITY STATEMENTS

CASTELLO® AGED HAVARTI

In the autumn of 2023, we relaunched our popular and fast-growing Aged Havarti with a new recyclable foil packaging and a new design.

SUSTAINABILITY IN ARLA

WE ARE COMMITTED TO BUILDING A SUSTAINABLE FUTURE. OUR SUSTAINABILITY STRATEGY DRIVES OUR ACTIONS TOWARDS STRONGER PEOPLE AND A STRONGER PLANET

In Arla, our vision is to bring health and inspiration to the world naturally while being a leader in value creation and sustainability.

Our Future 26 strategy focuses on sustainable growth, reducing our environmental impact and creating value for our farmer owners who, in turn, actively contribute to sustainability efforts and future development.

Growing our business, pursuing sustainability-related opportunities and mitigating sustainability-related risks are only possible if we closely manage our material impact on the environment and the people in our value chain.

Stronger people
Our products play a central role in millions of people's lives - throughout their lifetime and in the years to come more and more people will make our products part of their everyday diet.

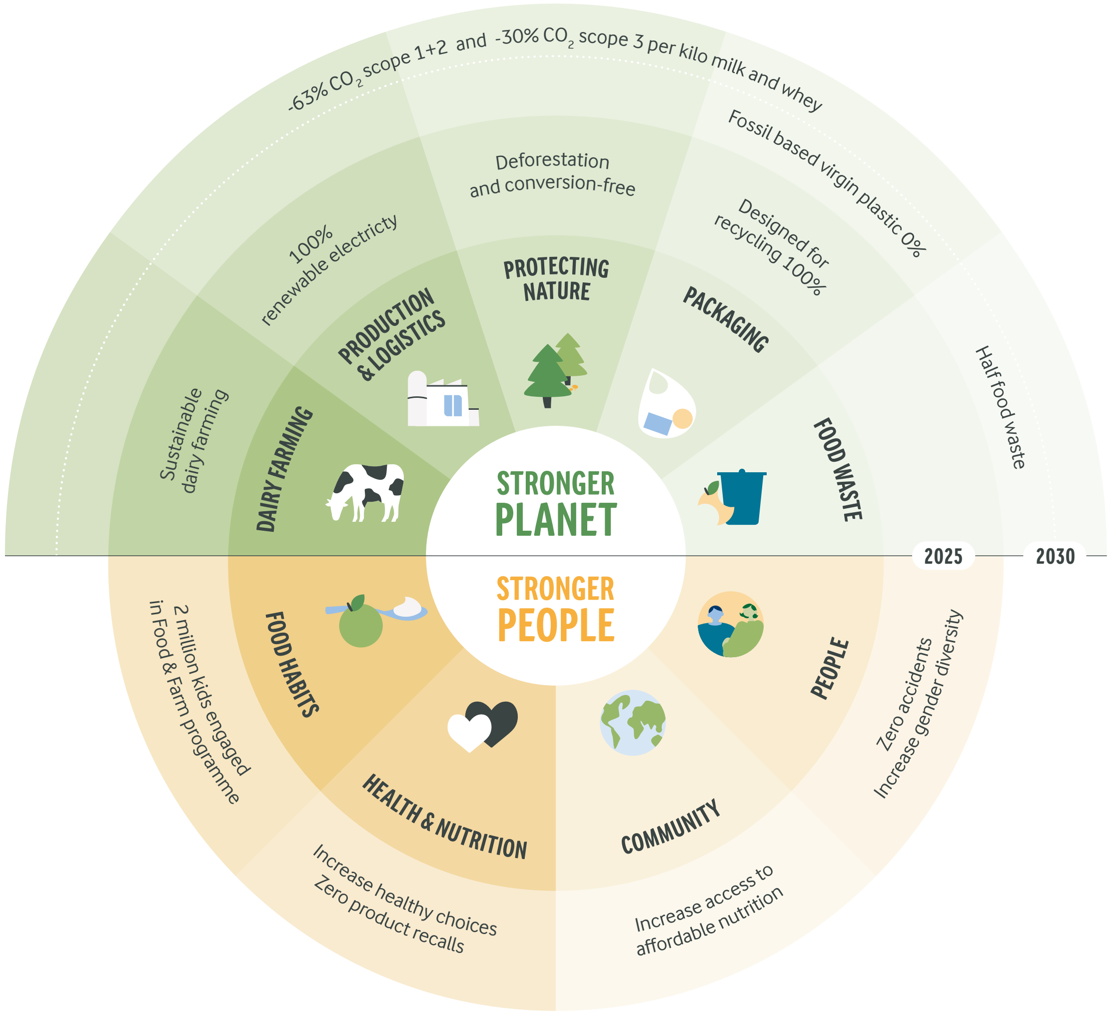
Our position in the global dairy market and our relationship with customers all over the world put us in a position where we can shape the future consumption of dairy products.

We want to enable healthier and stronger lives across the world by offering more nutritious, natural and affordable products and inspire good food habits. For us, sustainability is not just about reducing our climate impact, but also about all the people that we affect throughout the entire value chain.

Stronger planet
We believe that protecting the environment is essential to producing products that support a nutritious and sustainable diet for a growing population – and we are taking action.

By lowering our impact on climate change through sustainable dairy farming practices, we are committed to reducing our carbon footprint and continuously improving our environmental performance to leave the farms in an even healthier shape for the next generation. Safeguarding ecosystems and promoting biodiversity are integral to our efforts.

We are committed to keeping our emission and resource impact from operations and packaging to a minimum through circularity and renewable energy sources. We prioritise efforts to minimise food waste, ensuring that valuable resources are used responsibly.



MATERIALITY ASSESSMENT

IN 2023, WE CONDUCTED A DOUBLE MATERIALITY ASSESSMENT TO MAP AND GAIN A DEEP UNDERSTANDING OF OUR MOST MATERIAL IMPACTS ON PEOPLE, THE ENVIRONMENT (IMPACT MATERIALITY) AS WELL AS BUSINESS RISKS AND OPPORTUNITIES ARISING FROM SUSTAINABILITY TOPICS (FINANCIAL MATERIALITY).

A double materiality assessment is a strategic and comprehensive approach to evaluate the impacts, risks and opportunities related to sustainability. The double materiality assessment determined all topics stemming from the European Sustainability Reporting Standards (ESRS) to be material, except for three. The materiality threshold, as indicated in the matrix on a one to five scale, was set at an average score above three. The topic names listed are aligned with ESRS.

Although water, pollution and affected communities fell under our threshold for material topics following the methodology for our assessment, we recognise our existing water and pollution footprint as well as our impact on communities. Therefore, we have included disclosures on our key impacts and, where applicable, metrics that are relevant to our stakeholders. Water withdrawal is reported in the biodiversity and nature chapter as water is a vital element for sustaining biodiversity.

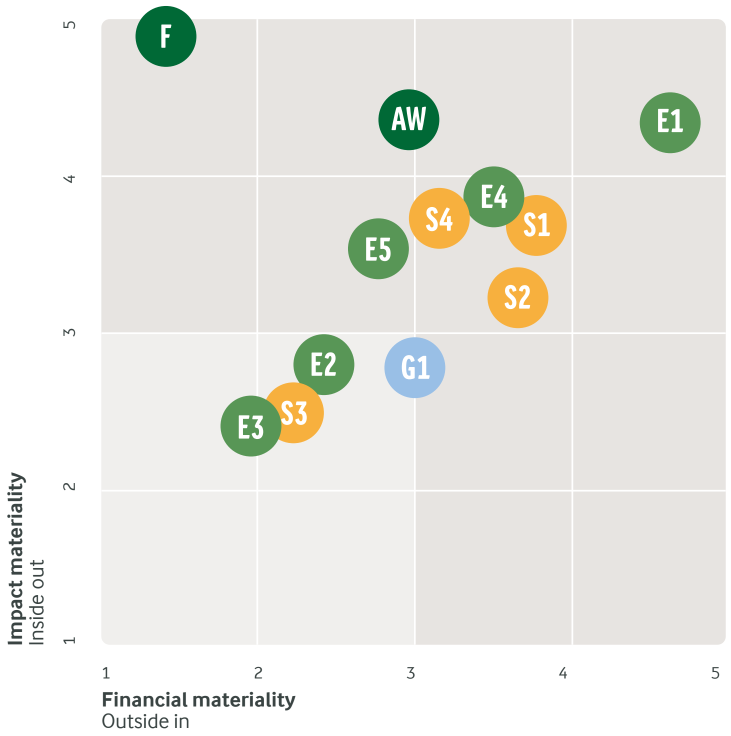
Material issues (threshold 3+)

F. Food safety
AW. Animal welfare
E1. Climate change
E4. Biodiversity and nature
E5. Resource use and circular economy
S1. Own workforce
S2. Workers in the value chain
S4. Consumers and end-users
G1. Business conduct

Not material issues

E2. Pollution
E3. Water and marine resources
S3. Affected communities

Link to the topics included in the European Sustainability Reporting Standards (ESRS)



F

Food safety
Arla-specific

As a global food company, the safety of our products is our core foundation. Our key impact is that the products we deliver are safe to consume. The key opportunity is consumer trust and brand reputation based on the safety of our products.

The most important risk is that major food safety or product issues may lead to a loss of brand reputation and reduced trust in our products, resulting in financial losses.

Read more on pages 68-73.

AW

Animal welfare
Arla-specific

Animal welfare is a key priority of our farmers and our consumers. The farmers' management methods have a significant impact on the welfare of their herds, which, in turn, has an impact on the farms' environmental footprint.

Animal welfare is a risk with a potentially significant financial impact, as our customers and consumers expect the best treatment of our farmers' cows.

Read more on pages 39 and 42.

E1

Climate change
ESRS E1

Climate change is one of the most material topics for Arla due to its impact on both our own operations and our value chain. Methane emissions from cows, other CO_2e emissions and energy use emerged as Arla's key impacts related to this topic. Simultaneously, this presents us with the chance to drive the sustainability transformation within the dairy industry, leading to reduced climate impacts.

Our key risks are climate-related regulatory changes as well as regulations to reduce emissions in production and agricultural activities. Being able to lead on decarbonisation actions also gives us a potential business opportunity. For a detailed description of climate-related risks and opportunities, see pages 43-44.

Read more on pages 33-44.

E4

Biodiversity and nature
ESRS E4

Although separating dairy farming's impact from the impact of other agricultural activities in the countries we operate in is complex, our assessment revealed that Arla has a material impact on biodiversity loss, on the number of species and on the conditions of ecosystems. Arla's impact on biodiversity materialises through the land use of our farmers.

At the same time, this gives us the opportunity to lead the transformation towards greater biodiversity and increase our brand value. The key risks related to biodiversity are potentially stricter regulations and taxation, such as on land use, and failing ecosystems causing problems with feed production or other aspects of dairy farming.

Read more on pages 45-51.

E5

Resource use and circular economy
ESRS E5

As an agricultural company, we are depleting some crucial non-renewable resources, for example phosphorus through our land use, fossil fuels through our operations and logistics and plastic used in our packaging. Our other big impacts on this topic relate to generating solid waste and food waste.

Sustainable packaging is of key importance for our customers and consumers, representing both a hygiene factor as well as an opportunity to be first movers on circularity in specific product packaging. Our most material risk related to this topic is dairy farming losing the competition for land with other contestants, who would use the land to grow human food, forests or fibre raw materials.

Read more on pages 52-57.

S1 S2

Our own workers and workers in the value chain
ESRS S1 and S2

Arla's policies and practices related to our own employees impact over 20,000 people. Even more people employed in our upstream and downstream value chains are covered by our human rights due diligence process, risk and impact assessments and human rights and modern slavery policies. Our impact ranges from providing a healthy and safe working environment, securing employment and appropriate grievance mechanisms, to ensuring that child labour and forced labour do not occur in our value chain.

Mitigating any negative impact and ensuring that we positively impact both our own employees and workers in the value chain is a great opportunity for Arla. This encompasses creating a loyal, diverse and skilled workforce, positively impacting their health and safety and the employment practices of our suppliers. Failing to do so is an equally significant risk.

Read more on pages 58-67.

S4

Consumers and end-users
ESRS S4

Our key impacts related to consumers are ensuring the safety of our products (see food safety above), and contributing to their diets with nutritious and healthy options. Apart from these, we also identified access to quality information regarding products and the protection of our most vulnerable consumers, for example children and low-income consumers, as important aspects of our impact.

Our greatest opportunity lies in differentiating ourselves by reducing the carbon footprint of dairy products significantly. The main risks we face relate to food safety, transformation of consumer preferences, decreasing competitiveness of our branded portfolio, changes in dietary guidelines and loss of consumer attractiveness due to new labelling guidelines.

Read more on pages 68-73.

G1

Business conduct
ESRS G1

Honest and transparent business conduct is expected from Arla, and we continuously seek to meet and exceed these expectations. Our key impacts related to business conduct are to protect the data privacy of consumers, and responsible marketing and lobbying activities.

Honest business conduct further gives us the opportunity to differentiate ourselves within the food and beverage industry. The most important risk is that Arla is not perceived as a company built on honest and transparent business conduct.

Read more on pages 74-86.

Process and metrics

MATERIALITY ASSESSMENT

The process of our double materiality assessment followed the requirements of the European Sustainability Reporting Standards (ESRS 1 and 2). Below, we detail how material impacts, risks and opportunities were identified and assessed.

Stakeholder and proxy identification
A key objective of the double materiality assessment was to understand how our most important stakeholders see Arla's sustainability-related impacts, risks and opportunities. To achieve this, we first identified stakeholders who are affected by Arla's business activities, and also stakeholders who use the information presented in the annual report.

According to our stakeholder analysis, the following groups are our key stakeholders: our farmer owners, nature, customers, consumers, affected communities, workforce, NGOs, financial institutions, the media and governments.

As certain stakeholder groups could not be directly reached or sampled in an unbiased way, proxies were selected to represent them. Proxies were selected based on several criteria, for example their role in Arla, their expertise in a certain field, their relation to a certain stakeholder group and their role in society. Some stakeholder groups were also proxied by research papers to obtain an objective view of the matter. For example, consumer opinion was covered by desktop research by looking at representative opinion surveys, and also by talking to members of the Agriculture, Sustainability and Communications management team, who, in their daily work, make business decisions considering consumers' priorities and behaviour.

Assessing impacts, risks and opportunities related to sustainability matters
Sustainability matters included in the double materiality assessment were mainly identified based on the list of topics presented in ESRS 1.

Based on the topics suggested by ESRS 1, proxies representing different stakeholder groups identified positive and negative impacts, risks and opportunities related to the topics. When identifying impacts, proxies considered both Arla's own impact and impacts resulting from our business relationships. After identifying them, proxies scored the severity of impacts, taking their scope, scale and irremediability into consideration. Risks and opportunities were scored based on their likelihood of materialising and their potential financial impact on Arla.

For assessing the size of the potential financial impact, proxies used qualitative thresholds due to the immaturity of quantifiable thresholds. The risk and opportunity assessment for the purposes of establishing double materiality is, for now, separate from Arla's overall Enterprise Risk Management process. Qualitative thresholds used for the double materiality risk and opportunity assessment are not necessarily the same thresholds used in the global risk assessment presented on pages 25-27.

To determine the materiality of each sustainability-related topic, an average of all the impact scores, and separately an average for all the related risks and opportunities, were calculated. If a topic had both a risk and opportunity associated, only the higher scores were taken into consideration to give such topics more weight in the analyses.

External validation of impact, risk and opportunity assessment
Based on the impact, risk and opportunity assessment by internal proxies, a draft materiality matrix was created. The map was then presented to various external experts, representing or related to our stakeholder groups, for validation. External experts were chosen from NGOs, financial institutions and universities.

STRATEGY DEVELOPMENT

Arla's unique democratic setup makes it possible to formulate and execute strategies in close collaboration with our owners and most important suppliers and stakeholders – the farmers.

Future 26 and its sustainability pillar 'Stronger People, Stronger Planet' was built together with our farmer owners with a strong focus on pursuing material sustainability-related opportunities while mitigating sustainability risks (see a detailed description of such risks and opportunities on pages 43-44).

During the process of developing our strategy, our Executive Management Team (EMT) and Board of Directors ensured that the opinions and concerns of key stakeholders were considered. Farmers are involved in reviewing our strategy through various meetings and forums.

As part of the strategy development, relevant targets addressing material sustainability topics were set and approved by the EMT.

Further, the materiality assessment is taken into consideration during the strategy update process. Read more in the environmental and social sections.

GENERAL ACCOUNTING POLICIES

The sustainability statements on pages 28-86 encompass Arla's reporting on Environmental, Social and Governance (ESG) matters. Starting from 2025 on, Arla will be obliged to adhere to the European Sustainability Reporting Standards (ESRS) as per the new EU Corporate Sustainability Reporting Directive (CSRD) that came into effect in early 2023. To proactively meet these requirements, we revised the report structure and content to ensure better alignment with the ESRS requirements. For a detailed overview of all the ESRS disclosure requirements addressed in the report, please refer to page 154.

Other reporting standards
The sustainability statements include statutory reporting on Corporate Social Responsibility (CSR) in accordance with section 99a of the Danish Financial Statements Act. Read more on page 10 (business model), pages 43-44 (climate-related risks) and pages 28-86 (policies, actions, management systems, key ESG figures and expectations for the future).

Our statutory statement on section 99b regarding diversity on the Board of Directors and management can be found in the statutory reporting for each entity subject to this regulation. The target and progress for the gender diversity of the Board of Directors and management of the Arla Foods Group are disclosed in this report on pages 61, 66, 77 and 86. Our statutory statement on section 99d regarding data ethics can be found on page 85.

In 2022, we disclosed our climate-related risks and opportunities according to the Task Force on Climate-Related Financial Disclosures' (TCFD) recommendations for the first time. Climate-related risks and opportunities are now described in the climate change and animal welfare chapter on pages 43-44.

An overview of progress towards the UN Sustainable Development Goals is included on page 158.

Basis for preparation
Arla's sustainability statements are developed using regular monthly and annual reporting procedures. The consolidation principles primarily rely on operational control, unless otherwise specified in the accounting policies to each section. All reported data aligns with the reporting period of the consolidated financial statements.

For our definitions of applied time horizons, please refer to page 43.

We obtain reasonable assurance on the following key sustainability metrics: energy and climate-related metrics, food safety, animal welfare, accidents and certain employee-related metrics. We obtained limited assurance for the remaining disclosure of the sustainability statements.

Reporting scope
Environmental KPIs included data from all production and logistical sites. This, together with purchased milk, externally purchased whey, external waste handling, external transport and packaging, covers all material activities in Arla's value chain. The environmental impact related to offices, business travel and other less material activities was not included in the total emission figure. This scope also applies to the accidents KPI, page 65, however accidents at head offices in Denmark, the UK, Sweden and Germany were also included.

All of our revenue relates to the food and beverages sector. Some of our impacts also relate to the agriculture and farming sector. All our revenue stems from high climate impact sectors.

Restatement principles
Baselines and comparison figures are restated according to Arla's Restatement Policy. By default, Arla's baseline emissions are reviewed every five years from the target base year (2020, 2025, 2030), if no significant structural or methodological changes trigger a recalculation beforehand. Every five years, Arla assesses whether the structural changes (for example acquisitions or divestments) in the past years reach the significance threshold when accumulated. Each year, Arla assesses if the structural changes that year reach the significance threshold by themselves or when added together.

A threshold is defined for each science-based target:

- Scope 1 and 2: 5% change compared to the base year
- Scope 3 per kg of raw milk: 3% change compared to the base year

When the baseline emissions are recalculated due to significant structural changes in the company (as defined above), historic figures are also recalculated and reported alongside the non-recalculated (actual) historic emission figures. This provides the reader with more clarity to understand Arla's actual emissions each year. Other externally reported sustainability figures are only restated if material mistakes in the previous years' reporting are discovered. The materiality of mistakes is determined on a case-by-case basis.

In 2023, we chose to restate the historical figures for solid waste to correct errors related to prior years.

Further, in 2023 we chose to restate the historical figures for the renewable electricity share to adjust the methodology to better align with the chosen reporting frameworks.

CLIMATE CHANGE AND ANIMAL WELFARE

Strategic ambition		2023	Progress towards target				Target	
EMISSION REDUCTIONS	**SCOPE 1+2**	4%P	2015	33%	2030		63%	Read more on pages 37-38
	SCOPE 3 per kg of milk and whey	3%P	2015	12%	2030		30%	Read more on pages 35-36
RENEWABLE ELECTRICITY IN EUROPE		17%P		69%	2025		100%	Read more on page 37

Impacts

ARLA'S EMISSION SOURCES

96% SCOPE 3 (CH_4, N_2O, CO_2)

81%	Farms
10%	Externally sourced whey
3%	Waste and other
2%	Packaging

4% SCOPE 1+2 (CO_2)

1%	Purchased energy
3%	Transport (own fleet) and production

2023

2030

Ambitions

ARLA'S EMISSIONS IN 2030

30%

Scope 3 emission reductions per kg of milk and whey
Our scope 3 science-based target is mainly related to reducing the carbon footprint at farm level by 30% per kg of standardised milk and whey.

63%

Scope 1+2 emission reductions and strategic long-term targets
Arla has set science-based targets for 2030, using 2015 as a baseline. Direct greenhouse gas emissions (scope 1) and emissions related to purchased energy (scope 2) should be reduced by 63% in absolute terms.

100%

Renewable electricity by 2025
Switching from fossil to renewable energy is an important lever to fulfil our scope 1 and 2 reduction ambition. Our key focus is to secure renewable electricity for all our sites in Europe.

Policies

Environmental and Energy Management Policy & Green Ambition 2050

Strategy

SCIENCE-BASED CLIMATE STRATEGY

Reducing our impact on climate change is at the top of the agenda in our cooperative. Together with our farmer owners, we have set ambitious climate targets that align with the goals of the Paris Agreement. By committing to limit global warming to 1.5°C, we are actively working towards mitigating the effects of climate change.

As one of the world's largest dairy companies, Arla has the size, strength and influence to make a significant impact as a frontrunner when it comes to sustainability and protecting our planet. We acknowledge our responsibility, which is why our ambition is to become carbon net zero across our value chain by 2050, and why we are committed to setting a science-based net-zero target. Our 2030 targets guide us on our path to carbon neutrality.

We are currently looking into updating our scope 3 target to be aligned with the newly published Forest, Land and Agriculture Guidelines issued by the Science Based Targets initiative. Once approved, it will be disclosed in our external reporting.

In Arla, we believe that being data-driven is key to reducing our carbon footprint. Science is developing rapidly, and we constantly strive to use the best available data, technology and methodology. The effects on updates in methodologies and data sources are included in the reported numbers. We obtain reasonable assurance on our scope 1, 2, and 3 greenhouse gas emissions.

Our targets and strategy for climate change mitigation are approved by our Board of Directors and other relevant stakeholders. We have an opportunity for differentiating ourselves by reducing our carbon footprint.

Actions and resources

SUSTAINABLE DAIRY FARMING

AS ONE OF THE WORLD'S LARGEST DAIRY PRODUCERS, WE HAVE A BIG RESPONSIBILITY TO REDUCE OUR IMPACT ON THE CLIMATE. IT IS CLEAR THAT THE CLIMATE CHANGE THREAT WE FACE TODAY REQUIRES US TO DO EVEN MORE, SETTING BOLDER TARGETS WITH A CLEAR PATHWAY FOR ACHIEVING THEM.

In 2023, scope 3 emissions per kg milk and whey decreased by 3 percentage points compared to 2022, contributing to an overall reduction of 12% compared to 2015. Read more on page 40. Emissions from Arla's owners were 1.08 kg CO_2e per kg of owner milk, a 3.6% decrease from last year. Reductions were seen across all countries, with the UK showing the largest improvements. The biggest reductions derive from better fertilizer use and manure handling.

Our Sustainability Incentive model was launched in July 2023, and the first results confirm the reduction potential. The first payouts issued this summer marked, for the first time ever, that the milk price the individual Arla farmers receive is now directly tied to their activities related to environmental actions.

The model is based on a point-based system in which the farmers can collect points based on their emission-reducing activities on the model's 19 different levers, such as feed and protein efficiency, manure handling, sustainable feed, renewable electricity and land use. For every activity, the farmers can collect points if they meet specific criteria. Each point that the farmers gain will trigger 0.03 EUR-cent/kg of milk they deliver to us. Activities with the biggest CO_2e reduction potential trigger the most points.

The average points achieved during 2023 were 50. For an average Arla farm with an annual milk production of 1.6 million kg, this amounts to close to EUR 40,000 a year in total.

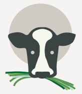
3.6%

Reduction in CO_2e per kg owner milk in 2023 compared to 2022.
This reduction represents the largest year on year reduction we have seen so far.

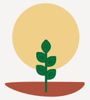
Available points in the Sustainability Incentive model

TOTAL 80 POINTS

THE BIG 5
49 POINTS

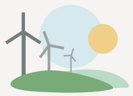


SUSTAINABLE FEED
11 POINTS



CARBON FARMING AND BIODIVERSITY
8 POINTS

MANURE HANDLING
6 POINTS



RENEWABLE ELECTRICITY
5 POINTS

KNOWLEDGE BUILDING
1 POINT

THE BIG 5

1. **Feed efficiency**
If farmers manage to maximise the milk per feed ratio and minimise feed waste, the milk will be more climate efficient.

2. **Protein efficiency**
Carefully measuring feed with the right protein levels means less nitrogen, leading to less nitrous oxide, a greenhouse gas, from the manure.

3. **Animal robustness**
Cows that live a long and healthy life will produce more milk over their lifetime which improves climate efficiency.

4. **Fertiliser use**
Matching precisely the amount of fertiliser with the plants' needs and using different methods to spread the muck can improve the yield per carbon emission ratio.

5. **Land use**
Feed yield on farms can also be optimised to increase climate efficiency.

In 2023, a total of EUR 226 million was paid out. This covers Incentive model payments for the last six months of the year as well as 1 EUR-cent/kg of milk for submitting their Climate Check data.

Years of groundwork

The Incentive model currently enables farmers to earn up to 2.4 EUR-cent/kg of milk for their actions contributing to our 2030 scope 3 CO_2e emission reduction target as well as other sustainability actions, such as enhancing biodiversity.

Years of data collection and analysis using the Climate Check tool helped our farmer owners identify farm greenhouse gas emissions (CO_2e) before the model rollout. The data generated from the Climate Check conducted in seven Northern European countries forms one of the world's biggest pools of externally validated dairy farm data.

Through the Climate Check, we have identified the five most impactful areas to reduce the carbon footprint on farm that account for 78% of the variance in carbon footprint between Arla farms, the Big 5.

The Big 5 have a significant reduction potential, which is underlined in the Sustainability Incentive model, making it the category with the most lever points and therefore the biggest financial impact.

This extensive dataset gives us the opportunity to help each individual farmer pinpoint where their efforts are best prioritised to reduce their emissions as effectively as possible, and at the same time improve the profitability of their milk.

Promising first findings

The first collected data put in use indicates that the model has a strong engagement. 97% of farmers submitted Climate Check data, 79% uploaded additional data into the Incentive model and the weighted average score for 2023 was 50 out of a total of 80 maximum points. Across all farm types, areas and regions there are farmers who score above the Arla average point score.

There is a strong link between CO_2e per kg of milk and incentive points, and data analysis shows that farmers are reaching their respective incentive points in different ways, as the model is able to accommodate the diversity of Arla farmers.

Furthermore, the levers under the farmers' influence are driving the main differences between areas.

The preliminary data suggests that no structural factors prevent farmers in certain areas or with certain farm types from reaching or exceeding the Arla average, highlighting the potential and the scalability of the model. We continuously analyse and review the model to ensure that it is as relevant and impactful as possible.

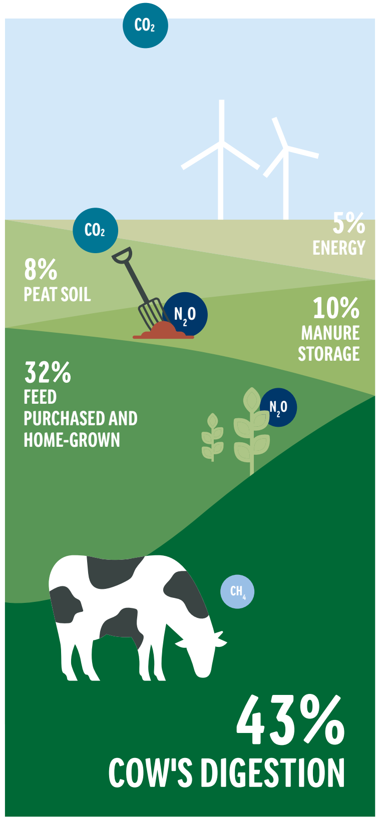
The more climate action, the greater the reward. This also sends a clear message to customers and consumers that a share of the price they pay for more sustainable Arla products and concepts is directed to the farmers who take the most action. We are looking into how we can offer our data-based innovations to other farmers or dairy companies to accelerate the transition across our global industry.

New commercial partnerships

Our science-based and data-driven approach to the on-farm transition is creating a growing interest amongst customers in partnering up with Arla to reduce their scope 3 emissions through our newly developed Customer Sustainability Programme.

The programme was launched in 2023 and first introduced in UK. A number of our major customers already joined the program with plans to expand to more markets in 2024. The Customer Sustainability Programme will continue to be rolled out to retail and foodservice customers across European core markets during 2024.

Where our emissions came from on a farm in 2023



Other emissions, 2%, include capital goods and destruction of animal remains.

Reducing methane emissions

Methane emissions are a major challenge for the dairy industry, comprising 43% of the total emissions from Arla farms due to cows' digestion of feed. We continuously review and update our Sustainability Incentive model to drive change. Future initiatives, such as feed additives and biochar, show promising initial findings in reducing methane emissions.

While the Big 5 initiative is essential for reducing methane emissions, we aim to further accelerate our efforts through the implementation of feed additives. In 2022, our farmer owners piloted the use of a new feed additive with 13,000 dairy cows across more than 25 farms in Denmark, Sweden and Germany. In 2023, we made significant progress on refining our approach and developing practical implementation strategies for the future.

We closely follow the development of a wide range of feed additives that promise to reduce methane production. Other initiatives relate to further optimising feed compositions and feed efficiency and to reducing farming on peat soils.

SUSTAINABLE PRODUCTION AND LOGISTICS

ACHIEVING CARBON NET ZERO OPERATIONS BY 2050 IS THE LONG-TERM SUSTAINABILITY AMBITION FOR OUR DAIRY PRODUCTION SITES AND OUR LOGISTICS NETWORKS. OUR STRATEGY IS CENTRED AROUND RENEWABLE ELECTRICITY, ENERGY EFFICIENCY AND TRANSITIONING AWAY FROM FOSSIL FUELS IN PRODUCTION AND LOGISTICS.

In 2023, our scope 1 and 2 emissions decreased by 4 percentage points compared to 2022 and reached a total reduction of 33% compared to our 2015 baseline. We continued our focus on delivering energy savings through awareness and changed behaviour while also investing heavily in technologies and equipment to transition away from fossil fuels.

Our long-term plans to accelerate our transition from fossil fuels to renewables through initiatives such as energy optimisation, electrification, renewable electricity and alternative thermal energy are firmly on track.

More renewable electricity

Switching to renewable energy is vital for achieving our emission reduction goals. In 2023, 69% of our electricity consumption in Europe stemmed from renewable sources, by 2025 this should be 100%. For more information, please refer to page 41. Our focus is on securing more renewable electricity through new solar and wind farms, adding more renewable energy to the grid.

This year, we signed five power purchase agreements (PPAs) for new solar and wind parks in the UK, Germany, and Sweden. In Sweden, we secured a 10-year solar energy contract, covering approximately half of the current electricity need for all our Swedish dairy operations. In combination, the five contracts will generate 164 GWh of green electricity representing 15% of the electricity consumption at our European production and logistics sites.

At our packaging, distribution and mixing site in Tychowo, Poland, we opened a large solar power plant covering 70% of the site's needs. Through the investment we secure business continuity in an area with frequent power cuts and create a renewable energy source in an electricity grid with a high emission factor due to the dependency on coal.

We also installed solar panels on the roof of our cheese packaging site in Oswestry, UK, which can cover 12% of the site's annual electricity need. Please see further information on page 121 in the financial statements.

33%

Scope 1+2 CO_2e emission reduction
F26 Strategic ambition: We aim for a 63% reduction in scope 1+2 emissions by 2030 compared to 2015.

Energy efficiency

At our largest fresh milk dairy, Aylesbury UK, we piloted a new AI digital tool to identify energy reduction opportunities. This advanced technology provided accurate energy consumption data and enabled us to quickly address energy spikes. With the AI-powered energy performance report, we achieved substantial energy savings equivalent to 15 extra production days, along with a reduction in CO_2e emissions. Our goal is to expand the use of this tool to more production sites for increased value and CO_2e emission reductions.

We continued to assess quick-win areas for our production sites and logistics centres. We identified three areas for 2023 through a supplier-lead screening and assessment process:

- Optimising the ventilation systems by looking at general automation, heat recovery, fans and reducing air flow to save energy.
- Assessing, replacing and optimising air compressors and associated equipment to reduce energy use.
- Optimising current frequency converters and identifying more motors that can be equipped with converters to minimise energy usage.

Where our emissions came from (scope 1+2) in 2023

Transition away from fossil fuels

We believe that the energy supply of the future must be multi-pronged with different renewable energy sources in order to create resilience, cost competitiveness and match the availability of renewable energy sources. The energy crisis in 2022 has further motivated us to act swiftly and pursue rapid change. We have invested heavily in alternative solutions suited to the sustainability strategy.

An example is the Taulov dairy in Denmark which, in late 2023, was connected to a large district heating system. This means that more than half the yearly natural gas consumption will be replaced by fossil-free district heating, saving up to 41% of the site's current CO_2e emissions related to heating per year.

Logistics and fuel efficiency

We continued the work on transitioning to fossil-free fuels and on emission-reducing initiatives in our logistics fleet and production sites. Throughout the past years, Arla's own and leased truck fleet has been equipped with an Ecodriving system to optimise vehicle and driver performance, and we now have a setup which ensures that it is installed in all new trucks.
The system displays the drivers' economic performance, helping them to improve. On average, the system is expected to reduce overall fuel consumption by 3-5%.

Furthermore, we continued to expand our fleet of inbound electric and biogas-driven vehicles in the UK, Finland and Sweden. At the end of 2023, around 50 Arla biogas trucks were on the road in Sweden, and we continue to create opportunities for Arla farmers to utilise their cow manure for biogas.

Route and delivery optimisation in Denmark, Sweden and the UK also contributed significant emission savings during the year. We proactively engaged our key customer and logistics suppliers to optimise the filling of our trucks and reduce the distances driven. In the UK, we collaborated with a key customer who agreed to get shipments every second day. This significantly decreased delivery frequency and mileage and reduced CO_2e emissions.

ARLA® B.O.B.

Arla® B.O.B. milk is sold to consumers in the UK. In 2023, we continued our focus on optimising our logistics to reduce CO_2e emissions in collaboration with a key customer.

ANIMAL CARE

MILK IS OUR KEY RAW MATERIAL, AND WE WANT IT TO BE PRODUCED RESPONSIBLY, WITH CARE FOR COWS AND NATURE.

Animal welfare in Arla

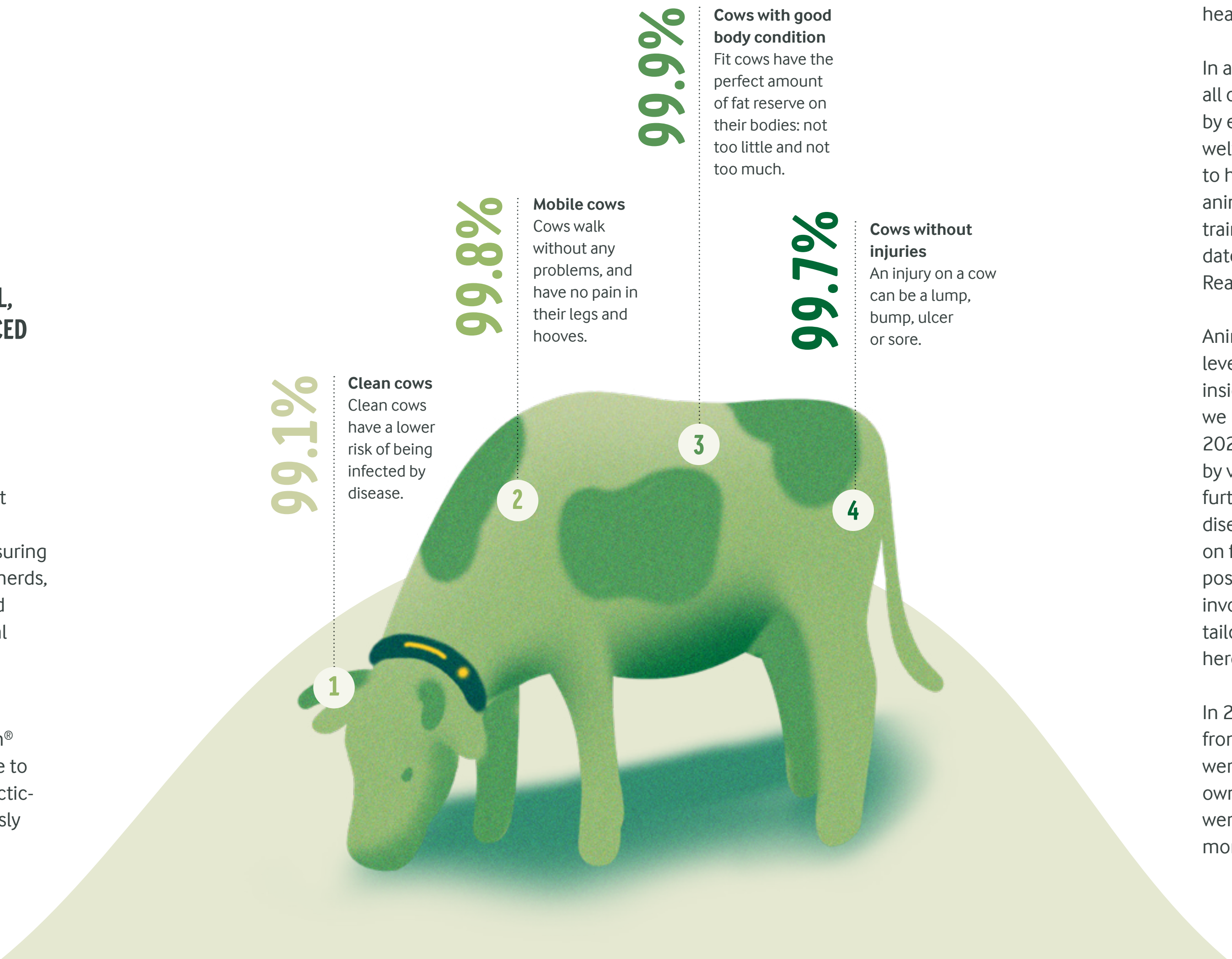
In Arla, the welfare of our cows is at the heart of our farming practices. Our farmers take great pride in ensuring the health and well-being of their herds, and commit considerable time and resources to delivering high animal welfare standards.

20 years of Arlagården®

In 2003, we started the Arlagården® farm quality assurance programme to strengthen our animal welfare practices. Since then, we have continuously updated and adapted Arlagården®

Share of farmers with no major animal welfare issues in 2023

We measure the general wellbeing of the cows using four indicators developed on the basis of scientific research on the most common dairy cattle issues. The data shows the share of audited farmers without major issues within each welfare indicator in 2023.



to align with evolving customer and consumer expectations and changing conditions on farm. To ensure that animal welfare is a core focus area, Arlagården® requires owners to submit a comprehensive report on their herds' health status on a regular basis.

In an audit process harmonised across all owner countries, farmers are visited by external experts trained in animal welfare at least once every three years to have their herds checked on. Our animal welfare experts receive regular training to ensure they remain up to date on the latest best practices.
Read more about the audit on page 42.

Animal robustness is one of the Big 5 levers in our Incentive model. To gain insight into how to improve this lever, we launched a pilot with 19 farms in 2022, in which the farmers, supported by veterinarians, focused on how to further prevent the most common cow diseases as well as animal accidents on farms. The project received highly positive feedback from the farmers involved, as it enabled them to get tailored advice on how to improve their herds' health and robustness.

In 2023, to scale the insights gathered from the pilot, more than 90 workshops were conducted across our seven owner countries. In 2023, EUR 4 million were paid out to farmers for the last six months of the year related to animal robustness, corresponding to an average of 2 points in the Incentive model.

Digital farms

Today, many Arla cows are equipped with a collar which helps the farmers track activity levels and patterns that indicate the health of individual cows, enabling the farmer to react faster if something is wrong. Our pilot project at the UK innovation farm utilises 3D cameras and advanced algorithms to automate data collection on cows' mobility and body condition. This simplifies dairy herd management, enabling faster identification and resolution of health issues. Ultimately, this technology empowers farmers to prioritise the well-being of their cows.

Driving industry-wide improvements

Championing animal welfare extends beyond our farms. Engaging with NGOs, industry associations and participating in forums, round tables and conferences dedicated to farm animal welfare is one of our core focus points. By supporting the European Dairy Association through the EU Animal Welfare Platform, Arla is actively contributing to shaping the upcoming ambitious animal welfare legislation.

Progress towards targets

GREENHOUSE GAS EMISSIONS (CO_2e)

To set our goals, we rely on the latest scientific methodology and understanding of our ecosystem to ensure the goals are robust, actionable and in line with the planet's needs.

In 2023, our scope 1+2 CO_2e emissions decreased by 4 percentage points, leading to a total reduction of 33% compared to the 2015 value of 983 thousand tonnes. The reduction was a result of energy optimisations at sites, the impact from PPA contracts, solar panels in Bahrain, Poland and UK, and to a minor degree renewable electricity certificates. The reduction was partly offset by impacts from increased milk volumes and powder production.

In 2023, scope 3 emissions per kg of milk and whey decreased by 3 percentage points compared to 2022, contributing to our overall reduction of 12% compared to the baseline value of 1.29 kg CO_2e per kg of milk and whey in 2015. As a result, the current scope 3 emissions per kg of milk and whey now amount to 1.14 kg CO_2e. Emissions specifically from Arla's owners amounted to 1.08 kg CO_2e per kg of owner milk, corresponding to a 3.6% decrease compared to last year. Reductions were delivered across most countries, with UK showing the biggest improvements. The biggest reductions were observed within better fertiliser use and manure handling.

Packaging emissions increased due to product mix changes, while scope 3 transport emissions decreased as a result of reduced air freight, low carbon fuel usage and insourced transport activities which in turn lead to higher scope 1 transport emissions.

In 2023, total CO_2e emissions decreased to 18,801 thousand tonnes (2022: 19,102). The development is primarily explained by emission reductions on farm, partly offset by higher milk volumes and increased purchases of external whey for the Arla Foods Ingredients business. To a smaller degree this reduction is also caused by a decrease in scope 2 emissions.

ACCOUNTING POLICIES

To follow up on the progress towards emission reduction targets, greenhouse gas emissions (expressed as CO_2 equivalents, CO_2e) are reported annually. CO_2e is categorised into three scopes according to the methodology of the Greenhouse Gas Protocol Corporate Standard (GHG Protocol). In line with Arla's science-based targets, the group does not reduce its CO_2e emissions with carbon credits.

Calculating CO_2 equivalents

Greenhouse gases are gases that contribute to the warming of the climate by absorbing infrared radiation. Besides the widely known carbon dioxide (CO_2), there are two other major green-house gases associated with dairy production: Methane (CH_4) and nitrous oxide (N_2O). In order to calculate Arla's total greenhouse gas emissions (carbon footprint), different greenhouse gas emissions are converted into carbon dioxide equivalents (CO_2e). The conversion of different gases reflects their global warming potential.

The potency of the different gases is taken into consideration according to the following calculations (based on the IPCC Fifth Assessment Report, Climate Change 2013):
1 kg of carbon dioxide (CO_2) = 1 kg of CO_2e
1 kg of methane (CH_4) = 28 kg of CO_2e
1 kg of nitrous oxide (N_2O) = 265 kg of CO_2e

The majority of Arla's emissions are methane from digestion and manure storage, and nitrous oxide from fertiliser and manure usage. Greenhouse gas emissions are categorised into three scopes according to where they appear across the value chain, and what control the company has over them. Emissions are calculated in accordance with the methodology set out in the GHG Protocol.

Scope 1 – All direct emissions

Scope 1 emissions relate to activities under the group's control. This includes transport using Arla's vehicles and direct emissions from Arla's production facilities.

Scope 2 – Indirect emissions

Scope 2 emissions relate to the indirect emissions caused by Arla's energy purchases, i.e. electricity or heat. In 2020, Arla switched from location-based scope 2 reporting to market-based reporting and updated the 2015 baseline. The market-based allocation approach reflects emissions from electricity purchased or produced by Arla, as well as emissions related to other contractual instruments such as PPAs and certificates purchased by Arla, which may differ from the average electricity and other energy sources generated in a specific country. This gives Arla the opportunity to purchase electricity and other contractual instruments which emit less greenhouse gases than the country average. In accordance with the GHG Protocol, Arla discloses scope 2 emissions according to both the market and location-based method (also known as dual reporting).

Scope 3 – Other indirect emissions

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

Emissions from whey relate to externally purchased whey for Arla Foods Ingredients. Included whey is standardised and recalculated based on the milk solid content to consider the difference in quality and fractions purchased at Arla. The emission factor related to externally purchased whey was unchanged at 1.0 kg of CO_2e per kg of whey, a conservative estimate (Flysjö, 2012).

Arla collects data from transport and packaging suppliers covering a minimum of 95% of the spend. Based on the collected data, results are scaled up to cover 100%. For transport, production and packaging, emission factors are based on Defra 2022 and Ecoivent 3.9.1. The emission factors are updated annually.

Scope 3 – Emissions on farm

Scope 3 emissions from raw milk are calculated in accordance with the International Dairy Federation's guideline for the carbon footprint of dairy products (IDF 2015). The tool used for calculating the carbon footprint of milk is based on an attributional life-cycle assessment (LCA) that has been developed during the last decade in collaboration with 2.-0 LCA Consultants, a Danish consultancy firm formed by academics. For detailed descriptions of methodology, please refer to Schmidt and Dalgaard (2021), which can be found on the website of 2.-0. LCA Consultants. Farm-level emission factors are also obtained from 2.-0 LCA Consultants. For non-owner milk, emission factors were unchanged from 2015 levels. Non-owner milk emissions are

Greenhouse gas emissions progress

Thousand tonnes (mkg)	**2023**	2022	2021	2020	2019
CO_2e scope 1+2 market-based	660	695	733	751	862
CO_2e reduction scope 1+2 (baseline: 2015)	**33%**	**29%**	**25%**	**24%**	**12%**
CO_2e scope 3 from owner per kg of owner milk (kg)	1.08	1.12	1.15	1.15	1.15
CO_2e scope 3 per kg of milk and whey (kg)	1.14	1.18	1.20	1.21	1.21
CO_2e reduction scope 3 per kg of milk and whey (baseline: 2015)[1]	**12%**	**9%**	**7%**	**7%**	**7%**

[1] The calculation of CO_2e emissions in 2015 was based on national statistical data, the best available source at the time. In 2016, we started to do climate measurements on Arla farms and gradually replaced the national statistical data with Arla-specific data in the CO_2e calculation model.

Greenhouse gas emissions (scope 1, 2, 3)

Thousand tonnes (mkg)	**2023**[2,3]	2022	2021	2020	2019
Production	426	399	368	381	366
Transport	82	78	79	93	97
CO_2e scope 1[4]	**508**	**477**	**447**	**474**	**463**
CO_2e scope 2 – market-based	**152**	**218**	**286**	**277**	**399**
Milk	15,196	15,571	16,386	16,645	16,524
Externally sourced whey	1,987	1,859	1,751	1,133	1,032
Packaging	459	444	417	396	384
Purchased goods and services (category 1)	17,642	17,874	18,554	18,174	17,940
Fuel and energy-related activities (category 3)	159	177	125	120	110
Upstream transport and distribution (category 4)	331	346	347	306	312
Waste generated in operations (category 5)	9	10	24	25	25
CO_2e scope 3[2]	**18,141**	**18,407**	**19,050**	**18,625**	**18,387**
Total CO_2e	**18,801**	**19,102**	**19,783**	**19,376**	**19,249**
CO_2e scope 2 – location-based	192	165	243	237	274
Total CO_2e – location-based	18,841	19,049	19,740	19,336	19,124

[2] Scope 3 emissions from categories 2, 6, 7, 8, 9, 13 and 14 are individually less than 0.5% and not included in the emission figures. Categories 10, 11, and 12 have minor impacts above 0.5%. Arla did not report voluntarily in 2023, but is improving data quality for future reporting. Category 15 has around a 5% impact, and data quality efforts are underway for future reporting. [3] Biogenic emissions, which are not included in the emission table, amounted to 90 thousand tonnes of CO_2e. [4] Refrigerants not included.

GHG intensity per net revenue[4]

Thousand tonnes per million EUR	**2023**	2022	2021	2020	2019
Total GHG emissions (location-based) per net revenue (tCO_2e/mEUR)	**1.38**	**1.38**	**1.76**	**1.82**	**1.82**
Total GHG emissions (market-based) per net revenue (tCO_2e/mEUR)	**1.37**	**1.38**	**1.77**	**1.82**	**1.83**

[4] Net revenue figures taken from financial statements.

GREENHOUSE GAS EMISSIONS (CO_2e) CONTINUED

calculated by multiplying milk volume by emission factors based on national inventory data and not Arla-specific data. The calculations are based on an earlier version of the farm tool following IDF 2010 (Dalgaard R, Schmidt J, Cenian K, 2016).

Emissions related to raw milk include emissions both on and off farm. The emissions relate to the cow's digestion, feed production and purchase, manure storage, energy usage, capital goods and peat soils. Emissions related to feed include fertiliser for home-grown feed and purchased feed and transport of purchased feed. Manure storage can result in methane and nitrous oxide emissions. The amount of emissions varies depending on how manure is covered and whether it is used for biogas production. Peat soils are wetland with a high CO_2e content. When soils are drained and used in crop production, CO_2 and N_2O are released. The emission figure related to raw milk presented in this report is a weighted average emission per kg of milk, calculated based on validated climate data from farms where the data has been validated by external climate experts, multiplied by the fat and protein-adjusted milk intake. Farm data validated by external climate experts is statistically representative of all Arla farms.

UNCERTAINTIES AND ESTIMATES

In 2023, 97% of Arla's active farmer owners, covering 99% of Arla's owner milk volume, submitted a detailed Climate Check questionnaire (farmers receive an incentive of 1.0 EUR-cent/kg of milk to complete the survey). Their responses were validated by external climate experts. This report includes only externally validated data which in 2023 covered all farms who submitted a Climate Check.

Farmer owners complete the Climate Check once a year based on data from their most recent financial year. This could vary from farm to farm, as some have financial years running from January to December, while others run from July to June. Therefore, the figures presented are not necessarily based on farm data covering the same period. The majority of data, 62%, relates to the period 1 January 2022 to 31 December 2022, while 10% relates to earlier periods.

An uncertainty analysis has been carried out to understand the biggest areas of uncertainty related to self-reported farm emission data. The analysis was centred around four key levers: herd, feed, crops and manure handling, and addressed the parameters with the highest impact on emissions on farm. The analysis concluded that results on individual farms could be misstated by a maximum of 10-12%, but only if the farmer had a starting point of high emissions and claimed to change from no biogas treatment to full biogas treatment of slurry.

Arla has a robust control process in place to reduce uncertainties and improve data quality. The control process is twofold, including the validation process of the external climate experts and an internal control performed by Arla on catching statistical outliers or abnormalities in data.

Smaller farmers and farmers using extensive grazing systems do not always measure the amount of feed that the cows eat or the dry matter content of the grass on the fields. To enable these farmers to report, the system contains a model which calculates feed consumption based on herd size and milk yield.

Reporting on peat soils is a developing field and still subject to higher uncertainty than other areas. Due to its relatively high climate impact, uncertainties related to peat soils could have a significant impact on the total reported greenhouse gas figure. The risk of errors is minimised by external climate experts validating the data supported by automated statistical outlier controls. All outliers are flagged and need to be checked by the climate expert before the result of the Climate Check is available. Numbers are only released for reporting after thorough investigation.

The methodology used to calculate emissions on farm develops over time. Currently, factors that potentially could lower total net emissions, such as carbon sequestration on farm and direct land use change, are not included. IDF 2015 suggests that direct land use change should be included in the calculations. Our farmers are committed to measuring the impact from carbon sequestration. Carbon sequestration is the process of capturing and storing carbon dioxide from the atmosphere in for example plants and soil.

The baseline year for our scope 3 science-based target is 2015. To calculate the baseline as well as follow-up on the reduction target, the same method and tool were used, but the type of data used differed. For the 2015 baseline, national statistical data for 2012 was used, which was the best available data at the time. From 2016, national statistics were gradually replaced by data from climate measurements at Arla farms. The change happened for Denmark, the UK and Sweden in 2016, Germany in 2019 and for the rest of the owner countries in 2020. The reporting year 2020 was the first time when most Arla farms were included. The farm-specific data is always one to two years behind, which is why the 2023 reporting was based on farm data from primarily 2022.

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

ENERGY CONSUMPTION AND MIX

The renewable electricity share increased to 69% in 2023 compared to 52% last year. The increase was a result of new PPAs and investments in on-site solar plants. To a smaller degree this was also caused by the purchase of renewable electricity certificates. Read more about the accounting treatment of PPAs on page 121.

Concerns over the energy crisis following the Russian invasion of Ukraine in 2022 led to investments in backup plans to enable a switch to oil as an alternative fuel to ensure supply continuity. These are still ready for use should they become necessary in the future. In the beginning of 2023, the oil boilers were used at a number of production sites, meaning that 8% of the energy consumption in 2023 related to crude oil.

ACCOUNTING POLICIES

Energy used at Arla's production sites and warehouses originates from different sources, including biogas, biomass, natural gas, district heating and grid electricity.

Energy consumption

(thousand MWH)	**2023**	2022	2021	2020	2019
Coal and coal products	-	-	-	-	-
Crude oil and petroleum products	349	454	346	462	492
Natural gas	1,906	1,738	1,723	1,695	1,596
Other fossil sources	0	0	0	0	0
Purchased or acquired electricity, heat, steam or cooling from fossil sources	302	420	488	465	628
Total energy consumption from fossil sources	**2,557**	**2,612**	**2,557**	**2,622**	**2,716**
Total energy consumption from nuclear sources	**45**	**97**	**185**	**185**	**431**
Renewable sources, including biomass, biofuels, biogas, hydrogen from renewable sources etc.	545	554	598	614	624
Purchased or acquired electricity, heat, steam and cooling from renewable sources	974	796	611	531	116
Self-generated non-fuel renewable energy	4	2	0	0	0
Total energy consumption from renewable sources	**1,523**	**1,352**	**1,209**	**1,145**	**740**
Total energy consumption	**4,125**	**4,061**	**3,951**	**3,952**	**3,887**
Renewable sources' share of total energy consumption (%)	**37%**	**33%**	**31%**	**29%**	**19%**

Energy intensity based on net revenue

(thousand MWH)	**2023**	2022	2021	2020	2019
Energy intensity (total energy consumption per net revenue)[1]	**302**	**294**	**353**	**371**	**369**

[1] From activities in high climate impact sector. We operate in the high climate impact sector 'Manufacture of dairy products'.

Electricity consumption in Europe[1]

(thousand MWh)	**2023**	2022	2021	2020	2019
Non-renewable sources	329	500	628	621	-
Renewable sources	730	551	401	412	-
Total electricity consumed	**1,059**	**1,051**	**1,029**	**1,033**	-
Renewable electricity share	**69%**	**52%**	**39%**	**40%**	

[1]The historical figures for renewable electricity are restated to align with updated methodology. The renewable energy decreased from 638 Mwh in 2022, 416 Mwh in 2021 and 428 Mwh in 2020. This caused a restatement of the overall renewable electricity share.

OUR PROGRESS ON CLIMATE ACTIONS CONTINUED

Electricity from renewable sources includes certificates related to self-produced electricity from biogas, solar, electricity certificates purchased from farmer owners and open market certificates. Arla follows market-based accounting and accounts for the purchase of green electricity by contractual agreement, i.e. certificates.

Energy data is registered monthly and primarily based on invoice information and automated meter readings at each site, and therefore there is little uncertainty associated with these figures.

Renewable energy share
To calculate the share of renewables, renewable energy use is divided by the group's total energy use. Arla does not account for energy losses, therefore all energy purchased is included in the figures. The energy sold was not deducted in the calculation of the renewable energy share.

Renewable electricity share
The renewable electricity share is calculated as the share of consumed electricity, both purchased and self-produced, that originates from renewable energy sources or renewable electricity certificates. The renewable electricity share follows the RE100 guidelines. Some Arla sites produce and sell excess electricity. The electricity sold was deducted from the calculation of the renewable electricity share.

In 2023, we chose to change the methodology for the renewable electricity share to better align with the RE100 guidelines and thus we excluded the renewable electricity in the grid mix not covered by contractual instruments. Historical figures have been restated to align with the updated methodology.

ANIMAL WELFARE

Animal welfare development
Animal welfare is a key priority for Arla's farmer owners, and for Arla as a company. Arla is committed to reporting on the most important measures to describe and improve animal welfare. Animal welfare KPIs include somatic cell count, which is a good indicator of disease and stress in cows, and four indicators associated with the physical appearance and wellbeing of cows.

Animal welfare on farm is externally audited at least once every three years by a world-leading quality assurance and audit firm, SGS, specialising in animal welfare. The percentage of audited farms was 35% in 2023, corresponding to 2,814 audited farmers. The results of the audit can trigger a follow-up audit or activity, depending on its outcome. In case of severe issues or repeated animal welfare breaches, Arla suspends milk collection from the non-compliant farm, and, in extreme cases, terminates its membership. During 2020, the audit process was upgraded and harmonised across all owner countries to ensure that auditors follow the same procedures and standards everywhere. Therefore, only 2021-2023 data is reported.

The average somatic cell count across Arla geographies remained at 184 thousand cells/ml.

ACCOUNTING POLICIES

Somatic cell count (average):
Somatic cells in milk are primarily white blood cells. An elevated level of somatic cells can indicate inflammation (mastitis) of the cow's udder, which causes the animal pain and stress and also lowers milk quality. Arla monitors the somatic cell count (SCC) by analysing milk at bulk tank level each time milk is collected from the farms. Levels are continuously reported to safeguard milk quality. The figure reported is a weighted average of Arla's entire milk intake in a given year. The SCC count is received from several laboratories across owner countries. A SCC above 300 reduces the milk price to the farmer, while a supplement is given for a SCC below 300.

Audit on farms and animal-based indicators
Animal welfare conditions on all Arla farms are regularly audited. These on farm audits involve a thorough check-up covering herd health and well-being, feeding and housing which are principles derived from the criteria defined by the WelfareQuality® project. Four animal-based indicators are evaluated: body condition, mobility, cleanliness and injuries. These indicators were developed based on scientific research on the most common dairy cattle issues. Audits include routine audits (performed at least every three years), spot checks, start-up visits, attention and special attention audits. Audited farmers are defined as the percentage of owners who received at least one audit in 2023.

Animal-based indicators evaluated by auditors
The KPIs reported in the animal welfare indicators table relate to the share of audited farmers with no major issues reported within each category. During a farm audit, the auditor assesses the cattle on the farm, and identifies whether there are any welfare concerns. If concerns are identified, the cattle are scored according to Arla's welfare indicators. The auditor scores the cows on the four core welfare indicators on a scale of 0-2, where 0 means no issues identified, 1 means minor issues and 2 means major issues. The results are reported to Arla. If the auditors find more than 5% of the sampled cows too thin, more than 25% too dirty, more than 15% lame or more than 10% injured, they report it to Arla as a major animal welfare incident.

UNCERTAINTIES AND ESTIMATES

Farms are audited every three years. A year-on-year comparison may therefore be affected due to the fact that it is not the same farms being audited every year.

Animal welfare indicators

	2023	2022[2]	2021	2020	2019
Somatic cell count (thousand cells/ml)	184	184	191	194	196
Share of audited farmers with no major cleanliness issues	99.1%	98.6%	98.4%		
Share of audited farmers with no major mobility issues	99.8%	99.8%	99.5%	-	-
Share of audited farmers with no major injury issues	99.7%	100.0%	100.0%	-	-
Share of audited farmers with no major issues related to body condition	99.9%	99.9%	99.8%	-	-

Policies and other

Policies for sustainability strategy
Our sustainability strategy is supported by our Environmental and Energy Management Policy and Arla's Green Ambition 2050, which together act as guiding policies to address key environmental issues and achieve our long-term sustainability goals on climate change, biodiversity, ecosystems and resource use.

Environmental and Energy Management Policy & Green Ambition 2050
Our policies on climate change mitigation focus on GHG emission reductions, energy efficiency and transitioning to renewable energy. Climate change adaptation is not addressed yet. Our Green Ambition 2050 focuses on three key topics; better climate, clean air and water as well as improved biodiversity and ecosystems.

Better climate
Our goal is to reduce global greenhouse gas emissions by increasing circularity and resource efficiency.

We aim to achieve this through:

- A significant reduction of our own greenhouse gas emissions and emissions from milk production, in line with the Science Based Targets initiative.
- A transition to renewable energy sources both on-site and throughout the value chain and through resource efficiency for water, energy and materials.
- Monitoring and optimising our operations and allocating capital to ongoing investments to improve energy efficiency.

Arla is taking a big step in moving from fossil fuels to renewable energy sources. We aim to use only renewable electricity at our production sites and offices in Europe by 2025. This requires a shift away from fossil coal, oil and gas to renewable energy sources such as wind, solar, biogas and other biofuels. This is relevant for electricity and heat on farms and sites, fuels for transport and materials for packaging.

Together with the Arlagården® programme and the Code of Conduct, our Green Ambition 2050 underlines our care for animal welfare.

Clean air and water
Our goal is to keep nitrogen and phosphorus cycles in balance and secure high groundwater and air quality. We will reach this by protecting regional water sources, reducing the need for external water use and reducing emissions across the whole value chain.

Circular economy principles are our guidelines, focusing on reducing waste and unnecessary resource use as well as reusing and recycling in line with the waste hierarchy. This applies to milk as well as our packaging and water use and the carbon, nitrogen and phosphorus cycles. We especially seek to use more recycled materials in our packaging to increase the amount of packaging that can be recycled.

Improve biodiversity and ecosystems
The decline in biodiversity is a threat to our future wellbeing and can have irreversible consequences for our planet. We want to build and contribute to a more biodiverse, robust and accessible local agricultural landscape.

To achieve our goals and targets, it is critical to form strong partnerships throughout the entire value chain as well as across value chains. We cannot achieve our Green Ambition alone. We need to rely on the cooperative spirit – working together with researchers and scientists as well as suppliers and customers to find new technologies and solutions to lead the future of sustainable dairy.

Animal welfare
The Arlagården® programme, the Code of Conduct and Green Ambition 2050 underline our commitment to animal welfare. We prioritise improving animal health on farms and responsibly producing high-quality milk to support the transition to a sustainable dairy industry.

EU Taxonomy
The EU Taxonomy Regulation (EU) 2020/852 aims to increase transparency and provide a scientific definition of 'sustainable'. It sets reporting obligations for businesses, focusing on revenue, OpEx and CapEx. Eligibility and alignment assessments are required, with eligibility referring to inclusion in the EU Taxonomy Regulation. Currently, the food and beverage manufacturing industry is not covered, resulting in 0% revenue eligibility for Arla. The analysis of OpEx and CapEx has been initiated, however we do not plan to pre-implement the elements before 2025 when reporting will become mandatory as part of the EU's Corporate Sustainability Reporting Directive.

Carbon pricing
In Arla, we use a carbon pricing scheme to incorporate the carbon impact into investment decisions for every investment above EUR 500,000. The goal is to make investments with a positive carbon impact attractive. Our current carbon price is EUR 90/tonne of CO_2e. This carbon price is updated once a year as the weighted average of the one-year average EU ETS price and the one-year average weighted GoO certificate price. Our carbon pricing scheme adheres to our internal standards and is not aligned with the screening criteria in the EU Taxonomy.

Risk and opportunities

CLIMATE-RELATED RISKS AND OPPORTUNITIES

IDENTIFYING AND ASSESSING ARLA'S KEY CLIMATE-RELATED RISKS AND OPPORTUNITIES IS A PREREQUISITE FOR SUCCESSFULLY EXECUTING OUR CLIMATE STRATEGY.

We map and conduct climate-related risks and opportunities through our general double materiality assessment process (see pages 30-32) and conduct a scenario analysis involving both our Executive Management Team and our Board of Directors in the process. These management bodies review the climate-related risks once a year, independently of each other.

We follow the recommendations of the Task Force on Climate-Related Financial Disclosures when conducting the yearly climate-related risk and opportunity review. When assessing transitional climate-related risks, in line with ESRS E1 requirements, Arla takes into consideration a strict regulatory scenario adhering to the 1.5°C global warming target of the UN Paris Agreement. Under such a scenario, we assume the strictest possible regulatory environment in Europe where our core business is. This means, for example, high taxation on CO_2e emissions, stringent nature conservation laws that prohibit certain use of land or agricultural activities, and mandatory climate or nutrition labelling on food products. To align the climate-related risk assessment methodology with our general Enterprise Risk Management framework (see pages 25-27), the time horizon for transitional risks is defined until the end of our current strategy period (2026). As the national and EU level regulatory environment is expected to change dynamically, the assessment of the likelihood and potential financial impact of transitional risks and opportunities in the medium and long term is too uncertain to create value for Arla's climate planning. Therefore, such an assessment was not conducted.

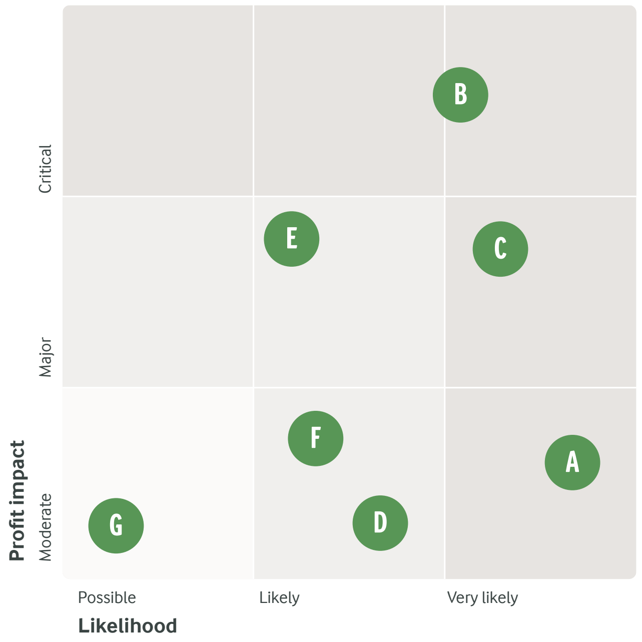
For physical climate-related risks, we considered multiple climate scenarios defined as Representative Concentration Pathways (RCP)[1]: RCP 2.6, RCP 4.5 and RCP 8.5. In alignment with ESRS E1, in this report we present the results of the worst case (RCP 8.5) scenario where the climate would warm by 2°C by 2050. The analysis, conducted based on the latest scientific evidence and methodologies (see Guzman-Luna et al 2021), focused on how a certain level of climate warming would impact the dairy sector in our seven milk-producing countries in Europe.

Milk is our most important raw material, and within our value chain dairy farming is most vulnerable to negative impacts from climate change, whereas our production is more resilient to such changes. The time horizon for the physical risk assessment is 2050 (long term) in accordance with the TCFD methodology. Climate science in general focuses on climate change's impact on the environment by 2050 or beyond, therefore assessing the short-term (until 2026) and medium-term (until 2035) impacts on dairy production in Europe would lack the necessary scientific evidence. For this reason, Arla decided to focus on the long-term impacts of climate change.

The latter identification and assessment of risks build, among other things, on the assessment of our dependencies on climate change. In Arla, we are working towards transitioning from fossil energy to renewables. However, at present we are still dependent on fossil-based energy related to our production and packaging materials to pack our products. We further depend on our farmers' milk production.

Due to uncertainty following future legislation, Arla has not been able to conduct a quantitative assessment of the potential financial impacts of climate-related risks and opportunities, and uses a qualitative scale of moderate to critical to illustrate the expected profit impact. Qualitative thresholds used for climate-related risk and opportunity assessments are not the same thresholds as the ones used in the global risk assessment presented on pages 25-27.

[1] RCPs are scenarios developed by the IPCC based on global climate models with different temperature outcomes.

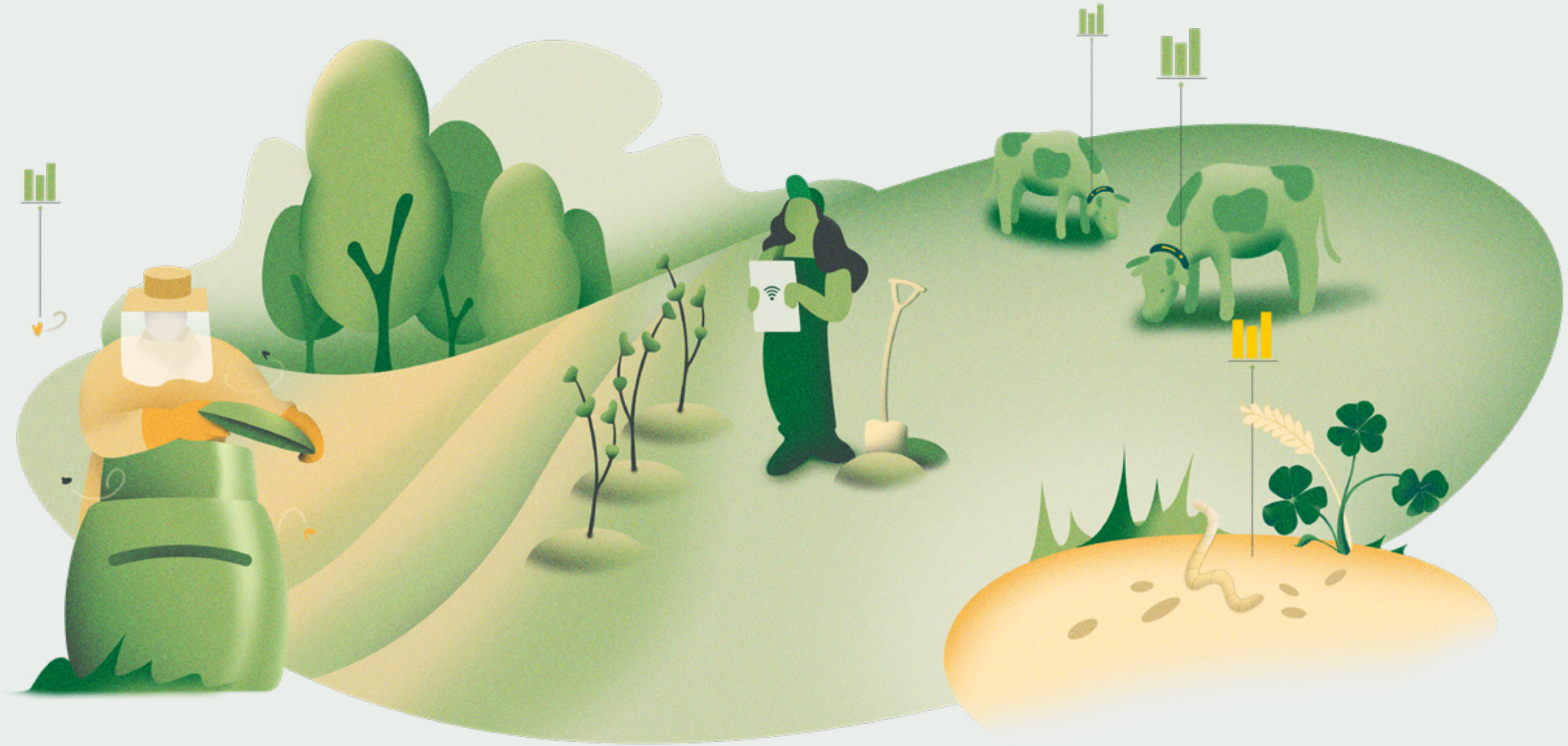


Transitional risks
- A. Regulations to reduce emissions in production
- B. Regulations to reduce emissions from agricultural activities
- C. Land use regulation
- D. Animal welfare regulations
- E. Environmental footprint and origin product labelling
- F. Change in dietary guidelines and trends

Physical risks
- G. Extreme weather events

		Risk description	Risk development	Category	Potential impact	Mitigating actions
A	**Regulations to reduce emissions in production**	Denmark introduced an emission tax on industry operations. Arla's operations will be impacted by this. There is the potential for other countries to follow Denmark and introduce similar taxes, or employ other regulatory tools to reduce emissions in future.	Decreased	Regulatory risk	· Increased production costs in countries with CO_2e regulations, such as a CO_2e tax.	· We are constantly lowering our CO_2 emissions in our production. Our science-based target is to lower scope 1 and 2 emissions by 63% by 2030. · We are also aiming at running our European operations solely on green electricity by 2025.
B	**Regulations to reduce emissions from agricultural activities**	The Danish Government has committed to introducing a carbon tax on methane and nitrous oxide emissions from agricultural activities. The EU is also discussing an Emissions Trading System (ETS) related to farm emissions.	Increased		· Our farmer owners' production costs would increase significantly, which could have a negative impact on milk volumes, causing raw material sourcing issues.	· Reducing emissions on farm is part of our business strategy. Farmers continuously work on reducing emissions and are rewarded for their climate actions through the Sustainability Incentive model.
C	**Land use regulation**	EU level proposals to reduce the emissions impact from land use include peat soil restoration and increasing forestry. National initiatives to improve water and air quality may also reduce livestock numbers in our core markets.	Decreased		· These regulations would mean less land for producing feed for cows, which could lead to herd size and milk volumes dropping. · Reducing livestock numbers would also negatively affect milk volumes.	· To understand the potential impact of such regulation better, and to provide our farmers with solutions, we collect data in Climate Checks and analyse the results. Arla has also set a deforestation and conversion-free commitment.
D	**Animal welfare regulations**	The welfare of animals is closely related to the emission intensity of products originating from them. Partly for this reason, some European countries such as Germany are planning on introducing stricter animal welfare regulations and a related fee, while the EU is also reviewing the current animal welfare legislation to reflect the newest scientific evidence.	Decreased		· Stricter EU-wide legislation would impact our farmers in terms of increased investment levels.	· Arla farmers in general are forerunners in good animal welfare through their extensive work with Arlagården® over the past 20 years.
E	**Environmental footprint and origin product labelling**	Governments and the EU are increasingly looking at introducing mandatory sustainability-related labelling covering carbon footprint, country of origin and nutrition.	Increased		· Mandatory origin labelling will increase the complexity of our operations and reduce our efficiency as we collect milk from seven European countries. · Carbon and nutrition labelling that oversimplifies the complexities of a sustainable and nutritious diet could mistakenly drive consumers away from dairy.	· We are working on establishing methodologies, processes and systems to calculate the environmental footprint of products. · We are also exploring possibilities to scale our current capacities in separating different types of milk in order to comply with potential origin labelling legislations.
F	**Change in dietary guidelines and trends**	National dietary guidelines could reduce the amount of animal-based foods recommended based on concerns about their carbon footprint, ignoring their nutritional contribution.	Stable	Consumer risk	· Schools and other institutions might change their offerings for kids and young adults, which can have long-term repercussions for heir dietary preferences.	· We educate about the nutritional benefits of dairy in schools, and inspire hundreds of thousands of people through our recipe sites and social media accounts.
G	**Extreme weather events**	Heat waves, draughts, floods and other extreme weather events are becoming more and more common due to climate change. New animal diseases and pests are also a consequence of climate change that the agricultural sector has to face.	Stable	Physical risk	· Extreme weather events could have an adverse effect on crop yield, and disrupt operations or the distribution infrastructure. · Heat waves are especially detrimental for the cows' productivity, and could affect milk volumes.	· Our core milk production countries are relatively resilient to extreme weather events, however we are, together with our farmer owners, working on better understanding and mitigating the impact of changing weather conditions.

BIODIVERSITY AND NATURE



Deforestation and conversion-free commodities purchased	2023	Progress towards target		Value chain target	
SOY (FEED)	27%	27%	2025	100%	Read more on page 47
PALM (FEED AND INGREDIENTS)	43%	43%	2028	100%	Read more on page 47
FOREST FIBRE (PACKAGING AND ENERGY)	96%	96%	2025	100%	Read more on page 47

Impacts

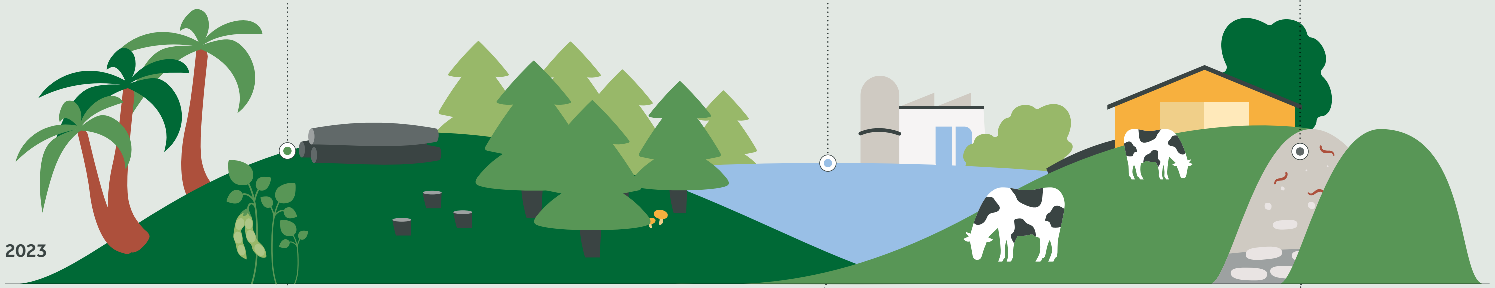
ARLA'S IMPACTS NOW

DEFORESTATION AND LAND USE

27%	Volume share of soy
43%	Volume share of palm
96%	Volume share of forest fibre

WATER QUALITY

SOIL CONDITION



Ambitions

ARLA'S AMBITION FOR 2025

100%

Deforestation and conversion-free[1]

Deforestation is defined as the loss of natural forest as a result of conversion to agriculture or other non-forest land use, conversion to a plantation or severe or sustained degradation.

Conversion is defined as the change of a natural ecosystem to another land use or profound change in a natural ecosystem's species composition, structure or function.

[1] Covers volumes directly sourced by Arla and indirect volumes embedded in feed sourced by farmer owners on farms globally. The target applies to forest fibre and soy and palm in feed and ingredients. For palm used in feed, we extend our conversion-free target to end of 2028. This solely refers to other types of non-forest ecosystem conversion. No biodiversity offsets are used in relation to the deforestation and conversion-free target.

Policies

- Responsible Sourcing Policy for Palm
- Responsible Sourcing Policy for Soy
- Responsible Sourcing Policy for Forest Fibre
- Code of Conduct for Suppliers and Business Partners
- Environmental and Energy Management Policy & Green Ambition 2050

Strategy

BIODIVERSITY AND NATURE STRATEGY

In Arla, we believe that a symbiotic relationship with nature is essential to sustainable farming. Addressing climate change must go hand in hand with tackling biodiversity loss – both are crucial for our planet.

We focus on activities that leave our farms in better and healthier shape for the next generation and have hands-on initiatives in place that protect the natural surroundings of not only our own farms, but across the globe.

Our biodiversity approach places great importance on safeguarding regional water sources and minimising emissions throughout the entire value chain to preserve access to clean water.

To achieve our targets, it is critical to ensure strong cooperation throughout the entire value chain as well as across industries.

All Arla farmers are committed to maintaining and enhancing nature and biodiversity on their farms and to engage in farming practices that enhance carbon sequestration in the ground. We continuously explore ways to support natural ecosystems, such as grass or peatlands, and to build a more diverse, robust and accessible local agricultural landscape. But we also seek to nurture the environment whenever sourcing ingredients from afar.

Producing nutritious quality dairy products can put pressure on nature, if not managed carefully. In Arla, we recognise that we are innately dependent on nature in all stages of the value chain.

This is most apparent on the farms, where the cycles and processes of the environment, including subtle interactions of a diverse range of species, provide essential natural capital such as water, feed, nutrients and air.

Actions and resources

DEFORESTATION AND CONVERSION-FREE

Deforestation and conversion-free sourcing commitment
The destruction of high-value natural environments due to the encroachment of agriculture is a global crisis that demands careful action and collaboration in all steps of the value chain.

Deforestation is a major contributor to climate change, as greenhouse gases that are otherwise stored in above and below-ground biomass are released into the atmosphere. Acting upon our value chains is one of our most important levers in halting biodiversity loss and creating a positive impact on nature, the climate and people.

Arla is committed to ensuring that our direct and indirect use of primary risk commodities (palm, soy and forest fibre) is deforestation and conversion-free by the end of 2025. The commitment covers the palm, soy and fibre that Arla sources as well as soy and palm embedded in animal feed used on Arla farms. Read more on pages 50-51. The focus of Arla's efforts will be on these to ensure maximum environmental impact.

Both soy and palm are used as ingredients in our products as well as in cattle feed, while forest fibre is used in packaging and for energy production. Our conversion commitment includes not only forests but also other natural ecosystems such as grasslands, wetlands, swamps and peatlands.

Arla uses the definitions on deforestation and conversion provided by the Accountability Framework Initiative which is recommended by the Science Based Targets initiative.

Collaboration is key
We have established sourcing policies for the relevant commodities to be compliant with the zero deforestation and conversion commitment. We will communicate the updated sourcing policies to our direct suppliers and make deforestation and conversion-free a requirement to supply Arla after 2025. We are in dialogues with our suppliers to identify gaps towards our target and take action where necessary.

SUSTAINABLE FEED
11 POINTS

11 points in Arla's Incentive model equals 0.33 EUR-cent/kg of milk paid out to Arla farmers reducing the use of soy or using deforestation-free soy

We seek to inspire change at the farm level by supporting farmers in their journey to eliminate risks of deforestation and conversion linked to feed consumed on farm.

At the same time, Arla is collaborating with relevant industry partners and other stakeholders to achieve our goal and scale impact.

Regarding feed used by our farmer owners, Arla is encouraging farmers to use deforestation-free soy or to reduce the use of soy via the Sustainability Incentive model. It plays a key role in the effort to achieve Arla's deforestation and conversion-free commitment by facilitating the documentation of soy used in feed to determine the risk of deforestation. In 2023, the average score achieved related to sustainable feed in the Incentive model was 10. As a result, farmers received a payout of EUR 20 million for the last six months of the year.

TOWARDS MORE NATURE

First globally aligned framework for regenerative agriculture
Together with world-leading members from the food and beverage industry and farmer cooperatives, in 2023 Arla committed to a new global framework for transitioning to regenerative agriculture practices.

For the first time, the industry-first 'Regenerating Together Programme' offers a globally aligned definition of regenerative agriculture.

Regenerative agriculture focuses on improving soil health, mitigating climate change and supporting biodiversity while keeping farmers' business viability central in a just transition approach.

In recent years, regenerative agriculture has garnered a lot of attention from producers, retailers, researchers and consumers as one of the answers to the double crisis of climate change and loss of biodiversity. But until now, a universal definition of the approach has not yet been established.

With over half the world's agricultural land already being degraded, and 70% more food needed by 2050, there is an urgent need to transform agricultural practices to ensure future food security. The framework is designed for practical use at farm level to drive farmers' transition to regenerative agriculture. It will allow farmers anywhere in the world to work with supply chain partners to achieve measurable regenerative agriculture outcomes, and enables the industry to translate the often ambiguous concepts of regenerative agriculture into tangible action at farm level.

Regenerative farming pilots
In Arla, we are excited to drive the future of regenerative agriculture forward in our cooperative. Therefore, we have begun testing and learning how regenerative agriculture practices can be applied to dairy farms on our 24 pilot farms. The four-year programme launched in 2022 will run until the end of 2025.

The pilot farmers receive training and guidance in using different regenerative methods and help collect data to understand and document the effect these methods can have on soil health, biodiversity, ecosystem processes, agricultural profitability and farmer well-being. By including both conventional and organic farms across countries in the project and by developing the experience and dataset, our ambition is to ensure that results and learning points can be used as inspiration for all 7,999 Arla farmers in the cooperative and as a steering point for our sustainability strategy.

Innovation Farm Network and Nature projects in Sweden
Arla is collaborating with farms in different ways to accelerate agricultural progress and support our farmer owners to drive the future of dairy. We have therefore established a network of Innovation Farms to highlight our on-farm activities and demonstrate how Arla is leading the sustainable dairy agenda, today and in the future.

We have Innovation Farms in the UK, Denmark, Sweden and Germany with

24

Number of pilot farms where we have begun testing and learning how regenerative agriculture practices can be applied to dairy farms the aim of demonstrating scientific evidence, testing new concepts and technology as well as inspiring and bringing the dairy industry partners together to find the solutions that we need in order to become more sustainable and carbon net zero by 2050.

Nature and biodiversity is a common subject among the Innovation Farms, and specifically at the Innovation Farm in Sweden we have kickstarted a project to restore natural grasslands and promote biodiversity on farm. At the same time, we are currently waiting for the final results of an eDNA project (environmental DNA), which explores and assesses the use of eDNA technology to measure biodiversity at the farm level.

MELKUNIE

Farmers supplying milk for the Arla® Organic and Melkunie® brands will plant 125,000 native trees and shrubs in the coming year.

ReNature project in the Netherlands

This year, we joined forces in a new collaboration with two independent organisations in the Netherlands that are committed to nature.
This means that starting from the winter of 2023, the farmers supplying milk to the brands Arla Organic and Melkunie will plant 125,000 native trees and shrubs in the coming years.

The farmers will receive a tailor-made planting and management plan to maximise the impact of biodiversity on their plots and the land around their farm. Once the trees and shrubs have been planted, the farmers receive clear advice on long-term management and maintenance of the plantings for at least 10 years. This way, the development of the plantings is guaranteed because the trees and shrubs are planted to improve biodiversity and store CO_2 now and in the future.
Based on the insights obtained, the ambition is that other countries where Arla has dairy farmers may follow.

Biodiversity and soil surveys

In 2023, the Biodiversity and Soil Health Check was carried out for the second time among farmers in parallel with the Climate Check. As in the first round, farmers were asked what biodiversity and soil health measures they had already implemented on their farms.

CARBON FARMING AND BIODIVERSITY 8 POINTS

8 points in Arla's Incentive model is equal to 10% of the total possible score in our Sustainability Incentive model

In addition, this year we gave members the opportunity to measure six specific soil health indicators, such as the count of earthworms or the infiltration rate of the soil.

As before, completion of the questionnaire was mandatory for Arla's organic farms and voluntary for conventional farms. Partly because participation in self-monitoring is now rewarded with one point in the Sustainability Incentive model, around 72% of conventional farms also took part in this survey.

Farmers' actions to conserve biodiversity and carbon farming resulted in an average of 5 points in the Sustainability Incentive model. A total of EUR 9 million were paid out to farmers for the last six months of 2023.

Progress towards targets

DEFORESTATION AND CONVERSION-FREE SUPPLY CHAINS

Arla set a commitment of ensuring that primary risk commodities (palm, soy and forest fibre) are deforestation and conversion-free (DCF) by the end of 2025. This includes direct palm and soy in Arla Ingredients, and indirect soy and palm embedded in feed used on Arla farms as well as forest fibre used as packaging and energy. For palm used in feed, Arla extends the target date to eliminate other types of conversion (excluding deforestation) to the end of 2028 due to high uncertainty in the availability of documented conversion-free palm in feed.

In 2023, the first year we report this data, it is estimated that 27% of soy, 43% of palm and 96% of forest fibre across Arla's supply chains achieve DCF status. Soy in feed comprises 99.6% of the total volumes in Arla's supply chain, whereas for palm in feed this comprises 46%.

ACCOUNTING POLICIES

Deforestation is defined as the loss of natural forest as a result of conversion to agriculture or other non-forest land use; conversion to a plantation or severe or sustained degradation. Conversion is the change of a natural ecosystem to another land use or profound change in a natural ecosystem's species composition, structure or function. Natural ecosystems include, for example, grasslands, wetlands or peatlands. Arla uses the definitions of the Accountability Framework Initiative which is recommended by the Science Based Targets initiative (SBTi).

Commitment scope
Arla focuses on the most relevant risk commodities to make the greatest impact: palm, soy and forest fibre, as these have the highest priority for deforestation and conversion-free targets within the value chain.

Soy in feed and ingredients includes all soy-based products and derivatives, including soy meal, cake, hulls and soy oil. Palm in feed and ingredients includes all palm-based products and derivatives, including palm oil, palm kernel and other derivatives. Soy and palm products used in milk replacers are not included. Forest fibre includes all wood and forest fibre-based materials that Arla purchases for packaging components, energy production and office material.

All Arla's operations in all geographies, including subsidiaries such as Arla Foods Ingredients, as well as Arla's owner farms are included in the commitment scope. This includes contract manufacturers and partnerships where Arla has management control as well as non-owner milk.

All companies/partners/traders (referred to as suppliers), both direct and indirect, are included in Arla's DCF commitment. Direct suppliers include those from where Arla sources ingredients and forest fibre for our operations, whereas indirect suppliers include upstream third-party suppliers as well as parties supplying feed products to farms from where Arla sources milk. The latest cut-off date at the group level is 31 December 2020 (after which deforestation or conversion renders a given area or production unit non-compliant with DCF commitments). This is in line with the European Union Deforestation Regulation. Some commodities may be subject to earlier cut-off dates depending on the sourcing region, national legislation or certifications. These are outlined in our Responsible Sourcing Policies for palm, soy and forest fibre.

Definition of DCF
Following guidance by the Accountability Framework Initiative, Arla considers soy, palm and forest fibre as deforestation and conversion-free when they are physically segregated and certified or verified as DCF, organically produced, or originate from areas that are not high-risk according to WWF (Deforestation Fronts 2021). This means that Arla reports only segregated chain of custody models as DCF. Chain of custody models where there is no physical segregation, such as book and claim (soy or palm credits) or mass balance, do not qualify. Arla only accepts certification bodies that have high enough standards that meet deforestation and conversion-free criteria from the SBTi and the Accountability Framework Initiative: RTRS, Pro Terra, Soy Europe and Donau Soya for soy, RSPO and ISCC Plus for palm products, and FSC, PEFC and SFI for forest fibre when controlled wood is sourced from low-risk areas. Organic soy ingredients or in feed on organic farms are considered as DCF due to the low-risk origins of organic soy supply chains. Although credits/book and claim models do not count towards DCF claims, Arla purchases RTRS and RSPO credits to cover volumes of soy and palm with an unknown risk of deforestation and conversion.

Feed
Volumes of soy and palm used in feed are collected in the Climate Checks and relate to the farmers' use of feed during their 2022 financial year. Arla's DCF commitment scope also includes contract milk (non-farmer owner milk), however associated feed volume data is not collected directly. Instead, volumes of soy and palm for non-owner milk are estimated by the volumes of fat and protein-corrected milk (FPCM) solids using a feed conversion factor based on average Climate Check data for each market, or industry averages for other markets supplying Arla milk.

To determine the proportion of DCF soy and palm in feed in each market, Arla collects aggregated industry information for each market, as it is not currently possible to trace feed purchased on farms back to the supplier company and beyond. Therefore, for soy in feed, 2022 data is supplied by industry feed associations, as is the case for Denmark (including Dansk Korn og Foder (DAKOFO)) and for Sweden (Foder och Spannmål). Data for Germany is sourced from the Ministry of Agriculture (Bundesanstalt für Landwirtschaft und Ernährung), and data for the UK is from the UK Roundtable for Sustainable Soy. These industry factors are applied to the physical volumes of soy used in each market as well as estimated volumes associated with non-owner milk. No industry data for soy is included for Luxemburg, the Netherlands and Belgium. For palm in feed, all volumes are considered to have an 'unknown' risk of deforestation, as no such reliable data exists at present.

Ingredients and forest fibre
Volumes of soy, palm and forest fibre sourced directly by Arla reflect consumption during the 2023 financial year, and are collected during the year in Arla's internal procurement systems. Arla determines the level of DCF for these commodities through a combination of supplier surveys and direct requests for documentation of origin and/or certification. For fibre used in packaging, the suppliers relevant for DCF reporting represent at least 95% of fibre-related packaging spend. Of 213 suppliers requested to supply DCF supporting documentation, 88% responded. Volumes from non-respondent suppliers are considered to have an 'unknown' risk of deforestation. Forest fibre volumes embedded in office material are only collected from Arla's main offices (Viby, Leeds, Stockholm).

Cocoa
Cocoa is outside the reporting scope of Arla's deforestation and conversion-free commitment, however our policy is to use 100% UTZ/Rainforest Alliance-certified cocoa for our branded products, and we continue to comply with this goal. Cocoa will be reconsidered during the coming year to potentially be included in Arla's DCF ambition.

UNCERTAINTIES AND ESTIMATES

Volumes collected in the Climate Checks during 2023 relate to the farmers' use of feed during their 2022 financial year, which varies from farm to farm. Volumes of soy and palm from the small number of farmer owners who do not submit data to Climate Checks are not considered in reporting towards this commitment.

Reporting on the level of deforestation and conversion-free supply chains for commodities is a developing field for the dairy industry and is subject to a degree of uncertainty. Arla is making progress to improve the transparency of supply chains, however industry average data on the level of DCF soy and palm in feed is used to calculate against the physical volumes from Climate Checks in each market and calculated volumes from non-owner milk. This will likely generate conservative estimations of soy and palm proportions that achieve DCF, since industry data includes all streams of the commodities without differentiating between GM (genetically modified)/non-GM soy, which will have varying contributions to deforestation and conversion.

There are several exclusions from the scope of Arla's deforestation and conversion-free commitment and reporting. These include embedded soy and palm associated with externally sourced whey or milk powder, since associated feed is several steps back in the supply chain (Tier 3 supplier) and there is currently little to no data available for the 2023 reporting. In addition, products from contract manufacturers or third-party manufacturing are not included due to the unavailability of data. Soy and palm products used in milk replacers are not included, as milk replacers are not considered within the context of feed.

Deforestation and conversion-free supply chains

	Soy	Palm	Forest fibre
Volumes (tonnes)[1,2]	178,754	74,256	198,812
Certified	4%	43%	95%
Verified	4%	0%	0%
Low-risk origin	16%	0%	1%
Organic[3]	3%	-	-
Proportion that is DCF	**27%**	**43%**	**96%**
Proportion unknown	73%	57%	4%

[1] Soy and palm volumes include both volumes sourced directly as ingredients and indirect volumes in cattle feed.
[2] Data on volumes and DCF relating to ingredients and fibre covers the 2023 calendar year, while the data related to feed covers the 2022 calendar year.
[3] Organic certification as a criteria of deforestation and conversion-free only applied to soy.

To determine the level of DCF achievement for forest fibre, Arla relies on certification information submitted from suppliers of such materials. There is limited ability for Arla to verify such data. Forest fibre volumes from third-party manufacturing are not included. Arla will identify solutions to integrate this data in 2024.

WATER WITHDRAWAL

In 2023, water withdrawal increased by 0.5% compared to last year. The change can be explained by slightly higher production volumes and also a shift in production mix.

ACCOUNTING POLICIES

Water withdrawal covers all water withdrawn to be used at production sites, warehouses and logistics terminals. Water withdrawal encompasses two main sources: water purchased from external suppliers and water obtained from internal boreholes. The external water category includes water purchased from external suppliers before undergoing internal treatment. Internal borehole water refers to water sourced from on-site boreholes and is measured prior to undergoing any internal treatment processes.

UNCERTAINTIES AND ESTIMATES

Our water consumption data is collected through monthly manual input from our sites. For externally purchased water, we cross-reference the data with supplier records to ensure accuracy. As for internal borehole water, we retrieve the data from manual meter readings. To minimise the risk of manual errors, we have implemented a comprehensive internal validation process at both site level and centrally. This thorough validation process ensures the reliability and accuracy of the reported data.

1.4 Water withdrawal

thousand m^3	**2023**	2022	2021	2020	2019
Water purchased externally	11,107	10,935	11,057	10,918	10,589
Water from internal boreholes	7,754	7,829	7,803	7,745	7,470
Total	**18,861**	**18,764**	**18,860**	**18,663**	**18,059**

Policies and other

Our ambitions on biodiversity and the ecosystem are enforced by our Environmental and Energy Management Policy, our Green Ambition 2050 and especially our Responsible Sourcing Policies. These support us in reaching our DCF 2025 target and in addressing our impacts and risks related to nature.

Responsible Sourcing Policy for Palm
Irresponsible production of palm products can cause substantial harm to the environment and society. We at Arla are therefore committed to transparent, responsible and sustainable palm sourcing.

Specifically, we do not source palm produced on deforested or converted land. We further commit to no burning of forests, and no infringements of the rights of workers, indigenous people and vulnerable communities.

We expect our direct and indirect suppliers to respect our no deforestation and no conversion commitment on palm in the supply chain.

With regard to monitoring of our procurement of palm, we follow our Responsible Sourcing Guidelines.

Responsible Sourcing Policy for Soy
Irresponsible production of soy can cause substantial harm to the environment and climate. Soy embedded in feed represents the majority of the total soy in our supply chain. We at Arla are therefore committed to transparent, responsible and high-quality soy sourcing.

Specifically, we do not source soy produced on deforested or converted land. We further commit to no infringements of the rights of workers, indigenous people and vulnerable communities.

This policy covers all indirect soy embedded in feed used by farmers who supply Arla as well as ingredients that contain soy that Arla purchases directly.

We expect our direct and indirect suppliers to respect our no deforestation and no conversion commitment on soy in the supply chain.

With regard to monitoring our procurement of soy ingredients and feed, we follow our Responsible Sourcing Guidelines.

Responsible Sourcing Policy for Forest Fibre
Forest fibre plays an important part in our production chain. We at Arla are therefore committed to sustainable, transparent and responsible sourcing of virgin forest fibre in our packaging materials, in energy production at sites and for other purposes.

Specifically, we commit to no deforestation, conversion or degradation of natural forests, no development of high conservation value areas, no infringements of the rights of workers, indigenous people and vulnerable communities, and no conversion of natural forests into forest plantations or any other land use.

This policy covers all forest fibre used in all entities, operations and geographies under our management control.

With regard to monitoring of our procurement of fibre-based products, we follow our Responsible Sourcing Guidelines.

RESOURCE USE AND CIRCULARITY

Focus areas	2023	Progress towards target		Target	
PACKAGING DESIGNED FOR RECYCLING – OWN BRANDS	95%	95%	2025	100%	Read more on page 54
VIRGIN FOSSIL-BASED PLASTIC	83%	83%	2030	0%	Read more on page 54

Impacts

ARLA'S IMPACTS NOW

83% VIRGIN FOSSIL-BASED PLASTIC

WASTE

Food waste

Solid waste

PACKAGING RECYCLABILITY

95% Designed for recycling:

45% · Recyclable in market where sold

50% · Designed for recycling, but not in market where sold

5% Not recyclable

Ambitions

ARLA'S AMBITIONS

0%

Virgin fossil-based plastic
Our ambition is to not use virgin fossil-based plastic in packaging used for Arla's own brands by 2030.

HALVING WASTE

Food waste
We support the UN SDG of halving food waste across the value chain by 2030

100%

Recyclability of packaging
Our ambition is that 100% of the packaging used for Arla's own brands is designed for recycling by 2025.

Policies

- Environmental and Energy Management Policy & Green Ambition 2050
- Responsible Sourcing Policy for Forest Fibre

Strategy

CIRCULARITY APPROACH

Towards fully sustainable packaging

Arla's packaging ambition, 'Towards fully circular packaging', is our commitment to use resources in the best possible way to reduce our climate and environmental impact. The ambition includes improving the recyclability of packaging and reducing the use of virgin fossil-based plastic.

In Arla, we use over 300,000 tonnes of packaging each year. Packaging solutions must ensure the safety and quality of food products, with the lowest possible environmental footprint while minimising food waste.

Strict legal requirements related to food safety and hygiene make packaging design complex. Additionally, packaging must safeguard our products during distribution in the store and in our home.

Packaging is also essential to securing access to our nutritious products around the world. We sell our products in more than 146 different countries with very different collection and recycling infrastructures, and especially in our international markets some materials cannot be recycled yet.

Food waste and waste

It is Arla's ambition to support the UN SDG target of halving food waste by 2030. In our dairies, we are constantly optimising production while minimising food waste through intelligent technology and close collaboration with customers and suppliers.

We strive to either sell surplus food as animal feed, use it in biogas plants for energy production or donate it to a good cause.

The focus of our waste reduction initiatives extends beyond food waste to encompass solid waste such as packaging materials. We continuously strive for improved production efficiency and waste management practices to reduce waste throughout the production and transport process as well as working with waste management suppliers to improve handling.

Actions and resources

SUSTAINABLE PACKAGING

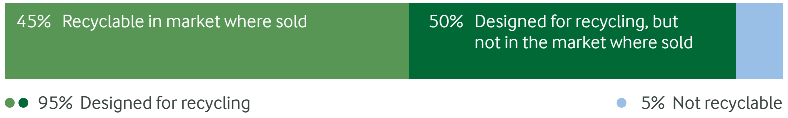
Towards 100% recyclability
Arla's overall long-term ambition is to increase recyclability towards 100%. As a first step, our 2025 target is to ensure that 100% of the packaging used for Arla's own brands is designed for recycling. This target is aligned with our Green Ambition 2050 and our Environmental and Energy Management Policy.

Given these conditions, especially related to our international markets, we measure our packaging recyclability progress towards two criteria:

1. Designed for recycling
This means that a packaging or a specific part of the material is recyclable in at least one of Arla Europe's markets.

2. Recyclable in market where sold
This means that a packaging or a specific part of the material is recyclable in the market where the product is sold. Read more on page 56.

PACKAGING RECYCLABILITY – OWN BRANDS



By utilising Arla's data on packaging material we are able to measure recyclability. Furthermore, we use this data transparency to prioritise initiatives that can increase recyclability against either of the criteria explained above.

Less plastic, better plastic
Virgin fossil-based plastic is plastic derived from fossilised material such as crude oil. In order to phase this out, we prioritise plastic reduction, less plastic and renewable materials (such as paper and cardboard).

As with our recyclability ambition, we measure the use of non-virgin fossil-based plastic as a total of the plastic used in branded packaging over 2023.

While progress has been made on key branded products since having set the target in 2020, the global challenges we face on the availability of alternative materials combined with the slower than expected emergence of new technologies have meant that our progress is slower than anticipated.

Looking towards the future, we expect our industry and its packaging suppliers to begin solving the issues surrounding the availability of alternatives to virgin fossil-based plastic, and we are confident that accelerated progress will be seen in the coming years. We are fully committed to a future with less virgin fossil-based plastic in our packaging and better plastic used in our packaging.

Towards recyclable drinking bottles
To be considered circular, a packaging has to be recyclable and not contain virgin fossil-based plastic. We have started this journey on many of our drinking bottles by implementing a removable sleeve to increase recyclability. The bottles already contain 50% recycled material and we work to increase this towards 100%.

Fibre caps for milk cartons
In 2023, we teamed up with Blue Ocean Closures in a formal partnership to create a fibre-based cap for our milk cartons. This could be a first in the dairy industry and would reduce Arla's plastic consumption by more than 500 tonnes annually if implemented.

Circularity in mozzarella maturing bags
Specially designed plastic film, used in our mozzarella production to mature the cheeses, is finding new life in a large-scale test with our German supplier. With this trial, started in 2023, we expect to be able to recover 80 tonnes of plastic material that would not have been recycled previously.

Putting tethered caps on products.
Under EU legislation, all plastic caps and lids are to be attached to bottles or cartons sold in the EU by July 2024. Arla has taken the decision to begin this transition early to aid in the prevention of plastic littering and increase recyclability. In 2023, tethered caps can be found on 191 unique products.

REDUCING FOOD WASTE

New food waste strategy is shaping up

In 2015, we became one of the first dairy producers to publicly align with the UN SDG's target of halving food waste by 2030. However, the scope and underlying initiatives of our commitment were not clearly defined. Currently, we are working towards setting a specific target for reducing food waste in our own operations. This sets a new standard for the dairy industry where the focus in the past has been on reducing waste to landfill. This production-specific target is expected to exceed the proposed reduction target for food producers in the EU. Around 2-3% of milk is wasted during production at our sites which are using milk as raw material. In 2023, total food waste was approximately 600,000 tonnes calculated in milk equivalents. Reducing food waste by 2030 will be challenging due to growing product demand. To tackle this, we are developing a food waste strategy with three main initiatives:

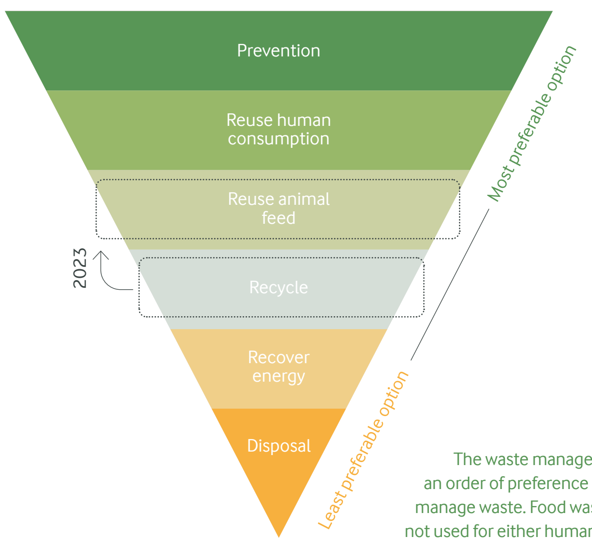
1. Prevent food waste
Our main objective is to discover solutions that efficiently prevent food waste. We will achieve this by implementing innovative solutions and optimisations. A specific example is the roll-out of real-time material loss sensors at our production sites. These sensors play a crucial role in promptly identifying and addressing waste in our operations.

2. Upcycling
Where food waste cannot be prevented, we aim at redirecting it to animal feed, for example insect farms that can transform the waste into a sustainable source of protein for animals or humans.

3. No waste to landfill
Our goal is to ensure that no food waste ends up in landfills by 2030. Instead, we will explore alternative solutions for managing and repurposing food waste.

All initiatives will be supported by increased training, data transparency and knowledge sharing across our production sites. Additionally, it is vital to continue our efforts to reduce food waste throughout the value chain. This includes optimising packaging, implementing rebate sales strategies and extending the shelf life of our products.

Waste management hierarchy



The waste management hierarchy indicates an order of preference for actions to reduce and manage waste. Food waste is defined as anything not used for either human or animal consumption.

Food waste upcycling with help from larvae

Arla Foods Ingredients has found an innovative solution to repurpose delactosed permeate, a by-product of lactose production. Through a partnership with a leading insect farm, we can now transform this residual dairy stream into nutritious feed material for black soldier fly larvae. This sustainable approach yields a growth factor of 4,000, as 25 kg of larvae eggs can develop into 100 tonnes of larvae within a week. The larvae contribute to the development of a more environmentally friendly agricultural and food industry, generating approximately 100 tonnes of larvae per year for livestock, fish and pet feed. This initiative also reduces food waste by moving the raw material up the waste hierarchy from energy recovery to the animal feed stage. Arla Foods Ingredients estimates a significant 17% reduction in food waste on-site compared to 2023 volumes. Looking ahead, the long-term goal is to expand the market to include human consumption, adding even greater nutritional value to what was once classified as food waste.

Progress towards targets

OUR PROGRESS ON CIRCULAR PACKAGING

Recyclability refers to the ability of a material or product to be collected, processed and transformed into new materials or products through recycling processes.

In 2023, 95% of the packaging used for our branded products was designed for recycling compared to 93% last year. In Arla's markets outside Europe, some materials that are widely recyclable in Europe, like glass or metal, are not recyclable. For this reason, even though 95% of Arla's branded packaging sold in markets outside Europe was designed for recycling, in 2023 only a minor part was recyclable in the market where sold. As a consequence, Arla's total recyclability in market where sold was 45%.

To be able to track Arla's target for virgin fossil-based plastic with reliable and comparable data, Arla worked on updating the reporting systems and data collection methods in 2023. The two packaging-related targets are framed by Arla due to the lack of agreed global standards.

ACCOUNTING POLICIES

Recyclability
These measures are applied to packaging used for Arla's own brands. A material is recyclable when there is a proper infrastructure for packaging waste collection and sorting and a market for the recycled material.

Designed for recycling
Packaging is designed for recycling if the packaging is recyclable in at least one of Arla's markets in Europe. The assessment and calculation of designed for recycling follows the same logic as stated below under recyclable in market where sold.

Recyclable in market where sold
Recyclable in market where sold means that the packaging of a branded product or a specific material share thereof is recyclable in the market where the product is sold. A comprehensive assessment is made for each material to determine whether it is recyclable in a given market based on commonly acknowledged references for recyclable packaging design and recycling systems in that market. The references used include the 'Minimumstandard' issued by Zentrale Stelle Verpackungsregister in Germany, the 'Plastic Packaging Recycling Manual' published by the Swedish Förpackningsinsamlingen (FTI), the 'Recycle Checks' developed by KIDV in the Netherlands and the UK OPRL scheme.

Each assessed product packaging unit is converted into weights of different materials used and multiplied by sales volumes. The consolidated number is calculated as the weight of recyclable packaging material sold compared to the total weight of packaging materials used. Due to materiality, product units that make up less than 1% of finished product sales volumes within the sub-category of that product are excluded. When we say category, we mean butter blends, yellow cheese, milk etc. The coverage in 2023 was 88.5%.

Virgin fossil-based plastic
Virgin fossil-based plastic is defined as plastic derived from fossilised material such as crude oil, coal and natural gas. It excludes recycled and bio-based plastic as well as plastic for which the use of bio-based raw materials is certified by a mass balance chain of custody model.

All packaging components in Arla are classified in the following ways to determine if they are made from virgin fossil-based plastic:

- Is the material plastic yes/no?
- Is the material made from recycled material yes/no?
- Is the material made from renewable material yes/no?

Additionally, each packaging component has a weight recorded in grams.

With the above criteria, Arla is able to determine the amount of plastic in each piece of packaging sold and, if applicable, how much of that plastic is either recycled, renewable or virgin fossil-based.

These values are then multiplied by sales volumes to produce an overall weight of virgin fossil plastic and non-virgin fossil-based plastic used over an annual period.

The consolidated number is calculated as the weight of non-virgin fossil-based plastic compared to the total weight of plastic materials used. Due to materiality, product units that make up less than 1% of finished product sales volumes within the sub-category of that product are excluded. The categories are butter blends, yellow cheese, milk etc

UNCERTAINTIES AND ESTIMATES

In 2023, the recyclability assessment was performed based on the recyclability status in December. There is a risk that a certain material combination was not recyclable earlier in 2023 but became recyclable in December. In this case, the material combination was counted as recyclable for the full year. This is also the case for the assessment of virgin fossil-based plastic.

During the past years, Arla improved the processes and tools used for measuring recyclability. Therefore, data related to periods before 2022 is not available and data for virgin fossil-based plastic cannot be compared to previous year numbers due to a new and more granular methodology.

Designed for recycling

	2023	2022	2021	2020	2019
Europe	96%	-	-	-	-
International	95%	-	-	-	-
Total	**95%**	**-**	**-**	**-**	**-**

Recyclable in market where sold

	2023	2022	2021	2020	2019
Europe	83%	-	-	-	-
International	0%	-	-	-	-
Total	**45%**	**-**	**-**	**-**	**-**

Virgin fossil-based plastic

	2023	2022	2021	2020	2019
Europe	78%	-	-	-	-
International	98%	-	-	-	-
Total	**83%**	**-**	**-**	**-**	**-**

SOLID WASTE DEVELOPMENT

In 2023, the amount of solid waste decreased to 30,770 tonnes, which is a reduction compared to the previous year's figure of 31,469 tonnes. This decrease can be attributed to lower volumes of waste for recycling and incineration at our sites in Sweden, UK, and the Netherlands.

At present, Arla only discloses waste figures related to solid waste, which represents a small portion of Arla's overall waste. However, it is important to note that the most material waste type relates to food waste at our dairies. During the past years, we have worked on enhancing the accuracy and efficiency of food waste and are currently working on a new food waste strategy. Read more on page 55.

ACCOUNTING POLICIES

Solid waste refers to materials generated during production that are no longer intended for their initial purpose and which must be recovered through methods such as recycling, reuse or composting. In Arla, we mainly recycle waste. Alternatively, if these materials are not recovered through such means, they may be disposed of on landfills. Solid waste encompasses various types of waste, including packaging waste, hazardous waste and other non-hazardous waste.

UNCERTAINTIES AND ESTIMATES

Solid waste data is collected on a monthly basis from external waste handlers. The waste data is provided by sites via monthly forms, partially centrally based on invoice, supplier system, supplier email, weighted on site or other. The sourced data is based on direct measurements. In Denmark and Sweden, this data collection process is automated, ensuring accuracy and efficiency. However, for other countries, the data is reliant on manual entries made by individual sites, which inherently increases the risk of errors. To mitigate this risk, appropriate controls have been implemented to ensure data accuracy and reliability. In 2023, we chose to restate the historical figures for solid waste to correct errors related to prior years. The impact of the restatements of the individual figures is less than 5%.

Total solid waste [1]

(tonnes)	**2023**	2022	2021	2020	2019
Total hazardous waste	930	1,034	1,279	1,378	1,322
Total non-hazardous waste	29,840	30,434	32,348	32,097	30,789
Total solid waste	**30,770**	**31,468**	**33,627**	**33,475**	**32,111**
Total recycled waste	**19,217**	**20,174**	**22,726**	**22,554**	**20,641**
Total non-recycled waste	**11,553**	**11,294**	**10,901**	**10,921**	**11,470**
Non-recycled waste's share of total solid waste	38%	36%	32%	33%	36%

Hazardous solid waste [1]

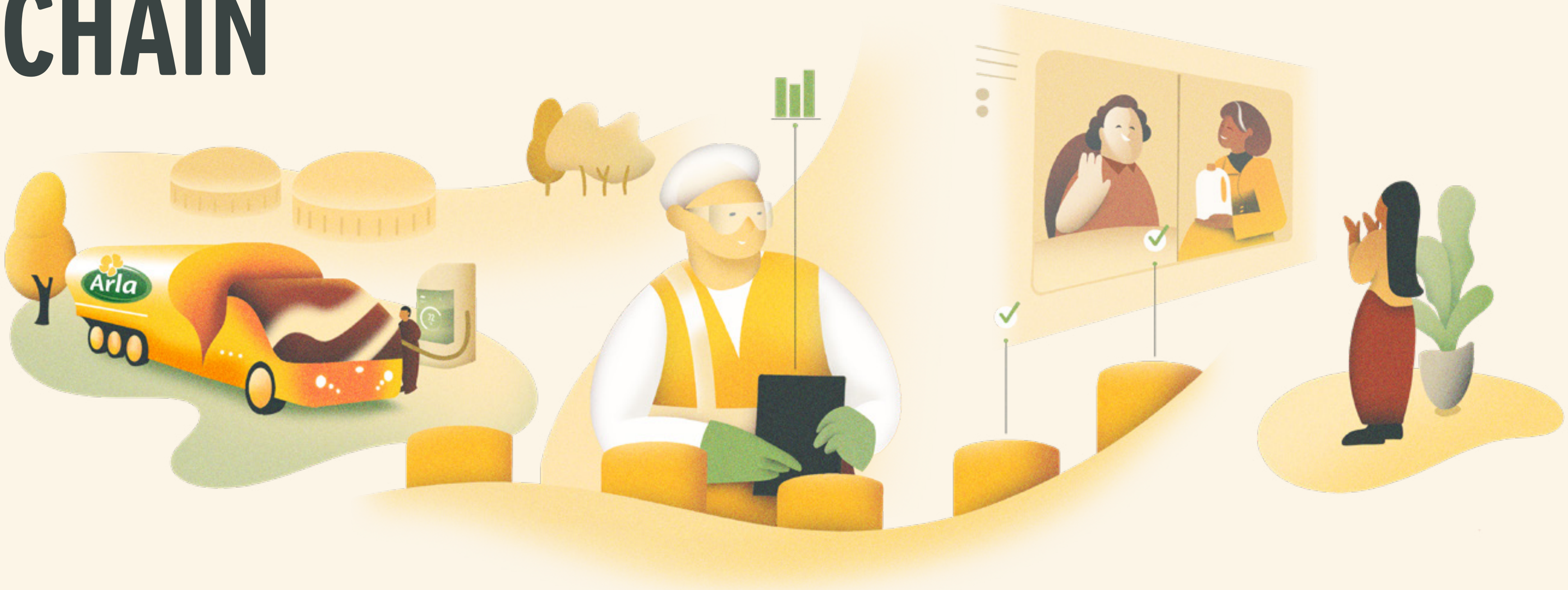
(tonnes)	**2023**	2022	2021	2020	2019
Waste for incineration	282	284	272	523	357
Waste for landfill	50	35	25	35	47
Total waste directed to disposal	**332**	**319**	**297**	**558**	**404**
Recycling	598	715	982	820	918
Total waste diverted from disposal	**598**	**715**	**982**	**820**	**918**
Total hazardous	**930**	**1,034**	**1,279**	**1,378**	**1,322**

Non-hazardous solid waste [1]

(tonnes)	**2023**	2022	2021	2020	2019
Waste for incineration	8,460	8,358	8,683	9,159	10,078
Waste for landfill	2,761	2,616	1,921	1,204	987
Total waste directed to disposal	**11,221**	**10,974**	**10,604**	**10,363**	**11,065**
Recycled plastic materials	2,388	2,485	2,863	2,787	2,727
Recycled paper and cardboard	11,836	12,276	13,323	13,816	10,973
Recycled glass	281	284	318	328	394
Recycled metals	1,749	1,584	1,704	2,042	1,667
Other	2,365	2,830	3,536	2,761	3,963
Total recycled non-hazardous waste	**18,619**	**19,460**	**21,744**	**21,734**	**19,724**
Total waste diverted from disposal	**18,619**	**19,460**	**21,744**	**21,734**	**19,724**
Total non-hazardous waste	**29,840**	**30,434**	**32,348**	**32,097**	**30,789**

[1] The historical figures for solid waste are restated to correct errors related to prior years. The total solid waste changed from 31,450 tonnes in 2022, 33,500 tonnes in 2021, 32,975 tonnes in 2020 and 33,713 tonnes in 2019. The corrections also caused changes in the breakdown of solid waste categories.

EMPLOYEES AND WORKERS IN THE VALUE CHAIN



Focus areas	2023	Progress towards target					Target	
GENDER DIVERSITY IN MANAGEMENT (DIRECTOR+)	29%					2030	40%	Read more on page 61
ACCIDENTS PER MILLION WORKING HOURS	5.5	6.0 2019	5.2 2020	4.3 2021	4.4 2022	5.5 2023	0	Read more on page 60

Impacts

WAYS OF WORKING

HEALTHY AND SAFE WORKING ENVIRONMENT

MEASURES AGAINST VIOLENCE AND HARASSMENT

SECURE EMPLOYMENT

ADEQUATE WAGES

APPROPRIATE GRIEVANCE MECHANISM

SOCIAL DIALOGUE/ EXISTENCE OF WORK COUNCILS

FREEDOM OF ASSOCIATION/ COLLECTIVE BARGAINING

Ambitions

ARLA'S AMBITIONS FOR 2030

ZERO

Accidents
Our aim is to have zero lost-time accidents per million working hours every year.

40%

Gender diversity
We aim to have at least 40% of the underrepresented gender in the Executive Management Team and in management teams by 2030.

Policies

- Code of Conduct – Our Responsibility
- Diversity Policy
- Human Rights Policy
- Anti-harassment Policy
- Code of Conduct for Suppliers and Business Partners
- Working Hour Policy
- Grievance Policy

Strategy

CARING FOR PEOPLE

In Arla, we are dedicated to taking care of people – our employees, workers in our value chain and people in the communities we operate in. We aim to build positive relationships with people and organisations. Mutual respect and understanding are at the core of all our interactions, regardless of their nature. This aligns with our fundamental goals of respecting human rights, promoting diversity and inclusion and maintaining high health and safety standards.

Our employees, along with the workers in our value chain, are essential in the production and delivery of our products to consumers. We depend on a skilled workforce, who enables us to meet the needs of our customers and sustain our business.

It is our ambition to provide all employees with safe and healthy working conditions. Our target is zero work accidents, underlining our dedication to maintaining a secure and supportive workplace environment.

Respecting workers' rights and fostering collaborative relationships are key to creating a harmonious and mutually beneficial working environment. We firmly believe in fair and equitable remuneration as a fundamental aspect of our commitment to our employees' job satisfaction. Additionally, we fully support freedom of association and the right to engage in collective bargaining.

Developing and supporting the communities we operate in is part of our mission. We create jobs, engage in transparent dialogues with local stakeholders and support vulnerable communities. A key aspect is supporting local dairy companies to improve their efficiency by developing standards and practices.

We recognise the importance of attracting talent and maintaining high levels of engagement and motivation. Through ongoing initiatives and programmes, we actively promote diversity, equality and inclusion throughout our organisation. By fostering a workplace that respects the uniqueness of each individual, we aim to attract and retain top talent, solidifying our position as a leader in the dairy industry.

Actions and resources

COLLEAGUES IN FOCUS

WE PRIORITISE THE SAFETY, WELL-BEING AND PERSONAL DEVELOPMENT OF PEOPLE THROUGHOUT OUR VALUE CHAIN. WE LISTEN, WE ACT AND WE AIM TO LEAD BY EXAMPLE IN OUR INDUSTRY.

Engaging with employees

Our annual global engagement survey provides valuable feedback from colleagues and is one of our most important tools for ensuring that Arla is a good place to work. In 2023, more than 17,800 colleagues completed the survey, corresponding to a response rate of 88%. To measure employment engagement, we use the Employee Engagement Index. This index is based on employees' favourable answers to questions related to their satisfaction, engagement and sentiment towards Arla as a workplace. In 2023, the Employee Engagement Index was 86%, which is above the standard for companies of our size. Based on the employee engagement feedback, our Executive Management Team (EMT) identified three focus areas for 2024: Avoiding unacceptable behaviour, enhancing our ways of working and empowering female managers. All teams discuss these and go through their own survey reports for additional insights to create local action plans. People managers are responsible for initiating and following up.

Keeping our employees safe across the value chain

Arla has a comprehensive and long value chain, and we offer a large variety of jobs across geographies. Our employees are key to the success of Arla, and it is our ambition to provide safe and healthy working conditions for all employees.

In 2023, we increased our efforts around our behavioural safety programme, Cornerstones. The programme, which is designed to assess our behavioural safety maturity level, includes relevant trainings, self-assessments, maturity validations and process confirmations. Through systematic reporting, we are able to see trends and share learnings and best practices across our network as well as identifying critical areas to be addressed. Despite an increased focus, the accident frequency rate increased in 2023 compared to last year. We have established a mitigation plan with additional support to some areas to ensure a swift turnaround.

Developing colleagues

In 2023, we focused on balancing virtual and physical learning sessions after years of online learning due to Covid-19. We successfully implemented a learning management system across our production and logistic sites, ensuring that employees complete mandatory training and development dialogues.

Additionally, we prioritised revitalising our company culture through engagement activities that reached over 8,500 employees. Through Arla Futures, our graduate universe, we aim to enable young professionals to become leaders and specialists. In 2024, we will launch three new programmes encompassing Finance, IT and HR. We have a strong tradition of supporting apprentices and their education. We actively participate in the European Excellence in Dairy Learning project, which spans nine countries and benefits apprentices and students studying dairy technology.

Engaging in work councils

Our works councils are organised at the local, national and European level. They are strong forums for internal dialogue on key matters related to colleague well-being and safety and securing the necessary conditions for the company's ongoing development. Twice a year, members from our EMT meet with our European Works Council, which includes 17 employee representatives representing over 15,000 employees across our production sites in Europe, the highest forum for collaboration between employees and Arla. Minutes from these meetings are published on our intranet. Sustainability was a topic at several of these meetings, and one of the highlights during 2023.

DIVERSITY AND INCLUSION

OUR DIVERSITY AND INCLUSION STRATEGY IS DESIGNED TO FOSTER AN INCLUSIVE WORKING ENVIRONMENT WHERE EACH INDIVIDUAL IS VALUED AND EXPERIENCES A SENSE OF BELONGING.

In Arla, we believe that a diverse team brings together a wealth of perspectives, ideas and experiences, which ultimately drives innovation, sustainable growth and better performance.

To ensure tangible progress, we measure diversity and inclusion using three key performance indicators: inclusion favourability, gender diversity and nationalities in the workforce.

Inclusion favourability is measured using an index based on answers from our yearly employee engagement survey. In 2023, the average score related to belonging increased compared to last year.

29%

Share of women in management in 2023

To enhance gender diversity, we have a 2023 target of at least 30% of the underrepresented gender in the Executive Management Team and management teams, with the aim of increasing the target to 40% by 2030. In 2023, the share of women in management was 29%. Read more on page 66.

Management training to build an inclusive culture

To onboard and align the managers first-hand, we continued to organise onboarding sessions and management trainings for managers across the organisation in 2023. More than 800 managers and colleagues across 80 teams have now discussed what diversity and inclusion means, how our subconscious biases influence our everyday decision-making and how to fight these biases. Our most recent initiative course, launched in late 2023, aims to create psychologically safe teams and guidelines to call out non-inclusive behaviour.

To further support managers we continued to improve the tools and data availability in our Diversity and Inclusion Dashboard. All managers have data on their own team on data points such as employee lifecycle, performance, promotions and equal pay. Data transparency is important to reveal potential subconscious biases.

#EmpowHER

One of the key elements of our strategy is to create equality by empowering women across senior management and within our talent pools. Our initiative #EmpowHER relies on four pillars: Training, networking, buddy concepts and a focus on talent acquisition to reduce biases and create equal opportunities for everyone.

RESPECTING HUMAN RIGHTS

HUMAN RIGHTS DUE DILIGENCE PROCESS

WE ARE COMMITTED TO RESPECTING AND SUPPORTING INTERNATIONALLY RECOGNISED HUMAN RIGHTS AND TO PROMOTING MUTUAL RESPECT AND UNDERSTANDING IN OUR RELATIONSHIPS AROUND THE WORLD.

Human rights action

Arla is committed to respecting human rights across our entire value chain, both in our own operations and in the operations of our suppliers and business partners (read more about our policies related to human rights on page 67).

Human rights due diligence

Based on our assessment, we have the highest risk of causing, contributing or being linked to negative human rights impacts when operating in our non-European growth markets due to national contexts and the complexity of business operations. Therefore, we prioritise to conduct human rights impact assessments in these markets and also to carry out a due diligence process whenever we enter a new strategic partnership or receive an allegation. We continue to improve and implement our systematic human rights due diligence process in compliance with the UNGP and OECD, as illustrated above.

Human rights risk assessments

In 2023, we continued to identify and address potential and actual human rights risks and impacts in our value chain, with a focus on our business operations in West Africa. Together with local teams, our global human rights team completed on-location human rights risk assessments in Ghana and Senegal. The purpose of the assessments was to identify and follow up on human rights risks for all colleagues at our sites, Arla employees as well as third-party employees. In our assessments we have further focused on risks in relation to key suppliers of raw materials, packaging, logistics and services, as they are often among the most vulnerable due to the nature of their work.

Our salient human rights issues formed the basis for the assessments, with a focus on particular risks in the region, including working conditions, health and safety, and wages. In both markets, our own operations showed solid performance and did not reveal critical risks in relation to Arla's salient human rights issues. Findings indicated a need for us to continue the implementation of own policies and improve ways of working, and to work with local suppliers and service providers to support them in their

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Number of physical and virtual supplier audits conducted in 2023

efforts to respect human rights. Arla has initiated dialogues with relevant external parties to address these risks, including but not limited to working conditions and access to health insurance, and we continue to follow up on action plans to resolve the identified issues.

During 2023, we also continued our regular follow-up on action plans from assessments in 2022 with a focus on the Middle East.

Every year, we carry out supplier audits based on risk evaluations. During 2023, we conducted 73 physical and virtual audits compared to 58 last year.

SALIENT HUMAN RIGHTS

ARLA'S SALIENT HUMAN RIGHTS ISSUES ARE IDENTIFIED BASED ON OUR DUE DILIGENCE PROCESSES, RISK ASSESSMENTS AND REGULAR STAKEHOLDER DIALOGUES.

Salient human rights are defined as the rights at risk of the most severe negative impacts on people through business activities and relationships. The issues identified as most salient across our value chain, including our suppliers and business partners, are working conditions, living standards, modern slavery, health and access to a grievance mechanism.

RIGHT TO ENJOY JUST AND FAVOURABLE CONDITIONS AT WORK

Safe and healthy working conditions

Our focus continues to be on increasing the maturity level in the health and safety work in production facilities globally. We see very strong performance in both our European and non-European markets. Read more on page 60 for information about our health and safety efforts. Through third-party audits during 2023, we have become aware of potential risks of unfavourable working conditions, including long working hours, in our supply chain in both European and non-European countries. We have investigated the situations, and are in dialogue with suppliers to resolve the risks identified.

Living wage

Aligned with international frameworks, we understand and appreciate that paying living wages is one of the most important ways of supporting people to get out of poverty, realising human rights and achieving the sustainable development goals. We participate in the AIM Working Group on Living Wage to gain insights and share knowledge.

In 2023, we continued our collaboration with the Fair Wage Network to map the wages for our own employees as well as for third-party employees working at our sites. We will continue this work in 2024 on all markets to get a more complete overview of Arla's living wage status, and to evaluate and decide next steps.

RIGHT TO ADEQUATE STANDARD OF LIVING

Employer provided housing

We continuously work to ensure Arla-provided accommodation is adequate, and meets or exceeds the International Labour Organisation standard for employer-provided housing as well as local standards. During 2023, we also worked with some of our key suppliers, and continued to support and follow up on improvements in their housing facilities.

RIGHT TO HEALTH

Nutrition

All over the world, inflation and increasing prices, also for food, put access to nutrition at risk. We seek to improve the access to nutrition where we operate, including at our sites. As an example of our efforts in 2023, we ran a pilot project on workforce nutrition in the United Arab Emirates. This included a focus on healthy food at work and tracking of results, initiating health checks and nutrition training.

Health insurance on our non-European markets

Our colleagues should have access to health services on fair terms. Findings from employee interviews in West Africa show that health insurance is in place for all Arla and third-party employees. However, findings indicate that the insurance agreement varies for third-party employees. We will address this with suppliers.

Right not to be subjected to slavery, servitude or forced labour

The risk of modern slavery remains a challenge in our global value chain. We source commodities from all over the world, and we are aware of the increased risk of child labour in certain countries in Asia and Africa as well as of forced labour in some of the countries in the Middle East, where we have production facilities.

We continue our efforts to mitigate the risks. Examples of this include the launch of our Working Hour Policy, our Purchasing Policy, training for new colleagues as well as ensuring that migrant worker colleagues keep their passports and identity documents, unless they require otherwise and sign a letter of consent.

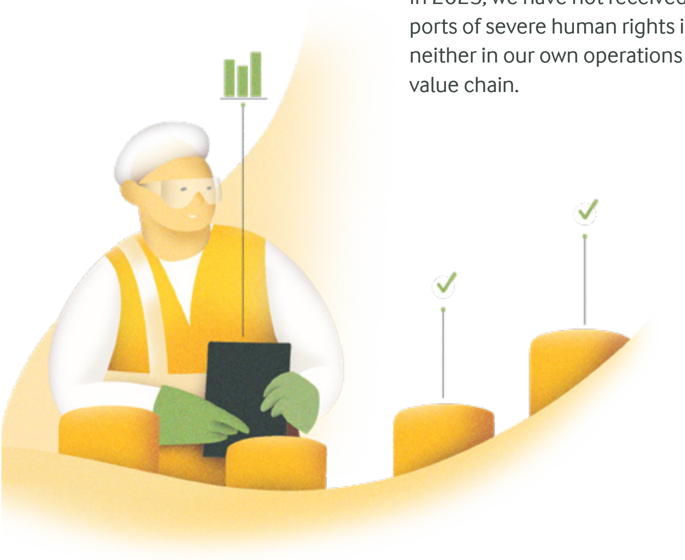
During 2023, we continued our collaboration with manpower agencies on these matters.

Access to grievance mechanism

In 2023, we continued to communicate our whistle-blower service, Ethics Line. During the year, we carried out a compliance self-assessment of 37 entities in Arla's International business, which showed a slight decrease in Ethics Line awareness of 4 percentage points compared to 2022. We also include Ethics Line awareness questions in our on-ground risk assessments, revealing general awareness among colleagues.

In 2023, 96 reports were submitted to Ethics Line. 36 of them concerned unacceptable behaviour (including harassment and discrimination, among other grievances), 29 related to fraud and bribery allegations and 31 to other topics. After investigating all substantiated grievances, none resulted in material fines or compensation.

In 2023, we have not received any reports of severe human rights incidents neither in our own operations nor in our value chain.



RESILIENT DAIRY FARMER COMMUNITIES

AS A GLOBAL FARMER-OWNED DAIRY COMPANY, WE ARE COMMITTED TO SHARING OUR EXPERTISE TO BUILD CLIMATE-RESILIENT FARMER COMMUNITIES AND TO SUSTAIN DAIRY VALUE CHAINS IN STRATEGIC GROWTH MARKETS.

Produce more with less

Dairy farmers are increasingly facing the impacts of climate change, which calls for efficient mitigation and adaptation strategies. Our International Dairy Development programmes support the urgent need for a green transition while improving livelihoods for dairy farmers. Our Big 5 levers (see page 36) are adapted to local contexts in Indonesia, Bangladesh and Nigeria to achieve CO_2e reductions and improve efficiency.

Activities in Nigeria

During 2023, we continued to upscale activities:

- The first Arla farm opened, and heifers from Arla farmer owners arrived. With high standards of animal welfare, the cows are well adapted, and milk supply has commenced.
- We concluded the Milky Way Partnership project aimed at helping local farmers increase their milk yields while producing more climate-efficiently. 2,000+ farmers were trained, the income from dairy increased by more than 200% and dialogues and collaboration across the Nigerian dairy sector improved.
- We continued the public-private Damau Household Milk Farm project, through which we support the transition to more commercially viable and sustainable dairy farming for nomadic dairy farmers.
- We kicked off a new project; Partnership for Green and Productive Dairy, with the aim of reducing greenhouse gas emissions from dairy production while increasing income for small-holder dairy producers, primarily targeting 1,000 farmers who will sell their milk to Arla.
- These projects are expected to showcase a model for the future of dairy in Nigeria, increasing climate-friendly production and improving livelihoods.

First organic cheese launched in Indonesia

Arla is the lead commercial partner in a project to support Indonesian cooperative farmers in East Java to convert to organic dairy farming. In 2023, the first high-end organic cheese in Indonesia was launched by Mazaraat Artisan Cheese made from milk sourced at Setia Kawan Nongkojajar Dairy Farm Cooperative. Supported by the Danish Ministry of Foreign Affairs, Arla, together with partners, built capacity in organic dairy farming, and a total of seven organic farms were certified by the end of 2023.

Green dairy transition in Bangladesh

At the end of 2023, Arla was pre-approved by the Danish Ministry of Foreign Affairs to start a five-year project in Bangladesh. The purpose is to showcase a visionary operating model for a productive and green dairy value chain in Bangladesh. The project will deliver proof-points to guide the transformation of the dairy industry in Bangladesh. Arla and PRAN will work together to launch a special milk with lower CO_2 emissions and higher quality.

Women in dairy

Women play a pivotal role in dairy farming, and the green transition requires an enhanced gender focus to succeed. During 2023, we joined the International Dairy Federation Task Force on Women in Dairy, and results from Nigeria were published in the first Annual Yearbook for Women in Dairy. Progress will be monitored across all of our International Dairy Development projects going forward.

Progress towards targets

ACCIDENTS

Accident frequency rate development
Accidents resulting in injuries can be categorised as either lost-time accidents (LTAs) or non-lost-time accidents (minor incidents). The number of LTAs per 1 million working hours increased to 5.5 (2022: 4.4). The Danish and German logistic organisations have experienced the most significant increases. In terms of our goal of zero accidents, we recorded 177 accidents in 2023 (2022: 144). We are closely monitoring the trend of accidents and have implemented mandatory mitigation plans in specific areas to ensure a quick improvement.

ACCOUNTING POLICIES

A lost-time accident (LTA) refers to a workplace injury suffered by an employee during work activities that leads to the loss of one or more scheduled working days or shifts. An accident is categorised as an LTA when the employee is unable to perform regular job duties, requires time off for recovery or is assigned modified duties during the recovery period.

All employees, including both Arla employees and external agency workers engaged in Arla-related work, are required to promptly report any workplace-related injuries or illnesses to their team leader or manager, regardless of the severity. It is important to note that accidents involving contractors, such as construction workers, are not included in this reporting.

Most on-site employees have access to a mobile application that enables them to easily and swiftly report any accidents. It is essential to notify the incident before the injured party leaves the workplace. The working hours used to calculate the accident frequency ratio are derived partly from payroll information and partly from estimates using full-time equivalent (FTE) figures.

Accidents

Per 1 million working hours	2023	2022	2021	2020	2019
Accident frequency	5.5	4.4	4.3	5.2	6.0

EMPLOYEES

Employee development
The total number of employees, measured as headcounts, increased by 2.6% compared to last year. This growth can be attributed to the ongoing insourcing of IT activities and distribution activities in the UK, as well as the expansion of Arla Foods Ingredients.

Full-time equivalents (FTEs) increased by 1.9% compared to the previous year.

The share of blue-collar workers amounted to 62% of the total headcount as of 31 December 2023.

We appreciate that our impacts on workers extend beyond our own workforce, and include workers in the value chain. The workers whom we may have a material impact on, include outsourced employees working on our sites and workers on our farmer owners' farms. Both groups include migrant workers. These workers are not reflected in the numbers of this report.

ACCOUNTING POLICIES

The number of employees per country, gender, contract type, and age distribution is based on headcounts as of 31 December for 2023 and all historical years. This is a change in methodology from previous years when the figures were reported as average FTE.. The total number of employees is still expressed in FTEs for comparison reasons.

FTEs, or full-time equivalents, are a measure of an employee's contractual working hours in relation to a full-time contract for the same position and country. This figure is used to quantify the active workforce in terms of full-time positions. An FTE of 1.0 represents a full-time worker, while an FTE of 0.5 indicates a workload equivalent to a part-time employee working 50% of a full-time position. The headcount refers to the total number of employees, regardless of whether they are on a full-time or part-time contract. Each individual employed by Arla is counted as 1.0 in the headcount numbers.

The average FTE figure is calculated as the average value for each legal entity throughout the year. These averages are derived from quarterly measurements taken at the end of each quarter.

The headcount and FTE figure includes all employees, regardless of whether they are on permanent or temporary contracts. However, employees on long-term leave, such as maternity leave or long-term sick leave, are excluded from the calculation. This ensures that the figure accurately represents the active workforce.

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

Employee data is managed centrally in compliance with the General Data Protection Regulation (GDPR) guidelines. In Arla, employees have the option to choose a gender category that aligns with their identity. The available choices include man, woman or other. To comply with GDPR regulations, the 'other' category is merged with the 'men' category in disclosed gender diversity figures. The FTE figure is reported internally on a monthly basis. To enhance the accuracy and reliability of the data, each legal entity validates the information on a quarterly basis.

Number of employees (headcounts) per country and gender[1]

	2023			2022	2021	2020	2019
	Women	Men	Total				
Denmark	2,852	5,870	8,722	8,427	8,262	8,027	7,904
United Kingdom	730	3,080	3,810	3,705	3,689	3,762	3,469
Sweden	1,041	2,513	3,554	3,563	3,559	3,582	3,588
Germany	406	1,186	1,592	1,606	1,662	1,684	1,772
Saudi Arabia	59	882	941	979	978	968	962
Poland	508	297	805	646	622	561	520
North America	230	332	562	546	528	492	477
United Arab Emirates	63	378	441	441	429	388	222
Netherlands	113	309	422	395	374	370	352
Finland	177	197	374	374	386	343	329
Bahrain	36	294	330	335	294	164	94
Other countries[2]	334	1,042	1,376	1,321	1,272	1,075	807
Total headcounts	**6,549**	**16,380**	**22,929**	**22,338**	**22,055**	**21,416**	**20,496**
Full-time equivalents			**21,307**	**20,907**	**20,617**	**20,020**	**19,174**

[1] The number of employees per country and gender are reported as headcount as of 31 December for 2023 and all historical years. This is a change in methodology from previous years when the figures were reported as average FTE.
[2] Other countries include, among others, Bangladesh, Argentina, Kuwait, Iraq, Oman, China and Nigeria.

Number of employees (headcounts) by contract type

Number	Women	Men	Total
Number of employees	6,549	16,380	22,929
Number of permanent employees	5,889	15,354	21,243
Number of temporary employees	660	1,026	1,686
Number of full-time employees	5,397	14,691	20,088
Number of part-time employees	1,152	1,689	2,841

Distribution of employees by age group

Age group	<30	30-50	>50
Share of employees	20%	51%	29%

GENDER DIVERSITY

ACCOUNTING POLICIES

Gender diversity for all employees
Gender diversity refers to the proportion of women in relation to the total number of headcounts. The measurement of gender diversity both for all employees and in management is based on headcounts as of 31 December for 2023 and all historical years,. and encompasses both white-collar and blue-collar employees.

Gender diversity in management
This measurement provides insight into the representation of women in management positions within the organisation. Arla's gender diversity in management is determined by measuring the proportion of women in director positions or above.

Gender diversity in the Executive Management Team
Gender diversity in top management is quantified by the proportion of women in the EMT. This measurement provides insight into the representation of women in executive management positions within the organisation.

Gender diversity for all employees[1]

	2023	2022	2021	2020	2019
Total share of women	**29%**	**28%**	**27%**	**27%**	**27%**

Gender diversity in management[1]

	2023	2022	2021	2020	2019
Number of men	260	256	257	258	257
Number of women	108	104	96	89	86
Share of women at level director and above	**29%**	**29%**	**27%**	**26%**	**25%**

[1] The share of women among employees and in management are calculated based on headcount 31 December for 2023 and all historical years. This is a change in methodology from previous years where the figures were reported as average FTE.

Gender diversity in Executive Management Team

	2023	2022	2021	2020	2019
Number of men	7	7	6	6	5
Number of women	1	1	1	1	2
Share of women in Executive Management Team (EMT)	**13%**	**13%**	**14%**	**14%**	**29%**

GENDER PAY RATIO

Gender pay ratio development
Ensuring equal pay for the same job, regardless of gender, is a fundamental expectation for an ethical and responsible company. In Arla, both men and women in equivalent positions receive equal pay. This is achieved through well-defined and fixed salary bands across all job categories. To maintain pay equality, regular monitoring occurs on a quarterly basis, comparing salary levels between men and women within comparable job bands.

The gender pay ratio provides insights into the placement of women within the company hierarchy. Arla aims for completely equal treatment between genders, which would be represented by a gender pay ratio of 1.0. In 2023, the median salary for men at Arla was 1% higher than the median salary (2022: 3%). This means that the structural differences within the company hierarchy are decreasing.

Gender pay ratio

	2023	2022	2021	2020	2019
Gender pay ratio (hierarchy variances)	1.01	1.03	1.03	1.05	1.05

ACCOUNTING POLICIES

The gender pay ratio is calculated by dividing the median salary for men by the median salary for women. This calculation includes contractual base salaries, while pensions and other benefits are not taken into account. By focusing solely on base salaries, the gender pay ratio provides a specific measure of the disparity in remuneration between men and women within the organisation.

UNCERTAINTIES AND ESTIMATES

According to the ESG reporting guidelines provided by CFA Society Denmark and Nasdaq, it is recommended to include the total workforce, along with bonus and pension, in the calculation of the gender pay ratio. However, due to data limitations, the gender pay ratio for the white-collar workforce is included in this report. It is worth noting that if blue-collar employees were included, the gender pay gap would likely decrease, as males are overrepresented in the blue-collar workforce. The pay data used for the calculation pertains to contractual salary amounts as at the end of March 2023, following the salary adjustment for that year.

EMPLOYEE TURNOVER

Employee turnover development
Employee turnover reflects the fluctuation within our workforce. Arla strives for a stable turnover rate, recognising that a certain level of turnover is necessary for maintaining competitiveness and fostering innovation.

In terms of employee turnover, there was a decrease compared to the previous year, with a total turnover rate of 13% (2022: 14%). This was the result of a lower voluntary turnover rate while the involuntary turnover rate was unchanged.

Employee turnover

%	2023	2022	2021	2020	2019
Voluntary turnover	9%	10%	10%	6%	8%
Involuntary turnover	4%	4%	3%	4%	4%
Total	**13%**	**14%**	**13%**	**10%**	**12%**

ACCOUNTING POLICIES

Differentiating between voluntary turnover (when an employee chooses to leave the company) and involuntary turnover (when an employee is dismissed), turnover serves as a measure of talent retention at Arla and also reflects the efficiency of our operations.

To calculate employee turnover, we divide the total number of employees who leave during a specific period by the total number of employees in that same period. It is important to note that this calculation is based on the headcount of employees and not on full-time equivalents (FTE).

Turnover is calculated for all employees on permanent contracts and encompasses various reasons for their departure, including retirement, dismissal and resignation. Departures are included in the calculation starting from the month when remuneration is no longer provided. For instance, some tenured employees may receive remuneration for a few months after their dismissal, and their departure would be considered in the turnover calculation after this period.

HUMAN RIGHTS GOVERNANCE

Arla is committed to respecting human rights across our entire value chain. We adhere to the United Nations Guiding Principles on Business and Human Rights (UNGP) and the OECD Guidelines for Multinational Enterprises. Our work is guided by our Code of Conduct 'Our Responsibility' and our Human Rights Policy, in which we elaborate on our commitment and expectations to stakeholders. Arla's human rights work is governed by our EMT and managed in various business functions. We engage with stakeholders, including experts, unions, right-holders and NGOs, on our human rights management.

Policies and other

In Arla, we have a comprehensive set of policies, standards, processes and codes of practice covering our complete value chain, governing how issues related to our workforce are handled in a structured manner. Our policies related to our workforce regulate those actions where our key impacts and potential risks lie, and support us in reaching our social sustainability targets and ambitions. If publicly available, policies can be found on our website.

Code of Conduct – Our Responsibility
Policy objectives and scope
Arla's Code of Conduct – Our Responsibility – covers all aspects of our business and lies within every decision made every day, at all levels and everywhere in our company. Our Responsibility is based on the 10 principles of the UN Global Compact, the UN initiative to promote ethical business practices. Further, we are committed to following the UN Guiding Principles on Business and Human Rights as well as the OECD Guidelines for Multinational Enterprises. All of our policies are founded on our Code of Conduct. Our Code of Conduct covers four themes which are Responsible company, Confidence in products, Care for the environment and animal welfare, and Responsible relations.

Policy governance
Our Code of Conduct is approved by Arla's Board of Directors. Arla's Executive Management Team (EMT) approves strategies, prioritises areas, ensures progress and annual follow-up and sets the direction for necessary improvements and further updates. All managers are responsible for embedding our Code of Conduct in Arla's culture and business, and each and every colleague plays an important role in its implementation.

Human Rights Policy
Policy objective and scope
The Arla Foods Human Rights Policy is based on internationally recognised human rights principles, and applies to all Arla operations and all companies owned and/or controlled by Arla Foods, regardless of size or location. As a global dairy cooperative, we seek to strategically improve the fulfilment of the right to adequate food and its fair distribution, the right to health and the right to enjoy favourable conditions of work. Wherever we operate, we establish processes that enable us to identify, prevent and mitigate potential adverse human rights impacts that we may cause, contribute to or be directly linked to through our business activities. If we find that we have caused or contributed to adverse impacts, we seek to provide remediation. We do not accept any form of human trafficking and child labour, nor forced labour anywhere in our value chain.

Policy governance
The effectiveness of the policy is reviewed bi-annually by the EMT to ensure the business' continuous compliance with the UN Guiding Principles.

Code of Conduct for Suppliers and Business Partners
Policy objective and scope
It is essential for Arla to operate in a responsible manner, and we expect our suppliers and business partners to live up to the same standards. Our suppliers must sign the Code of Conduct for Suppliers and Business Partners (CoCs) if they want to become our strategic, preferred or locally accepted suppliers. Employees are strongly advised to only use suppliers who fall within these categories. The most important objective of our CoCs is to minimise risks to people and safeguard our business. It requires suppliers to provide a safe and healthy working environment, respect the rights of children and not engage in or tolerate the use of child labour, not use forced labour and as a minimum comply with applicable laws and industry standards related to working hours and minimum wages and respect international agreements on human rights. In case a supplier breaches these obligations, Arla is entitled to terminate the contract and reject any supplied material without remediation for the supplier in question. Our procurement department monitors compliance with our CoCs and internally reports on it monthly.

Arla is a member of AIM Progress, which is a forum assembled to enable and promote responsible sourcing practices. The update is inspired by AIM Progress's work.

Policy governance
The Code of Conduct for Suppliers and Business Partners is owned by the Head of Procurement, and is prepared and implemented through a collaboration between Procurement, Legal, QEHS Supplier Assurance and Global Sustainability.

Diversity Policy
Policy objective and scope
Arla runs a global business, and we believe that diverse teams combining inherent diversity – such as gender, age or nationality – are key for us in order to understand and meet the needs of our consumers and customers. Our overall ambition is to achieve a more diverse workforce and create an inclusive environment, where colleagues are included and treated with openness and mutual respect, recognising and harvesting the benefits of diversity. See our related targets and our progress towards them on pages 58 and 66. The policy applies to all people processes to ensure equal and inclusive selection, assessment and reward of people.

Policy governance
Our Global HR team, headed by the Chief Human Resources Officer, is responsible for monitoring compliance with the policy, updating it when necessary and reporting on progress.

Anti-harassment Policy
Policy objective and scope
Arla is committed to ensuring a workplace which is characterised by mutual respect, free from any kind of harassment, bullying and discrimination. Our focus lies on preventive actions, early detection and actions to stop it. We encourage reporting of complaints (see grievance mechanism on page 63). All complaints are taken seriously, and if proven, harassment and discrimination are sanctioned, as are deliberately false or malicious allegations. The policy covers all locations, including the workplace and any other settings in which colleagues may find themselves in connection with their Arla employment.

Policy governance
Our HR organisation's management and the HR business partners across Arla have prime responsibility for rolling out this policy, initiating dialogue about it and assisting managers in handling cases. Updating the policy is the responsibility of our global HR organisation. We measure the effectiveness of our policy by closely tracking non-acceptable behaviour cases through our yearly employee satisfaction survey and our confidential grievance reporting system.

Further policies that regulate our impacts on our own workforce: Recruitment Policy and Working Hour Policy.

Working Hour Policy
Policy objective and scope
Arla Foods is committed to providing safe and healthy working conditions for all employees working at our sites, while at the same time providing maximum flexibility for managers and employees and complying with legislation and relevant guidelines. We seek to ensure that employees do not exceed reasonable working hours, to respect their right to rest and leisure and thus ensure a satisfactory balance between work and personal life. Working hours must comply with national laws, collective agreements and follow the standards of the Ethical Trading Initiative (ETI) Base Code, whichever affords the greater protection for employees.

Policy governance
All people leaders must ensure that the planning of working hours for all internal as well as external employees working at an Arla location is aligned with this policy. Vice Presidents in production and managers at similar levels in other functions are responsible for handling escalations of non-conformances within the respective areas.

Grievance Policy
Policy objective and scope
Arla is committed to acting with integrity, respect and in a transparent way, according to principles set out in our Code of Conduct. We recognise that our reputation and success depend on the behaviour of our employees and we take violations of the Code of Conduct and legislation seriously. Our whistleblower service, Ethics Line, is available for all employees and other stakeholders to raise any concerns they may have. We do not tolerate retaliatory action taken against anyone raising concerns in good faith. Our actions align with the EU Directive on the protection of whistleblowers. All reports are confidential and can be conducted anonymously. Each grievance is addressed seriously and respectfully.

Policy governance
The Ethics Line Committee is an internal team acting with integrity and balancing the interests of the reporter, the reported person(s)/organisation/activities and interests of Arla when handling grievances. The Ethics Line Committee includes representatives from Finance (Risk, Controls & Compliance), Legal, HR, Global Sustainability and commercial segments. The Ethics Line Committee is independent from organisational structures and reports to the CEO.

CONSUMERS – HEALTHY AND SAFE NUTRITION

Focus areas	2023	Progress towards target					Target	
LOW-INCOME CONSUMERS REACHED WITH AFFORDABLE NUTRITION	97m					2030	100m	Read more on page 70
PRODUCT RECALLS	1	4 2019	1 2020	0 2021	1 2022	1 2023	0	Read more on page 70

Impacts

ARLA'S IMPACTS

LOW-INCOME CONSUMERS

HEALTHY AND SAFE NUTRITION

DATA PRIVACY AND CONSUMER RIGHTS

QUALITY INFORMATION ON PRODUCTS

COMPLAINT MANAGEMENT

Ambitions

ARLA'S AMBITION FOR 2030

100,000,000

Low-income consumers reached
Access to adequate, affordable and healthy food is a basic human right, and we want to meet consumers' nutritional needs around the world. Our ambition is to reach 100 million low-income consumers with our affordable dairy nutrition. Read more on page 73.

ZERO

Product recalls
A core responsibility is to ensure that our products are safe for consumers to eat and drink. The target for recalls is by default zero.

Policies

- Quality and Product Safety Policy
- Labelling Policy
- QEHS Manual & Food Safety and Recalls
- Responsible Marketing Policy

Strategy

HEALTH AND NUTRITION

Ensuring the safety of our products is our top priority. By adhering to the principles outlined in our Global Quality and Product Safety Policy, we continuously strengthen our quality culture and food safety standards. Accurate labelling is of utmost importance, ensuring that our consumers can make informed choices. We recognise the significance of providing access to quality information on our products, especially for vulnerable groups such as children and low-income consumers.

As part of our health strategy, we focus on developing new, sustainable and even healthier products. Guided by the publicly available Arla® Nutrition Criteria, which align with current scientific evidence and guidance from global health authorities, we strive to create innovative products.

Finding a delicate balance between protecting the environment and providing nutritious food to a growing global population is a crucial challenge for Arla and the food industry as a whole. Turning this challenge into an opportunity is essential for our continued relevance in a changing market.

We are dedicated to helping combat global malnutrition by ensuring access to affordable nutrition for low-income consumers. Our strategic ambition is to reach 100 million low-income consumers, and we continuously develop products and strengthen our efforts to achieve this goal.

Inspiring healthy food habits and promoting cooking with minimal waste is also a key aspect of our health strategy, with a particular focus on future generations. Through various inspirational and educational programmes, we aim to instill positive habits and behaviours.

Actions and resources

PROVIDING GOOD FOOD TO THE WORLD

Food safety first

It is absolutely key for Arla that our products are safe to eat and drink for everyone. Products are not released to the market if there are any concerns related to food safety, and strict procedures and safety policies are in place to secure this. Products will be recalled, should we get any indication of a food safety risk. In 2023, we recalled one product, not due to a food safety risk but due to visible growth of mould.

All our production sites are certified under the Global Food Safety Initiative, which is audited by third-party auditors. In 2023, we twice experienced a situation where a site did not pass the audit, and the certificate was temporarily suspended until the site could regain it. The non-conformities were not linked to any food safety risk. The learnings from these situations have been shared globally with all our sites to prevent similar situations from happening again.

In 2023, we implemented the results of our first external benchmark survey for Quality and Food Safety Culture, for example through organising our annual Food Safety Days in June. Additionally, we conducted labelling checks on our branded products in European and international markets to ensure regulatory compliance.

Shaping the future of nutrition through research partnerships

In order to lead the way in dairy nutrition and continuously explore the health benefits of dairy, we actively participate in a research collaboration called Arla Foods for Health (AFH) with the two largest universities in Denmark.

In 2023, three new research projects were selected to receive total funding of EUR 1.3 million.

The outcomes of the research can be applied to food design and the development of innovative nutritional solutions, potentially making a positive impact on global nutrition and public health. AFH and its partners are equally committed to sharing their scientific insights with the wider community.

Improving access to healthy nutrition

Malnutrition remains a significant health challenge affecting populations globally. We are committed to addressing the needs of groups at high risk of malnutrition by providing access to affordably priced dairy products, in Bangladesh with Dano Daily Pushti, and in Nigeria, Senegal and Ghana with Dano Cool Cow. To address growing food insecurity in developing countries, we constantly pursue opportunities to create affordable products that provide sufficient nutrients for low-income consumers.

High inflation continued during 2023 and further decreased the purchasing power amongst low-income consumers. Due to strong distribution networks and our trusted brand, we reached 97 million low-income consumers in Nigeria and Bangladesh this year, which is above the 2023 target of 90 million.

In 2023, we concluded the Pushti Ambassador Project in Bangladesh in partnership with NGO BopInc. The project included 200 female retail entrepreneurs in Arla's sub-distribution network, and improved their income through sales of Arla's dairy nutrition in rural areas. Remarkably, the project, which is supported by the Danish Ministry of Foreign Affairs, identified 4,000+ potential female entrepreneurs.

DANO COOL COW

To address growing food insecurity in developing countries, we constantly pursue opportunities to create affordable and nutritious products for low-income consumers.

WHAT WE BRING TO THE TABLE

WE BELIEVE THAT DAIRY PLAYS A POSITIVE ROLE IN A SUSTAINABLE DIET, BALANCING THE ENVIRONMENTAL IMPACT OF PRODUCTION WITH THE NUTRITIONAL VALUE OF FOOD. OUR STRATEGY COMES ALIVE THROUGH OUR BRANDS, PRODUCTS AND INNOVATIVE PROJECTS AIMED AT CREATING QUALITY NUTRITION.

Turning a breakfast staple into a healthy option

Arla is committed to enhancing consumers' access to nutritious food. In 2023, we improved the recipe of Puck® spreadable processed cheese. This modification involved reducing the levels of fat and salt while simultaneously increasing the protein content, resulting in a healthier choice for families. As a popular breakfast staple in the Middle East and North Africa region, Puck blue jar cheese® can now be enjoyed by the whole family with a greater sense of well-being.

Improving the health profile of Puck® squares

Puck® squares, a beloved snack among kids and a versatile ingredient in baking, are now compliant with the Arla® Nutrition Criteria as the fat content has been reduced by 25%, while the protein content has increased by 38%. This ensures that kids can enjoy their favourite snack during lunch breaks, while parents can confidently use Puck® squares in their baking endeavours, knowing that they make healthier choices for their families.

Partnership brings fortified yogurt to Tanzanian children

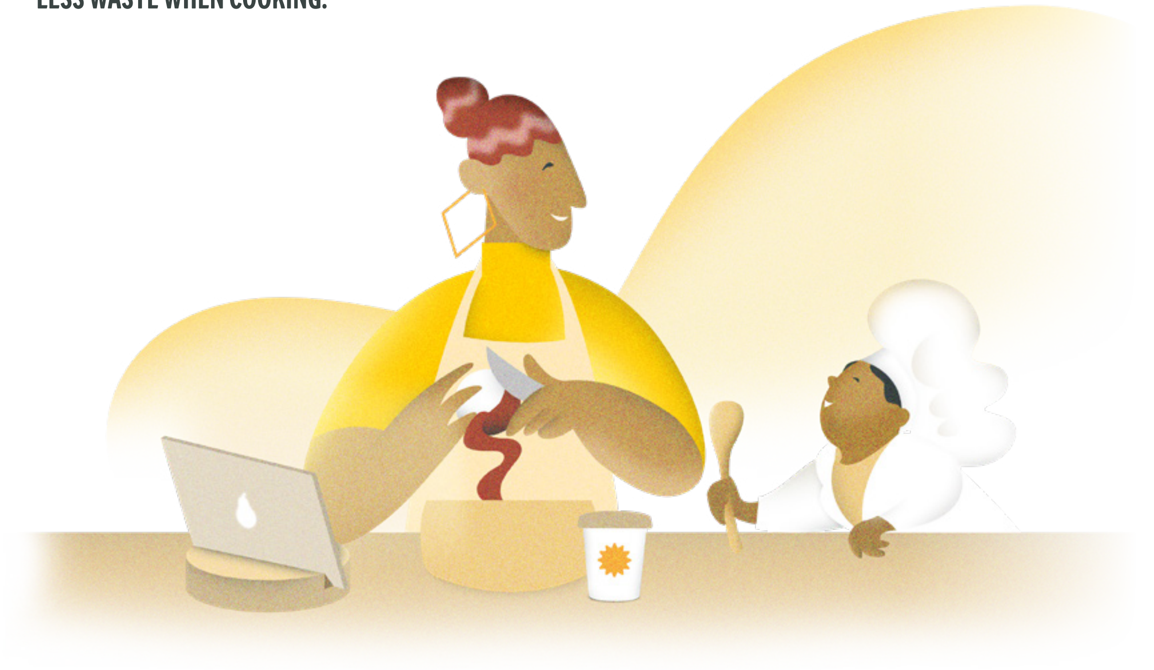
An affordable fortified yogurt is on its way to Tanzanian school children following a collaboration between the local company Galaxy Food and Beverages and the GAIN Nordic partnership. As lead business partner in the partnership, Arla Foods Ingredients worked with Galaxy to adapt the yogurt recipe to the local market and processing conditions. The recipe was originally developed as part of the GAIN Nordic project to build a sustainable dairy supply chain in Ethiopia. It is this business model that has now been transferred to Tanzania. Available at a price that low-income consumers are willing and able to pay, the nutrient-rich yogurt is designed to help overcome the widespread problem of childhood stunting.

Turning dairy and fruit waste into healthy, affordable foods

Pakistan is the fourth-biggest dairy producer in the world. Yet, a large part of the milk ends up as whey side-streams from cheese production – an environmental pollutant when discharged with wastewater. Arla Foods Ingredients and its GAIN Nordic partners have worked with local dairies to turn whey into a nutritious whey-based drink that targets malnourished children and young women. The Danish international development agency DANIDA recently awarded additional funding to support product commercialisation. In another GAIN Nordic project in Pakistan, the focus is to transform waste from date cultivation into affordable dried fruit bars.

INSPIRING CONSUMERS

OUR MISSION IS TO INSPIRE CONSUMERS BY PROVIDING PRODUCTS THAT CATER TO THEIR DIVERSE NEEDS AND INVITING THEM TO PARTICIPATE IN ACTIVITIES THAT OFFER INSIGHTS INTO THE ORIGINS OF OUR PRODUCTS WHILE SUPPORTING HEALTHY HABITS AND GENERATING LESS WASTE WHEN COOKING.



Reaching millions through recipe inspiration

We firmly believe that inspiration and knowledge about cooking is the best way to develop good food habits, and we provide cooking inspiration around the world on our national websites and in brochures.

With an annual visit count of over 30 million Arla.dk has proven to be a prominent source of cooking inspiration in Danish households. We are among the leading recipe providers in Denmark regarding presence on Google.

We also increasingly use social media platforms to more actively engage consumers and spread the word about sustainable and healthy eating.

Inspiring future generations

Our educational programme, Arla Food Movers, reached 63,000 students in Denmark. It focuses on sustainable food habits, with this year's topic being 'Flip a Habit.' The material focus lies on how to change habits around food to be more sustainable and healthy.

We also rolled out the Food Moovers programme in the Middle East, designed to guide young students towards making healthy choices when it comes to their diet and lifestyle. It was implemented in more than 300 schools in the United Arab Emirates.

Making sure kids do not skip breakfast

As a school canteen supplier, we play a role in ensuring students have a nourishing diet for a productive school day. We collaborate with a number of schools in Sweden to provide free breakfast and share insights nationwide. In the UK, we partner with Magic Breakfast, a charity working to end hunger as a barrier to education. In 2023, we donated over 129,000 litres of milk to schools across the country.

Inspiring children through food camps

The Arla Foundation[1] organises food camps to inspire healthy food habits among young people in Denmark. Every week throughout the school year, the foundation's two camps are filled up with new pupils, reaching 1,600 school kids in 2023.

Engaging with consumers

We closely track consumer opinions and preferences to make sure we keep our place as one of the leading global dairy companies.

We conduct representative surveys of both European and global consumers through third parties. This includes weekly measurements of corporate reputation and brand image. Additionally, the team purchases syndicate studies on sustainability matters on an ad hoc basis. Survey results are shared with the Chief Marketing Officer.

We also track consumer opinion on our products through various focus groups. These are organised as frequently as necessary. The effectiveness of these measures is reflected in positive consumer reactions and growing sales volumes.

Consumer service

We highly value consumer satisfaction and are also aware of the impact of negative consumer stories on our brand value, so we prioritise providing multiple channels for consumers to raise concerns and complaints about our products. Our branded packaging displays the physical address, phone number and email address of relevant Arla offices, ensuring that consumers know how to contact us. Consumer complaints are managed separately by markets and tracked through a centralised database.

[1] The Arla Foundation is independent of Arla. Arla donates EUR 1.3 million to the Arla Foundation annually.

Progress towards targets

FOOD SAFETY – PRODUCT RECALLS

In 2023, there was one public recall incident. The recall was initiated due to a defective sealing at the filling line, causing low initial mould contamination identified in a specific batch of oat drink. Although the issue was assessed to not pose any food safety risk, the batch was recalled. Due to a misunderstanding of the instruction given by the Danish food authorities to Arla, this incident resulted in a fine.

Recalls

	2023	2022	2021	2020	2019
Number of recalls	1	1	0	1	4

ACCOUNTING POLICIES

All product incidents are handled promptly to safeguard consumer safety as well as to ensure compliance with legal requirements and product quality. The management of public recall incidents follows a detailed and standardised process. Additionally, the handling of product incidents is subject to annual testing to maintain preparedness and effectiveness.

A public recall is initiated when products pose a material food safety, legal or brand integrity risk. It is relevant only when the affected products are accessible to consumers in the marketplace. Public recalls are promptly reported as they occur, and an incident report must be completed within two weekdays from the initial notification of the issue. The total number of public recalls is disclosed externally on an annual basis in accordance with reporting requirements.

ACCESS TO AFFORDABLE NUTRITION

Arla is committed to improving access to affordable nutrition for low-income consumers in developing countries. In 2023, we reached 97 million consumers (2023 target: 90 million; 2020 baseline: 76 million) with affordable nutrition products, an increase from 87 million in 2022.

Low-income consumers reached with affordable nutrition

million	2023	2022	2021	2020	2019
People reached in Bangladesh	58	48	36	28	
People reached in Nigeria	39	39	49	48	
Total number of people reached	**97**	**87**	**85**	**76**	

ACCOUNTING POLICIES

The disclosed number on access to nutrition is defined as the number of low-income consumers reached with Arla's affordable products in key markets during the last 12 months. These products are Dano Daily Pushti (DDP) in Bangladesh and Dano Cool Cow (DCC) in Nigeria. Products are in compliance with the publicly available Arla Nutrition Criteria. By 'consumers reached' Arla refers to consumers that are in a household which has either purchased or consumed the product in the specific period. The KPI is calculated using market penetration data related to the number of low-income consumers reached with Arla's affordable nutrition products and average household size relative to the number of low-income consumers based in the market according to the National Social Economic Class segmentation. Market penetration data is provided by an external agency every month. The agency collects sample data from around 9,500 households every month using various data collection methods, such as mobile apps or diaries, depending on the available technologies in the area. The sample data is then extrapolated to illustrate the market penetration of the whole population within that specific market. Data is available with one month's delay, and as a result data related to December is based on the November data collection. Every year, the data is based on the last available period. In 2023, the data was based on market penetration data from November, and from December for previous years.

Policies and other

Our policies related to consumers regulate those actions where our key impacts and potential risks lie, and support us in reaching our social sustainability targets and ambitions. They ensure that we correctly and appropriately inform consumers about our products, that our products are safe to consume, that we can act swiftly in case they are not and that we market our products responsibly, especially to the most vulnerable consumers groups, such as children. If publicly available, policies can be found on our website.

Quality and Product Safety Policy

Policy objective and scope

Arla's top priority is to supply safe products of high and consistent quality. We are committed to never compromising on the quality or safety of our products. Our Quality and Product Safety Policy applies to Arla, and any entity directly or indirectly controlled by Arla and their respective employees. The scope of this policy includes all handling and services related to our products which can affect product quality and safety. Key elements of our policy are as follows:

1. All of our products are risk-assessed for their full declared shelf life and for the relevant target groups of consumers.
2. HACCP principles (Hazard Analysis and Critical Control Points) are applied, documented and validated for all productions.
3. All manufacturing sites must be certified according to internationally recognised food safety standards within GFSI (Global Food Safety Initiative).
4. All products must be 100% traceable in all steps of supply, production, storage and distribution.
5. All production must comply with relevant legislation and regulatory requirements in the country of manufacture and with relevant regulatory requirements in markets exported to.

The effectiveness of this policy is constantly monitored internally based on three KPIs: the number of food safety incidents, complaints from customers and consumers and cost of quality deficiencies.

Policy governance

Our Quality and Food Safety Policy is reviewed yearly by the management of the Quality, Environment, Health and Safety (QEHS) department and approved by the Chief Supply Chain Officer.

Labelling Policy

Policy objective and scope

Our Labelling Policy aims to create a uniform approach to labelling across all Arla branded products to avoid misleading the consumers with regard to nutrition and health information. We seek to provide simple and accurate information of our products to enable our consumers to make informed choices in their quest for healthier food choices. The policy regulates the responsibility for both mandatory and voluntary information on the front and the back of all branded food packaging. Mandatory labelling information on our products always follows local or EU laws and regulations. Voluntary information on packaging includes health and nutrition claims and any other type of claims governed by EU or local food regulations (such as the use of words like 'Natural', 'Pure', 'Original'). In markets where there is no such legislation or guideline, Arla follows the principles for mandatory and voluntary information on labels laid out in FAO's Codex Alimentarius. The efficiency of the policy is evidenced by the consistently low number of legal cases we have in relation to our labels.

Policy governance

Our Labelling Policy is owned jointly by the global management of the marketing and the QEHS organisation, who are responsible for updating and implementing it. The policy is approved by the Chief Marketing Officer and the Chief Supply Chain Officer.

QEHS Manual & Food Safety and Recalls

Process objective and scope

Product incidents related to the safety, legality or quality of our products are dealt with through a highly standardised process detailed in our QEHS Manual. Timely and controlled handling of such incidents is of utmost importance to secure best possible control and the safety of our consumers. All incidents must be managed without any undue delays, and in accordance with the escalation process, local procedures and Arla Mandatory Standards. Product incident management is tested at least annually. The QEHS manual covers all Arla-owned and/or -operated manufacturing sites, warehouses, logistic departments and other functions managing products, services and processes. The number of product-related incidents is tracked through a global system and reported to relevant management bodies at least monthly. Read more about food safety on pages 69-70.

Process governance

Our global QEHS organisation is responsible for maintaining and reviewing the Arla QEHS Manual which happens at least once a year and more often if needed. The manual is approved by the Chief Supply Chain Officer.

Responsible Marketing Policy

Policy objective and scope

Our Responsible Marketing Policy covers all marketing communications directed at consumers, with special provisions for marketing to children under 18 years and under 13 years. First and foremost, all of our marketing communications have to comply with local laws and regulations. However, our commitment goes above and beyond these laws and regulations. The backbone of the policy is based on a collaboration with the EU Pledge. To abide by the International Chamber of Commerce (ICC) Code of Advertising and Marketing Communication Practice; and the ICC Framework for Responsible Food and Beverage Marketing Communications in all marketing communications in alignment with the EU Pledge enhanced commitment 2021.

Our key objective is to factually present our products and recipes in all advertisements in a way which does not attempt to mislead consumers. When it comes to children, we do not insert marketing communication to inappropriate editorial content, and we make sure not to mislead about the potential benefits of a product (such as status and popularity with peers). For the most vulnerable group (under 13 years), we only market products that fulfil the Arla® Nutrition Criteria. The efficiency of the policy is evidenced by the consistently low number of legal cases related to our marketing communications.

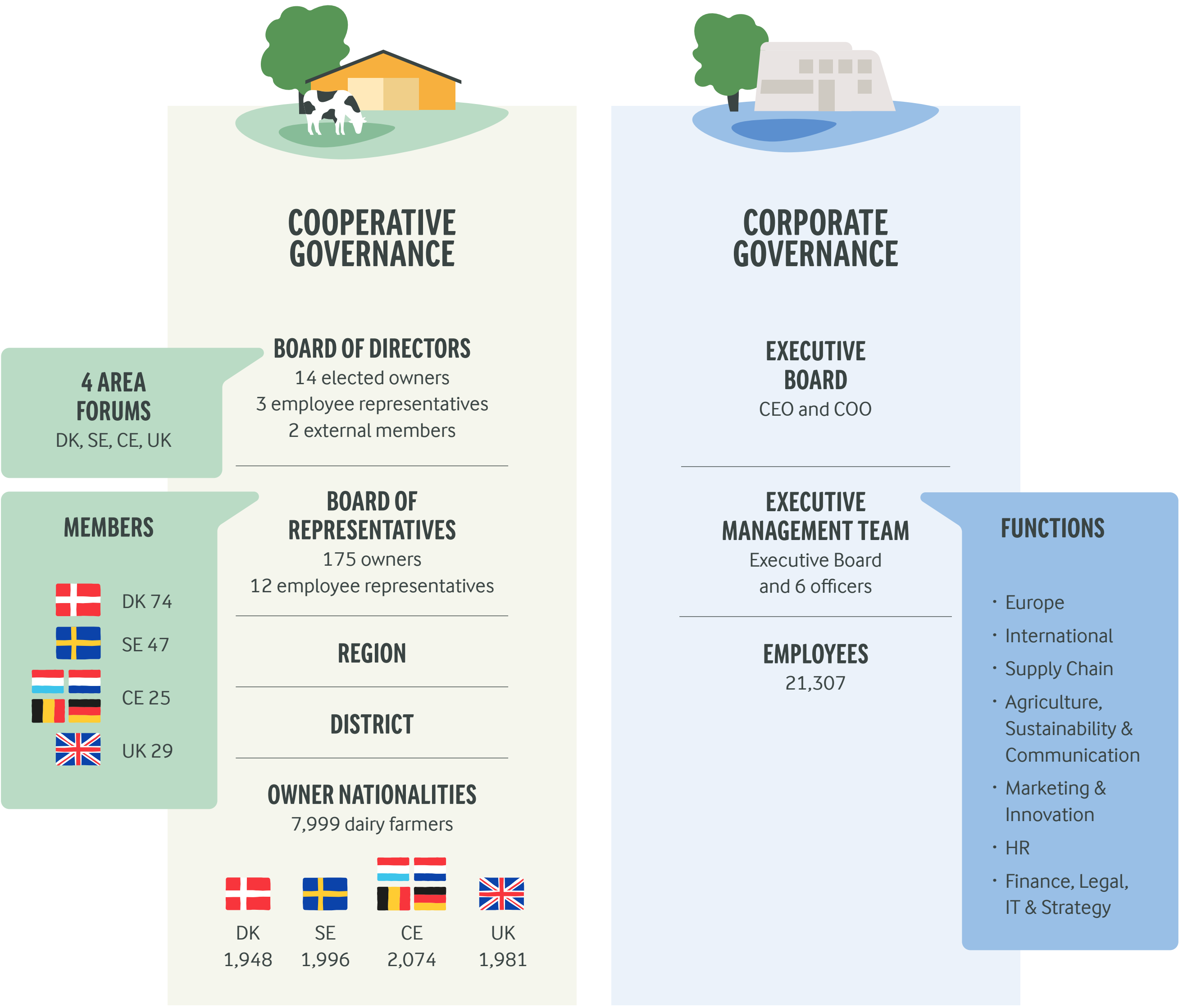
Policy governance

The Responsible Marketing Policy is owned by our global marketing organisation, and is approved by the Chief Marketing Officer.

GOVERNANCE

GOVERNANCE FRAMEWORK

Arla is a cooperative owned by dairy farmers from seven countries. To establish a reliable and successful cooperative, it is essential to provide all owners with the chance to express their views and be represented. Thus, the decision-making authority is entrusted to the Board of Representatives and the Board of Directors. The Executive Management Team is, in close collaboration with the BoD, responsible for setting the overall strategic direction of Arla and for the daily operations. The detailed structure and guidelines of our governance system are outlined in our Articles of Association.



COOPERATIVE GOVERNANCE

Arla is owned by 7,999 milk-producing farmers from Denmark, Sweden, Germany, the UK, Belgium, the Netherlands and Luxembourg, and they all have the opportunity to influence significant decisions.

The cooperative is structured into four geographical areas: Denmark, Sweden, the UK and Central Europe. These areas are further divided into regions and member districts. See next page for further details.

Arla has two primary bodies responsible for farmer owner representation and decision-making: the Board of Directors, consisting of 19 members, and the Board of Representatives, comprising 187 members.

Board of Representatives (BoR)
The BoR serves as the highest decision-making authority in our cooperative governance system. It consists of a total of 187 members, with 175 being farmer owners and 12 employee representatives. The owner representatives are elected every two years, and the allocation of seats per country is determined by their calculated share of equity in the previous financial year before the elections. In the current election period, the seats were distributed

as follows: Denmark 74, Sweden 47, Central Europe 25 and the UK 29. The next election is in May 2024, and based on the equity on 31 December 2023, the seats are distributed as follows: Denmark 72, Sweden 47, Central Europe 26 and the UK 30.

The BoR is responsible for making key decisions, including the allocation of profits for the year, and also has the authority to elect the BoD. Regular meetings of the BoR are held at least twice a year.

District meetings
Every owner of Arla is affiliated with the member district where their farm is situated. In March of each year, owners gather for a local annual assembly in their respective districts to uphold their democratic influence on Arla's decision-making processes. During these assemblies, district members elect representatives to represent their district on the BoR. Additionally, the districts have their own individually elected district councils.

Regional boards
In the Danish and Swedish regions, the regional board comprises the members of the BoR who have been elected within the specific region. In the Central European and UK regions, the regional board is composed of all the Chairs and Vice Chairs of the district councils within that region. The regional boards convene promptly after the annual district meetings to address owner-related issues that are pertinent to their respective regions.

Board of Directors (BoD)
The BoD, elected by the BoR, is responsible for managing Arla in the best interests of the farmer owners. This crucial role entails setting the strategic direction, overseeing Arla's operations and asset management, ensuring satisfactory accounting practices and appointing the Executive Board. Additionally, the BoD is entrusted with safeguarding the interests of various stakeholders in the company, which includes lenders, investors in bond instruments and employees, among others.

The BoD comprises 14 farmer owners and two external members elected by the BoR as well as three employee representatives elected by Arla's employees. As for the BoR, the number of farmer owner seats per country on the BoD is distributed based on equity. In the current election period, the seats were distributed as follows: Denmark 6, Sweden 4, Central Europe 2 and the UK 2. These remain unchanged in the coming election period.

Area forums and Joint Area Council
Arla operates with four area forums, each corresponding to one of the member areas. These forums serve as a vital link between the BoD and Arla's management. Members of these forums act as ambassadors, representing Arla's interests across all members. The forums convene twice a year.

Moreover, the Joint Area Council consists of four BoR members from each respective area, elected to the council through a ballot process. The BoD appoints the Chair and additional members to the council. The council's main focus lies in addressing owner-related matters that transcend individual areas, such as general membership terms and the global milk supply agreement.

Owners
In 2023, there were 7,999 joint owners in the cooperative (2022: 8,492). The decrease in the number of owners can be attributed partly to farmers who ceased milk production or sold their businesses to other Arla members. Additionally, a small number of owners resigned in order to supply another dairy company. This decline is consistent with the overall trend observed in the dairy sector over the past few years.

CORPORATE GOVERNANCE

Arla's corporate governance is a collaborative effort between the Executive Board and the BoD. Working together, they establish and uphold Arla's strategic direction, oversee organisational operations, manage Arla effectively, supervise the management team and ensure compliance with relevant regulations and guidelines. By combining their expertise and responsibilities, the Executive Board and BoD collectively contribute to the overall governance and success of Arla.

Executive Board
The Executive Board, appointed by the BoD, plays a crucial role in managing the company and driving its long-term growth. They are responsible for setting the strategic direction, monitoring progress towards targets and establishing group policies. The Executive Board is committed to achieving sustainable growth and increasing the overall value of Arla.

Additionally, the Executive Board is responsible for effective risk management and control measures, ensuring compliance with legal regulations and internal guidelines. The Executive Board consists of the CEO and another member of the Executive Management Team, currently the Executive Vice President of the Europe segment.

Executive Management Team (EMT)
The EMT is appointed by the Executive Board and holds responsibility for overseeing Arla's day-to-day business operations. They are actively involved in formulating strategies and planning future operating structures. The EMT comprises the Executive Board, a manager from the International commercial segment and five functional heads. These functional heads cover key management areas, including Supply Chain (CSO), Agriculture, Sustainability and Communications (CASO), Marketing and Innovation (CMO), Human Resources (CHRO), and Finance, IT, Legal and Strategy (CFO). To ensure effective communication and collaboration, EMT members regularly update each other on significant developments within their respective areas and align on cross-functional measures.

Governance of sustainability strategy
Sustainability is anchored in Arla's EMT and led by the Chief Agriculture and Sustainability Officer (CASO). The CASO oversees and coordinates the implementation of Arla's sustainability strategy, Stronger People – Stronger Planet, a key pillar in the group strategy, Future 26. The functional heads are responsible for the implementation of sustainability targets relevant for each function as well as taking actions to deliver the strategy.

All global policies are applicable to entities under the direct or indirect control of Arla as well as their employees, including contractors and sub-contractors, where relevant.

Strategic sustainability issues are discussed and agreed with our BoD on a regular basis. The BoD receives recurring performance updates on key sustainability topics such as climate and food safety.

Employees
Arla has 21,307 full-time equivalents (FTEs) globally (2022: 20,907). Our employees are represented by three elected members on the BoD and 12 elected members on the BoR. In addition to their representation in the key decision-making bodies, our employees also benefit from the presence of work councils comprising both employee and employer representatives. The European Works Council serves as a high-level forum for dialogue between management and employees, discussing corporate matters. In 2023, Arla culture engagement and sustainability on site and on farm were key topics in the two annual European Works Council meetings.

BOARD OF DIRECTORS

ARLA'S BOARD OF DIRECTORS (BOD) IS A HIGHLY EXPERIENCED AND WELL-ROUNDED TEAM, CONSISTING OF 14 ELECTED FARMER OWNERS, THREE EMPLOYEE REPRESENTATIVES AND TWO EXTERNAL MEMBERS.

Competencies of the BoD

Arla's BoD members possess a diverse range of skills and expertise, enabling them to engage in exceptional global governance. To ensure continuous improvement, the competencies of the BoD are evaluated every other year through a transparent process approved by the BoR. Based on the evaluation results, board members have the opportunity to participate in various training programmes, further enhancing their skillsets.

Gender composition of the BoD[1]

75% Male	25% Female

Tenure of the BoD

26% 0-3 years	42% 4-7 years	32% 8+ years

Nationalities of the BoD

8 DK	5 SE	3 UK	1 DE	1 BE	1 FR

[1] According to section 99b of the Danish Companies Act, only members elected at the company's general meeting are included

This commitment to ongoing development ensures that the BoD remains equipped to meet the evolving needs of our organisation.

Diversity of the BoD

Diversity and inclusion are imperative to our business. It is crucial that both genders are represented to bring a variety of perspectives to the business. In 2022, we reached our target of a share of 25% woman in our BoD. In 2023, we updated our target to a share of 30% women by 2026. Read more on page 86.

Key topics and decisions in 2023

The BoD conducted a total of 12 ordinary and one extraordinary meetings. Among these, five meetings were held in-person, while the remaining meetings took place online. See page 86 for details on meeting attendance.

Throughout the year, the BoD addressed several key topics, including:

- The continuously uncertain and volatile external market conditions
- The implementation of the Sustainability Incentive model and the first payments. Read more on pages 35-36.
- Risk monitoring and mitigation actions
- Target setting and approval of Arla's business plan for 2024 and follow-up on Arla's strategic ambitions

MEMBER BIOGRAPHIES

Owner
Employee
External
1-19 Link to the group photo

Ib Bjerglund Nielsen not present for the group photo.

All roles in public administration or similar held currently or in the previous two years are listed in the biographies.

1. JAN TOFT NØRGAARD (DK)

Born: 1960
Member since: 1998
Occupation: Dairy farmer
Internal positions: Chair of the Board of Directors, the Learning and Development Committee and the Remuneration Committee
External positions: Member of the Governing Board of the Danish Agriculture & Food Council (2009)

2. MANFRED GRAFF (DE)

Born: 1959
Member since: 2012
Occupation: Dairy farmer
Internal positions: Vice Chair of the Board of Directors, Area Chair of Central Europe, Chair of the Joint Area Council and the Member Relation Group, member of the Learning and Development Committee and the Remuneration Committee
External positions: Member of the Board of German Milch NRW (2007) and the Board of the German Federation of Cooperatives (2015)

3. ANDERS OLSSON (SE)

Born: 1966
Member since: 2022
Occupation: Technical Coordinator at Götene Dairy

4. ARTHUR FEARNALL (UK)

Born: 1963
Member since: 2018
Occupation: Dairy farmer
Internal positions: Area Chair of the UK, Chair of the Farmer Sustainability Working Group, member of the Joint Area Council, the Member Relation Group and the Global Appeals Committee

5. BJØRN JEPSEN (DK)

Born: 1963
Member since: 2011
Occupation: Dairy farmer
Internal positions: Chair of the Organic Committee.
External positions: Vice Chair of Skjern Bank (2012) and the Danish Dairy Board (2019), member of the cattle section of the Danish Agriculture & Food Council (2009), the Board of Directors of the Danish Cattle Levy Fund (2009) and the Board of Directors of the Danish Milk Levy Fund (2019)

6. DANIEL HALMSJÖ (SE)

Born: 1982
Member since: 2022
Occupation: Dairy farmer
Internal positions: Member of the Global Appeals Committee

7. FLORENCE ROLLET (FR)

Born: 1966
Member since: 2019
Occupation: Head of the MSc in Luxury Marketing and Management, EMLyon, France

8. GRANT CATHCART (UK)

Born: 1970
Member since: 2022
Occupation: Quality Controller, QEHS, at Oswestry Packaging Plant
External positions: Member of the National Cheese Forum, UK (1999), and the National Works Council, UK (2012)

9. GUSTAV KÄMPE (SE)

Born: 1977
Member since: 2021
Occupation: Dairy farmer
Internal positions: Member of the Remuneration Committee and the Farmer Sustainability Working Group
External positions: Member of the Swedish Dairy Association (2021)

10. IB BJERGLUND NIELSEN (DK)

Born: 1960
Member since: 2013
Occupation: Dairy production worker
External positions: Member of the Dairy Workers' Union, DK (2005)

11. INGER-LISE SJÖSTRÖM (SE)

Born: 1973
Member since: 2017
Occupation: Dairy farmer
Internal positions: Area Chair of Sweden, member of the Joint Area Council, the Member Relation Group and the Learning and Development Committee
External positions: Chair of the Board of Directors of the Swedish Dairy Association (2022), board member of Tillväxtbolaget (2022) and Dairy Ambassador for the UN High-Level Political Forum (2022)

12. JOHNNIE RUSSELL (UK)

Born: 1950
Member since: 2012
Occupation: Dairy farmer, chartered accountant
Internal positions: Member of the Learning and Development Committee, the Remuneration Committee and the Organic Committee
External positions: Chair of the ING Bank UK Pension Fund (2010) and two other entities (2013 and 2015, respectively)

13. JØRN KJÆR MADSEN (DK)

Born: 1967
Member since: 2019
Occupation: Dairy farmer
Internal positions: Member of the Learning and Development Committee, member of the Board of Directors of Andelssmør a.m.b.a (2020)
External positions: Vice Chair of the Board of Directors of GLS-A (2018)

14. MARCEL GOFFINET (BE)

Born: 1988
Member since: 2019
Occupation: Dairy farmer
Internal positions: Member of the Global Appeals Committee, the Learning and Development Committee, the Organic Committee and the Preparatory Working Group
External positions: Chair of the Board of Directors of Agra Ost Agriculture Research (2016), member of the municipal government of St. Vith (2018) and the Bauernbund Farmer Association (2012)

15. MARITA WOLF (SE)

Born: 1959
Member since: 2021
Occupation: Dairy farmer
Internal positions: Chair of the Global Training Committee, member of the Organic Committee
External positions: Member of the Board of Directors of the Swedish Dairy Association (2003) and of the Board of Directors of the Swedish Farmers Foundation for Agriculture (2022)

16. NANA BULE (DK)

Born: 1978
Member since: 2019
Occupation: Operating Advisor, Goldman Sachs Asset Management
External positions: Chair of the Board of Directors of Carbfix (2023), member of the Board of Directors of Energinet (2018) and the Novo Nordisk Foundation (2023), Chair of the Danish Government Digital Council (2022)

17. RENÉ LUND HANSEN (DK)

Born: 1967
Member since: 2019
Occupation: Dairy farmer
External positions: Member of the Governing Board and the Executive Committee of the Danish Agriculture & Food Council (2019), and the Board of Directors of Agri Nord (2012)

18. SIMON SIMONSEN (DK)

Born: 1970
Member since: 2017
Occupation: Dairy farmer, Valuation Consultant DLR Kredit A/S
Internal positions: Member of the Remuneration Committee
External positions: Dairy Ambassador for the UN High-Level Political Forum (2017)

19. STEEN NØRGAARD MADSEN (DK)

Born: 1956
Member since: 2005
Occupation: Dairy farmer
Internal positions: Area Chair of Denmark, Chair of the Global Appeals Committee and the Preparatory Working Group, member of the Joint Area Council and the Member Relation Group
External positions: Chair of the Danish Dairy Board (2012), Vice Chair of the Governing Board and the Executive Committee of the Danish Agriculture & Food Council (2014), Chair of the Agro Food Park Steering Committee (2016) and the Danish Milk Levy Fund (2012)

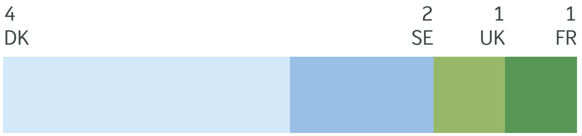
EXECUTIVE MANAGEMENT TEAM

ARLA'S EXECUTIVE MANAGEMENT TEAM (EMT) CONSISTS OF THE CEO, ONE COMMERCIAL MANAGER OF THE EUROPEAN AND INTERNATIONAL COMMERCIAL SEGMENTS AND FIVE FUNCTIONAL EXPERTS. THE EMT IS RESPONSIBLE FOR ARLA'S DAY-TO-DAY BUSINESS OPERATIONS AND FOR DEVELOPING AND DELIVERING GROUP STRATEGIES.

Gender composition of the EMT

Tenure of the EMT

Nationalities of the EMT



MEMBER BIOGRAPHIES

All roles in public administration or similar held currently or in the previous two years are listed in the biographies.

1. PEDER TUBORGH (DK)

Born: 1963
Position: CEO, member of the Executive Board, representing Global Industry Sales and Arla Foods Ingredients in the Executive Management Team
Experience: Peder has been with Arla since 1987, formerly under MD Foods, and has held various senior management and executive positions, including Marketing Director, Divisional Director and Executive Group Director. Peder has worked in Germany, Saudi Arabia and Denmark as part of his longstanding career in Arla
Education: Master's degree in Economics and Business Administration from the University of Southern Denmark, Odense
External positions: Member of the Global Dairy Platform (2006), Chair of AgriFoodTure (2022)

2. PETER GIØRTZ-CARLSEN (DK)

Born: 1973
Position: COO, Executive Vice President of Europe, member of the Executive Board
Experience: Peter joined Arla in 2003 as Vice President of Corporate Strategy and has held various senior positions, including Executive Vice President of Consumer DK and UK, before he became Executive Vice President of Europe in 2016
Education: Master's degree in Business Administration, Organisation and Management from the Aarhus University School of Business and Social Sciences
External positions: Board member of AIM, the European Brands Association (2018), member of the Policy and Issues Council (PIC) of the UK's Institute of Grocery Distribution (IGD) (2016), Vice Chair of the Board of the European Dairy Association (EDA) (2020), Vice Chair of the Board of Directors of the Toms Group (2022)

3. TORBEN DAHL NYHOLM (DK)

Born: 1981
Position: CFO, Executive Vice President, Finance, Legal, IT and Strategy
Experience: Torben joined Arla in 2012 after working several years in the M&A consultancy industry. Starting out in Arla as a Business Controller in Corporate Finance, he has subsequently held a number of significant project and leadership roles across the finance organisation focusing mainly on the interface between finance and strategy, most recently as Head of Performance Management
Education: MSc in Finance and International Business from Aarhus University

4. SIMON STEVENS (UK)

Born: 1965
Position: Executive Vice President, International
Experience: Simon joined Arla in 2002 as UK Sales Director and then SVP Sales and Marketing, where he played a major role in the significant transformation of the UK business. Simon joined the EMT in 2021 having previously been Head of the MENA region based in Dubai. Prior to Arla, Simon worked 14 years for Unilever in sales and marketing roles in the UK, Netherlands and Italy
Education: 1st class BSc Hons degree in Management Sciences from Loughborough University
External positions: Member of the Board of Directors of Mengniu (2021)

5. OLA ARVIDSSON (SE)

Born: 1968
Position: CHRO, Executive Vice President, HR
Experience: Ola joined Arla in 2006 as Corporate HR Director, and has been Chief HR Officer of Arla since 2007. He came to Arla from Unilever, where he held various director positions across Europe and the Nordics, with his last position as Vice President of HR. Prior to Unilever, Ola served as an Officer in the Royal Combat Engineering Corps in the Swedish Army
Education: Master's degree in HR Management from Lund University
External positions: Member of the Board of Directors of AP Pension (2014), Central Board member of the Confederation of Danish Industry (2018)

6. DAVID BOULANGER (FR)

Born: 1970
Position: CSO, Executive Vice President, Supply Chain
Experience: David joined Arla in October 2020. He has 26 years of experience working in supply chain and operations and has held several senior leadership positions in the food industry within Mars, Mondelez and Danone in various geographies. Most recently, before joining Arla as Chief Supply Chain Officer, he was Senior Vice President of Operations of Danone's Specialized Nutrition Division, operating globally in the Early Life & Medical Nutrition fields
Education: Engineering degree from the Ecole Civil des Mines de Paris in France and Master's degree in Mathematics
External positions: Member of the Board of Directors of Global Baby SAS (2021)

7. HANNE SØNDERGAARD (DK)

Born: 1965
Position: CASO, Executive Vice President, Agriculture, Sustainability and Communication
Experience: Hanne has been with Arla since 1989, first joining under MD Foods and then moving to the UK where she played a leading role in developing the Arla UK business. She became Vice CEO of Arla UK before she in 2010 moved into a global marketing role as Senior Vice President of Brands and Categories. In 2016, she became CMO and Executive Vice President and joined Arla's Executive Management Team. In January 2021, Hanne became Executive Vice President of Agriculture, Sustainability and Communication
Education: Business degrees from the Aarhus University School of Business and Social Sciences and Harvard Business School
External positions: Member of the Board of Directors of Arla Fonden (2012), member of the Technical University of Denmark (2016), member of the Danish Climate Forest Foundation (Klimaskovfonden) established by the Ministry of Environment of Denmark (2021), Board member of the Danish Agriculture & Food Council (2022)

8. PATRIK HANSSON (SE)

Born: 1967
Position: CMO, Executive Vice President Marketing and Innovation
Experience: Patrik has many years of experience from working in international consumer goods companies within finance, marketing, sales and general management. Patrik worked for 13 years in Procter and Gamble, mainly in marketing, before he joined Arla in October 2011 as Vice President of Marketing and Sales in Sweden. In 2015, he moved to Malaysia to start up Arla's regional headquarters in South East Asia. In 2016, he returned to Europe where he held the roles of Group Vice President in Sweden, and later in Germany, before taking up the current role as CMO in 2022
Education: Master's degree in Engineering Physics from Chalmers and a Master's degree from Gothenburg University

MANAGEMENT REMUNERATION

ARLA'S EXECUTIVE REMUNERATION GUIDANCE IS DESIGNED TO ENCOURAGE HIGH PERFORMANCE AND SUPPORT VALUE CREATION. THE GUIDELINES ENSURE ALIGNMENT WITH THE GROUP'S STRATEGIC DIRECTION AND THE INTERESTS OF OUR FARMER OWNERS.

We have a structured approach to remuneration, ensuring that salaries are unbiased towards gender, nationality and age.

Remuneration governance

Arla's remuneration practice is governed by the remuneration guidance provided by the Board of Directors (BoD), which is reviewed regularly. The BoD takes into consideration the recommendations of the Remuneration Committee (RemCo), which consists of six board members, including the Chair and the Vice Chair. The RemCo acts as a preparatory committee for the BoD and the Board of Representatives (BoR), with a particular focus on the BoD, BoR and the Executive Board. One of the committee's responsibilities is to ensure that the remuneration guidance, practices and incentive programmes align with Arla's strategy and contribute value to the owners by attracting and retaining highly qualified elected representatives, executives, directors and key employees. The RemCo holds four meetings per year.

Our remuneration practices

The remuneration packages are designed to attract, engage and retain highly skilled senior managers while also promoting strong performance in both short and long-term business outcomes. Following Scandinavian practice, the majority of the remuneration is fixed. This ensures that the total remuneration is contingent upon achieving Arla's short and long-term financial targets. All executives and senior management members are employed under terms that comply with international standards. These terms include appropriate non-compete restrictions as well as confidentiality and loyalty requirements.

Our performance measures

Board of Directors (BoD)

The remuneration provided to the BoD consists of a fixed fee and does not include any incentives. Apart from a minimal travel per diem, no additional compensation is provided for attending meetings and committees. However, BoD members receive a fixed yearly fee if they are member of a cross-area BoR working group or committee. This approach aims to ensure that the BoD's main focus is on the long-term interests of the cooperative.

The remuneration of the BoD is evaluated and adjusted every two years, and these adjustments are approved by the BoR. The most recent adjustment was made in 2022. For specific details regarding the amounts, please refer to page 139.

Executive Board and Executive Management Team (EMT)

The compensation framework and approach for both the Executive Board and the EMT (collectively referred to as executives) are the same. The remuneration for the Executive Board is evaluated annually by the BoD based on recommendations from the RemCo. For specific details regarding the amounts, please see page 139. The remuneration for the EMT is determined by the CEO.

The remuneration package for the executives is established by considering external benchmarks against European and international FMCG (Fast-Moving Consumer Goods) companies. This ensures a competitive and sustainable combination of fixed and variable pay. Additionally, the package includes pension contributions as well as non-monetary benefits such as a company car, telephone etc.

Short- and long term incentive plans

The levels of fixed remuneration for executives are determined based on their individual experience, contribution and function within the organisation, whereas variable pay is linked to the performance against annual business targets. The variable pay component consists of two parts: an annual short-term incentive (STI) plan and a long-term (three-year) incentive (LTI) plan. The STI plan includes the same elements for all executives. In 2023, a sustainability component expressed as scope 1 and 2 CO_2e reductions was added as a fifth component to the STI scheme. The main components of the LTI are branded volume growth, and the group's performance versus a peer group. See illustration below.

Variable pay components
Executive Management Team

	Short-term incentive (STI)	Long-term incentive (LTI)
Profit	•	
Efficiencies	•	
Leadership	•	
Sustainability (new)	•	
Branded volume growth	•	•
Performance versus peer group	•	•

FAIR AND TRANSPARENT TAX PRACTICES

AS WE RECOGNISE THE IMPORTANCE OF TAX FOR BOTH ECONOMIC AND SOCIAL PROGRESS, WE ARE FULLY DEDICATED TO PAYING OUR FAIR SHARE OF TAXES AND PROMOTING TRANSPARENT REPORTING ON OUR TAX PRACTICES.

Our responsible and transparent approach to tax matters is rooted in our corporate identity and strategy. This approach also aligns with our dedication to the UN Sustainable Development Goals (SDGs), with our tax payments directly and indirectly contributing to the majority of the SDGs. Notably, our tax practices have a significant impact on SDG number 16, which emphasises the importance of developing effective, accountable and transparent institutions.

Open dialogue

Ensuring tax compliance in the countries where we operate and create value, and reporting transparently on our tax matters are of utmost importance to us. Therefore, we strive for an open dialogue with tax authorities and tax communities to foster transparency regarding our business operations and tax matters. To support this agenda, we have entered into voluntary enhanced relationships with the tax authorities in some of our core markets, and we provide public consultation responses and input to upcoming legislation in cooperation with industry-relevant business groups.

Tax governance

Our global tax function is structured to ensure robust tax governance. We implement appropriate policies, employ knowledgeable personnel and establish effective tax controls and procedures. Furthermore, the roles and responsibilities around our tax governance and tax management are stipulated in our internal Global Tax Policy, which is reviewed and approved by Arla's CFO.

Cooperative and corporate tax

Arla operates as a cooperative, where our farmer owners are also our suppliers. As a result, earnings are not retained within the company but distributed to our owners in the form of the highest possible price for the milk supplied. As a Danish-based cooperative, Arla Foods amba is subject to the tax regulations for Danish cooperatives, which are taxable based on the tax value of their equity. Arla operates multiple subsidiaries worldwide. These subsidiaries are mainly limited liability and private limited companies that are subject to regular corporate taxation.

Value generation and tax contribution

In 2023, Arla generated a total value of EUR 6.5 billion from the milk supplied. Milk sourced from our farmer owners accounted for EUR 6.0 billion in milk payments, while other farmers received milk payments totalling EUR 402 million. Consequently, 98% of the value generated directly from the milk supplied is subject to tax at farm level, in accordance with local tax regulations. In addition to the value and taxes generated directly from the milk supplied, our operations extend and generate value into societies through different types of tax payments, either borne or collected by Arla.

Fair tax practices

To ensure that Arla pays a fair tax in the countries where we operate, transactions between Arla entities are carefully determined and documented in line with the OECD's Transfer Pricing Guidelines, ensuring that the transactions are conducted at market terms and in accordance with the value generated.

As part of our fair tax practices, we continuously evaluate available tax incentives and reliefs to ensure that the use of such is always to be anchored in commercial substance. As an example, the Danish joint taxation group has, in line with the Danish Tax Depreciations Act, made use of the increased tax depreciation basis for newly purchased operating assets with a green profile.

Presence in non-cooperative jurisdictions

Arla has no presence in the jurisdictions determined as non-cooperative

OUR KEY TAX PRINCIPLES

Our tax practices align with Arla's global Code of Conduct, supported by a set of essential tax principles approved by the Board of Directors:

- We aim to report the right and proper amount of tax according to where value is created
- We are committed to paying taxes legally due and to ensure compliance with legislative requirements in all jurisdictions in which we operate
- We will not use tax havens to reduce Arla's tax liabilities
- We will not set up tax structures intended for tax avoidance which have no commercial substance and do not meet the spirit of the law
- We are transparent about our approach to tax and our tax position
- Our disclosures are made in accordance with relevant regulations and applicable reporting standards such as (IFRS)
- We build on good relations with tax authorities and trust that transparency, collaboration and proactiveness minimise the extent of disputes

Generating value through milk supply
98% of the value generated directly from the milk supplied by our farmer owners is subject to tax at farm level

jurisdictions for tax purposes (as per the update from 17 October 2023) by the Council of the European Union.

Global Minimum Tax (Pillar Two)
On 15 December 2022, the Council of the European Union reached a unanimous agreement to implement the EU Minimum Tax Directive (Pillar Two). The directive requires member states to transpose the rules into domestic law by 31 December 2023. Pillar Two seeks to ensure that large groups (i.e. groups with a turnover of EUR 750 million or more in at least two of the last four years) incur a minimum 15% effective tax rate on a jurisdiction by jurisdiction basis.

In Arla, we welcome the initiative's underlying intention of setting a standard for a global minimum tax. Arla has taken an active part in supporting the national implementation of the rules in Denmark (the tax jurisdiction of the group's parent company, Arla Foods amba).

Expected Pillar Two effects for Arla
Arla falls within the scope of the Pillar Two rules, according to which Arla Foods amba is the Ultimate Parent Entity ('UPE') of the group. As a result, in case Arla will be liable to top up taxes for the difference between its effective tax rate per jurisdiction and the global 15% minimum tax rate, additional tax payments under the Pillar Two rules will be to the country of Denmark.

To assess potential future financial effects of the Pillar Two rules and other related local tax rules, we continuously follow the development and enactment of these rules in the countries where we operate.

While it has been determined that our effective tax rate is well above 15% in most of the jurisdictions where we operate, we have identified a few jurisdictions, mainly in the Middle East, where the effective tax rate is below 15%. This is primarily due to national laws in these jurisdictions that either do not impose a corporate income tax or impose a tax rate below the minimum of 15%.

Based on preliminary analyses, the group expects the impact of the Pillar Two rules to result in an immaterial financial impact for the financial year 2024.

For further details about tax, refer to Note 5.1 on page 136.

Actions and resources

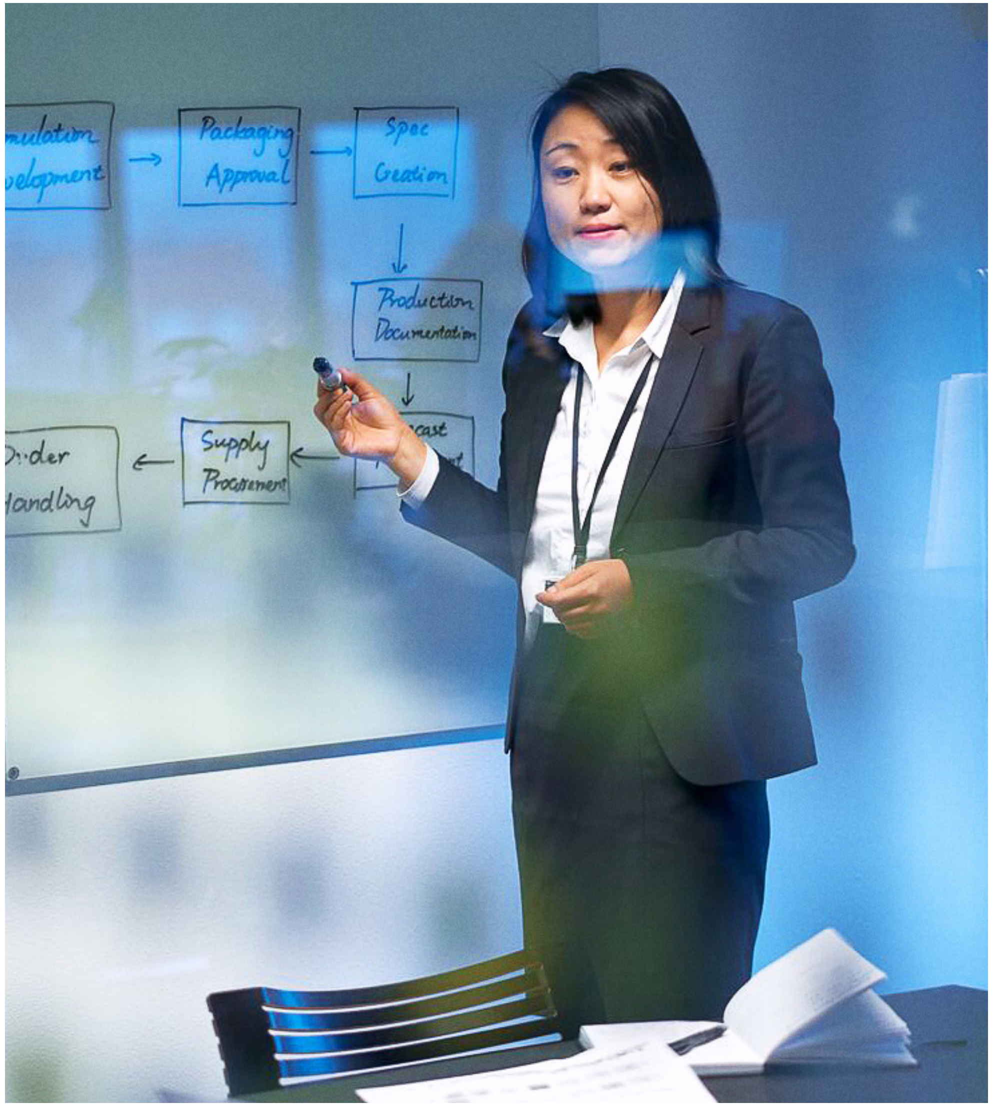
RESPONSIBLE BUSINESS CONDUCT

Responsible business conduct
Arla has an ambitious plan to grow, and we care about how we do it. Honesty and transparency are key to our business and the value we create for our farmer owners, employees and other stakeholders. Responsible business conduct goes beyond compliance.
It comes from living our Arla values, promoting openness and transparency, and is part of our commitment to do business in an ethical way.

Responsible business conduct is detailed in our Code of Conduct. The Code of Conduct covers all aspects of our business and lies within every decision made every day, at all levels and everywhere in Arla. Our Code of Conduct includes four key themes: Responsible company, Confidence in products, Care for the environment and animal welfare and Responsible relations. This includes outlining, among other things, how we act in relation to anti-corruption and bribery, human rights, fraud, taxation, accounting, confidentiality, relationships with our business partners and suppliers, food safety, product quality and environmental and social impacts through our value chain.

The areas that are most at risk in respect of fraud, corruption and bribery are our operations in the Middle East, Nigeria, Central and Southern Africa, Bangladesh, Indonesia and South America. Additionally, we place strong emphasis on anti-corruption and anti-bribery measures in the UK in response to more stringent local regulation.

Committed to growing responsibly
Arla's Code of Conduct covers all aspects of our business and lies within every decision made every day, at all levels and everywhere in Arla.



Fraud investigations
We take violations of the Code of Conduct and regulation seriously. If employees or stakeholders believe that our Code of Conduct has been violated, we encourage them to report it. Our whistleblower service, Ethics Line, is available for all employees and other stakeholders to raise any concerns they may have It is available on the Arla website in30 different languages.

We raise awareness of our corporate culture through our onboarding process which includes training and familiarising new employees with our Code of Conduct. We measure awareness of our Ethics Line by carrying out a compliance self-assessment of 37 entities in Arla's International business, and we further include Ethics Line awareness questions in our on-ground risk assessments (see page 63 for details).

In 2023, 96 reports were submitted to the Ethics Line (see page 63 for details). All grievances are investigated by the Ethics Committee and reported to the CEO.

In general, we maintain a coherent system of internal controls, which are regularly assessed for effectiveness and adequacy.

Policies

- Responsible Political Engagement Policy
- Payment Policy
- Global Purchasing Policy
- Anti-bribery Directive
- Data Ethics Policy
- Code of Conduct – Our Responsibility
- Code of Conduct for Suppliers and Business Partners
- Grievance Policy
- Responsible Marketing Policy
- Environmental and Energy Management Policy & Green Ambition 2050

Responsible marketing

In Arla, we market our products directly to consumers through various channels. It is our commitment and responsibility to ensure that all of our products and brands are responsibly marketed, presented in a way that is not misleading, convey nutrition and health claims in compliance with international standards and local legislation and ensure that our consumers are informed to make decisions as part of a balanced and sustainable diet. Moreover, we have chosen to make special provision for children, committing us not to market any of our products that do not meet our strict nutrition criteria to children under 12 years of age.

Political engagement and lobbying

It is important for a large dairy cooperative like Arla to engage in lobbying activities as it provides representation, allows influence on new legislation, grants access to important information, mitigates risks and promotes collaboration. Through engagement we can support growth and address industry challenges, and with our expertise and experience we can provide valuable input in understanding of our sector.

In accordance with our policies, we never offer or give contributions to political parties.

In 2023, our political engagement practices focused primarily on climate-related regulatory changes pertaining to carbon taxation and sustainable farming practices. We also collaborated with industry peers to ensure that legislation concerning packaging and recycling is meaningful, while prioritising food safety and functionality. Our engagement activities align with key business risks and are anchored in our Future 26 strategy and our commitment to meet the 1.5-degree goal set by the Paris Agreement.

Responsible supply chain management

Our suppliers from all over the world have a major impact on our sustainability performance, and we expect them to sign our Code of Conduct for Suppliers and Business Partners, which governs environmental, social, business ethical and human rights aspects. In turn, our Global Purchasing Policy outlines clear and consistent procurement practices, which are fundamental for collaborating with our suppliers. By signing our purchase agreement, our suppliers become acquainted with our key sustainability targets and the corresponding actions they should undertake to minimise their climate and environmental footprint.

We maintain a close collaboration with our suppliers to effectively address environmental and social impacts across the entire supply chain. For more details on our efforts to reduce our climate impact, please refer to pages 33-42. For details on how we mitigate risks associated with risk commodities, please refer to pages 45-51. For details on how we ensure human rights are upheld in the supply chain, please refer to pages 62-63.

Fair payment terms

Fair payment terms, such as reasonable payment periods and transparent agreements, foster trust, strengthen business relationships and encourage collaboration between Arla and our suppliers. Paying suppliers on time, particularly our farmer owners, is crucial as timely payments ensure sustainability and growth. We have set our payment terms in line with industry practice outlined in our Payment Policy.

In 2023, the average time it took us to pay an invoice was 52 days (median 38 days). Our key suppliers are the farmers who supply raw milk. They are considered the most vulnerable due to their dependence on our payments. On average, it took 15 days for us to make payments to farmers, while for other suppliers, it took 60 days.

Data ethics

Ensuring data is handled in a compliant and ethical manner is important to Arla, and we are aware of the increasing potential for impacts in relation to the use of data. During 2023, we continued the implementation of our Data Ethics Policy by setting up a data ethics committee to discuss relevant dilemmas and provide recommendations in relation to the use of data. Recommendations are based on the policy principles. We will evaluate our practice to define how we best continue to embed data ethics awareness in the business.

Targets and progress

GENDER DIVERSITY BOARD OF DIRECTORS

BoD diversity development
Gender diversity on the Board of Directors is important, partly to ensure that both genders are represented at a high level, and partly to bring a variety of perspectives to the business. Ensuring gender diversity on the Board of Directors is also a legal requirement in Denmark. The current Board of Directors consists of 19 members, including 14 farmer owners, three employee representatives and two external members. In accordance with section 99b of the Danish Financial Statements Act, only members elected by the Board of Representatives at the general assembly count in the Board of Directors' gender diversity figure. The members elected by the Board of Representatives are the 14 owner representatives and two external members. Four of these 16 Board of Representatives-elected board members are women, reflecting a ratio in 2023 of 25% women and 75% men. A new target for the 2026 strategy was set in 2023. We are therefore targeting a share of 30% women on our Board of Directors by 2026, compared to a target of 25% in 2023.

ACCOUNTING POLICIES

The gender diversity ratio is calculated as the share of women on the Board of Directors as at 31 December. It includes only members of the Board of Directors elected by the general meeting and excludes employee representatives and advisors to the Board of Directors.

Gender diversity on the Board of Directors

	2023	2022	2021	2020	2019
Share of women on the Board of Directors	25%	25%	13%	13%	13%

BOARD MEETING ATTENDANCE

Meeting attendance development
Attendance at the board meetings by the members of the Board of Directors ensures that all Arla's owners and employees are represented when important strategic decisions are made. Arla's board members are very dedicated, and as a general rule all board members attend all meetings unless they are prevented from doing so due to health reasons. In 2023, there were 12 ordinary board meetings and one extra ordinary meeting. The board attendance remained at the same level as last year. Information on board members can be found on pages 77-78.

ACCOUNTING POLICIES

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

The current Board of Directors consists of 14 owners, three employee representatives and two external members. When calculating board meeting attendance, all 19 board members are included.

Board meeting attendance

	2023	2022	2021	2020	2019
Number of meetings	12	12	12	10	10
Attendance	99%	98%	98%	99%	96%

Policies and other

Our Code of Conduct serves as an umbrella for our policies. We outline some of our governance-related policies in the following. Our Code of Conduct and other governance-related policies such as our Code of Conduct for Suppliers and Business Partners, Responsible Marketing Policy, Environmental and Energy Management Policy & Green Ambition 2050 and our Grievance Policy are outlined in more detail in the chapters on environment and social.

Responsible Political Engagement Policy
Policy objective and scope
The objective of our Responsible Political Engagement Policy is to ensure open and transparent engagement with political stakeholders, garner political support for the dairy sector and promote the development of innovative, sustainable dairy products, while adhering to ethical business practices and relevant regulatory frameworks.

Arla's political engagement activities are governed by Arla's Code of Conduct, which is in synergy with the 10 guiding principles of the UN Global Compact as well as the EU Transparency Register's Code of Conduct.

In order to be able to take part in political engagement in the EU, Arla registered in the EU Transparency Register, in August 2014, with the registration number 479299526321-12 and signed up to the Code of Conduct governing relations with the EU institutions and their members, officials and other staff.

Policy governance
The Chief Agriculture and Sustainability Officer (CASO) has ownership of the policy, and the operational responsibility lies with the Senior Vice President of Corporate Communications. A quarterly steering committee is responsible for overseeing implementation.

Payment Policy
Policy objective and scope
The objective of our Payment Policy is to create the basic principles by which payment to suppliers is performed. In other words, to guide the payment behaviour of all supplier payments in a common direction and ensure that they are performed in a consistent manner.

Our Payment Policy applies to all supplier payments and defines our standard payment terms, invoicing requirements and procedures. Our standard payment terms are 60 days. In the absence of an agreement with the supplier, the standard payment terms are 30 days. Our Payment Policy separately defines the standard payment terms for our farmer owners who are paid twice a month. In addition, certain strategic suppliers participating in financing programmes could have longer payment terms – read more on page 85. We always pay public authorities, utility companies and financial institutions on the due date stated on the invoice. Payments below 60 days for preferred or pending suppliers can take place with the approval of the Head of Procurement and below 30 days with the approval of the Vice President of Finance or Chief Financial Officer.

Policy governance
Our finance organisation's leadership and the local Finance Managers across Arla have prime responsibility for rolling out this policy, initiating dialogue about it and handling cases. Updating the policy is the responsibility of our global finance organisation.

Global Purchasing Policy
Policy objective and scope
Clear and consistent procurement practices are fundamental to minimising risks to food safety, the environment and human rights in our supply chain. Our policy sets out 11 principles for purchasing in Arla to ensure a clear and uniform process when buying goods and services to reduce costs, risks and environmental and human rights impacts. Among other procedural requirements, the policy also requires compliance with Arla Foods' Code of Conduct for Suppliers and Business Partners.

Policy governance
This policy applies to all purchases from external suppliers of goods and/or services with one exception: the purchase of raw milk registered on the milk balance. The policy applies to all employees in Arla. However, the global procurement department has overall responsibility for the implementation of this policy. Corporate Finance is responsible for setting and implementing approval limits and delegation rights and dealing with any queries about them.

Anti-bribery Directive
Policy objective and scope
Our Anti-bribery Directive sets out the responsibilities in observing and upholding our position on bribery and corruption, and provides information and guidance on how to recognise and deal with bribery and corruption issues. Arla is committed to conducting all business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate. Further, we are committed to implementing and enforcing effective systems to counter bribery and corruption. This directive applies to all persons working for Arla or on Arla's behalf in any capacity.

Policy governance
Arla's Executive Management Team (EMT) has overall responsibility for ensuring this directive complies with our ethical obligations, and that all those under our control comply with it. Arla's Global Legal Services department has overall responsibility for ensuring this directive complies with our legal obligations. Arla's management at all levels is responsible for ensuring those reporting to them understand and comply with this directive and are given adequate and regular training in it.

Data Ethics Policy
Policy objective and scope
In Arla, we have high ethical standards for how we conduct our business. The purpose of the Data Ethics Policy is to establish the data ethics standards that we wish to adhere to, and to emphasise our commitment to a responsible use of data. When we decide to use data as part of our business, we apply the guiding principles for data ethics focusing on the five principles: Human dignity, Responsibility, Equality and fairness, Progressiveness and Diversity.

Policy governance
The policy is governed by the EMT, and a data ethics committee discusses and makes recommendations on decisions on data ethics issues.

Sales of our Puck® Mozzarella products contributed positively to our revenue growth of 3.2% in MENA.

PUCK® MOZZARELLA

CONSOLIDATED FINANCIAL STATEMENTS

Primary statements

Notes

INCOME STATEMENT

(EUR million)	Note	2023	2022	Development
Revenue	1.1	13,674	13,793	-1%
Production costs	1.2	-10,894	-11,145	-2%
Gross profit		**2,780**	**2,648**	**5%**
Sales and distribution costs	1.2	-1,764	-1,771	0%
Administration costs	1.2	-459	-439	5%
Other operating income	1.3	113	162	-30%
Other operating costs	1.3	-121	-131	-8%
Share of results after tax in joint ventures and associates	3.3	51	60	-15%
Earnings before interest and tax (EBIT)		**600**	**529**	**13%**
Specification:				
EBITDA		1,079	1,001	8%
Depreciation, amortisation and impairment losses	1.2	-479	-472	1%
Earnings before interest and tax (EBIT)		**600**	**529**	**13%**
Financial income	4.2	135	120	13%
Financial costs	4.2	-280	-200	40%
Profit before tax		**455**	**449**	**1%**
Tax	5.1	-56	-49	14%
Profit for the year		**399**	**400**	**0%**
Allocated as follows:				
Arla Foods amba's share of profit for the year		380	382	-1%
Non-controlling interests		19	18	6%
Total		**399**	**400**	**0%**

COMPREHENSIVE INCOME

(EUR million)	Note	2023	2022
Profit for the year		**399**	**400**
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit schemes	4.7	-19	-1
Tax on remeasurements of defined benefit schemes		4	2
Non-recyclable OCI from joint ventures and associates		-3	-
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	4.4	-141	225
Fair value adjustment of certain financial assets		-2	-3
Foreign currency translation		-47	-48
Tax on items that may be reclassified to the income statement		9	-19
Other comprehensive income, net of tax		**-199**	**156**
Total comprehensive income		**200**	**556**
Allocated as follows:			
Arla Foods amba's share		181	538
Non-controlling interests		19	18
Total		**200**	**556**

Financial comments

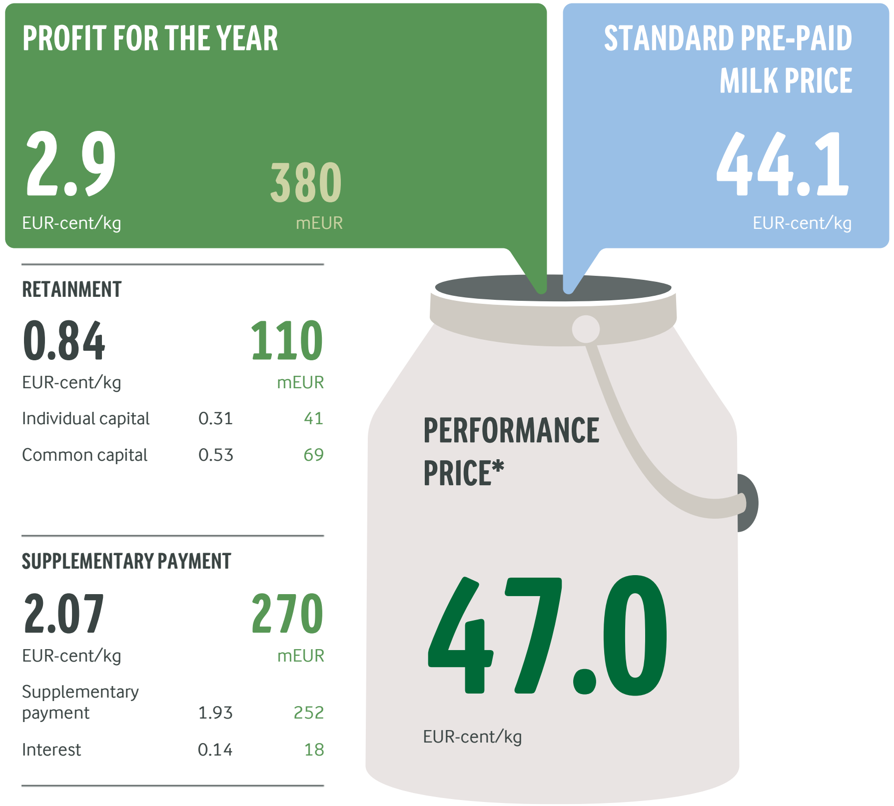
Comprehensive income consists of realised profit for the year and other value adjustments that have yet to be realised and are accounted for directly in equity.

Profit for the year amounted to EUR 399 million (2022: EUR 400 million) and other comprehensive income amounted to EUR -199 million (2022: EUR 156 million).

Other comprehensive income was primarily unrealised value adjustments on hedging instruments of EUR -141 million and adjustments related to foreign currency translation of EUR -47 million.

PROFIT APPROPRIATION

(EUR million)	2023	2022
Profit for the year	399	400
Non-controlling interests	-19	-18
Arla Foods amba's share of profit for the year	**380**	**382**
Profit appropriation:		
Supplementary payment for milk	252	260
Interest on contributed individual capital	18	9
Total supplementary payment	**270**	**269**
Transferred to equity:		
Common capital (reserve for special purposes)	69	74
Individual capital (contributed individual capital)	41	39
Total transferred to equity	**110**	**113**
Appropriated profit	**380**	**382**

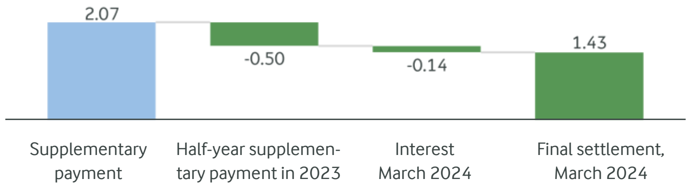


Financial comments

The supplementary payment for 2023 was EUR 270 million, including interest (2022: EUR 269 million). This corresponded to 2.07 EUR-cent/kg of owner milk (2022: 2.15 EUR-cent/kg). Contributed individual capital carried interest of 5.6% in 2023, corresponding to EUR 18 million. The Board of Directors approved an interim supplementary payment of EUR 63 million based on the first six months of owner milk deliveries. The remaining amount, corresponding to EUR 207 million, will be paid out in March 2024 subject to approval of the annual report by the Board of Representatives.

Arla's retainment policy prescribes a maximum of 1.00 EUR-cent/kg of owner milk minus interest on contributed individual capital to be retained. In 2023, this equalled a retainment of 0.84 EUR-cent/kg of owner milk (2022: 0.92 EUR-cent/kg), corresponding to EUR 110 million (2022: EUR 113 million). According to the retainment policy the retained earnings must be split 1/3 on individual capital (contributed individual capital) and 2/3 on common capital (reserve for special purposes). The amount allocated to common capital is reduced by EUR 18 million corresponding to the interest paid out in connection with the supplementary payment. In addition, the contributed individual capital was adjusted for amounts paid out to members who reached a ceiling of 7.8 EUR-cent of individual capital per kg of owner milk.

Supplementary payment for 2023
(EUR-cent/kg)



Please refer to Note 1.4.1 for further information about the performance price.

BALANCE SHEET

(EUR million)	Note	2023	2022	Development
Assets				
Non-current assets				
Intangible assets and goodwill	3.1	1,010	954	6%
Property, plant, equipment and right of use assets	3.2	3,149	3,031	4%
Investments in associates and joint ventures	3.3	560	565	-1%
Deferred tax	5.1	23	22	5%
Pension assets	4.7	21	16	31%
Other non-current assets		25	23	9%
Total non-current assets		**4,788**	**4,611**	**4%**
Current assets				
Inventory	2.1	1,384	1,772	-22%
Trade receivables	2.1	1,145	1,267	-10%
Derivatives	4.5	132	239	-45%
Other receivables	2.2	309	319	-3%
Securities	4.5	403	432	-7%
Cash and cash equivalents	4.1	138	106	30%
Total current assets		**3,511**	**4,135**	**-15%**
Total assets		**8,299**	**8,746**	**-5%**

(EUR million)	Note	2023	2022	Development
Equity and liabilities				
Equity				
Common capital		2,211	2,150	3%
Individual capital		557	540	3%
Other equity accounts		13	203	-94%
Supplementary payment to owners		207	208	0%
Attributable to the owners of Arla Foods amba		**2,988**	**3,101**	**-4%**
Non-controlling interests		64	67	-4%
Total equity		**3,052**	**3,168**	**-4%**
Liabilities				
Non-current liabilities				
Pension liabilities	4.7	167	161	4%
Provisions	5.2	31	28	11%
Deferred tax	5.1	83	86	-3%
Loans	4.3	2,369	2,640	-10%
Total non-current liabilities		**2,650**	**2,915**	**-9%**
Current liabilities				
Loans	4.3	803	709	13%
Trade payables and other payables	2.1	1,425	1,597	-11%
Provisions	5.2	20	20	0%
Derivatives	4.5	43	36	19%
Other current liabilities	2.2	306	301	2%
Total current liabilities		**2,597**	**2,663**	**-2%**
Total liabilities		**5,247**	**5,578**	**-6%**
Total equity and liabilities		**8,299**	**8,746**	**-5%**

EQUITY

	Common capital			Individual capital				Other equity accounts				Suppl. payment	Total equity		
(EUR million)	Capital account	Reserve for special purposes	Total	Contributed individual capital	Delivery-based owner certificates	Injected individual capital	Total	Reserve for value adjustment of hedging instruments	Reserve for fair value through OCI	Reserve for foreign exchange adjustments	Total	Total	Equity attributable to the owners of Arla Foods amba	Non-controlling interests	Total equity
Equity at 1 January 2023	**903**	**1,247**	**2,150**	**348**	**55**	**137**	**540**	**211**	**5**	**-13**	**203**	**208**	**3,101**	**67**	**3,168**
Profit for the year	**-**	**69**	**69**	**41**	**-**	**-**	**41**	**-**	**-**	**-**	**-**	**270**	**380**	**19**	**399**
Other comprehensive income	-9	-	-9	-	-	-	-	-141	-2	-47	-190	-	-199	-	-199
Total comprehensive income	**-9**	**69**	**60**	**41**	**-**	**-**	**41**	**-141**	**-2**	**-47**	**-190**	**270**	**181**	**19**	**200**
Transactions with owners	1	-	1	-17	-4	-5	-26	-	-	-	-	-	-25	-	-25
Transactions with non-controlling interests	-5	-	-5	-	-	-	-	-	-	-	-	-	-5	-17	-22
Half-year supplementary payment	-	-	-	-	-	-	-	-	-	-	-	-63	-63	-	-63
Supplementary payment regarding 2022	-	-	-	-	-	-	-	-	-	-	-	-201	-201	-	-201
Foreign currency translation adjustments	5	-	5	-	-	2	2	-	-	-	-	-7	-	-5	-5
Total transactions with owners	**1**	**-**	**1**	**-17**	**-4**	**-3**	**-24**	**-**	**-**	**-**	**-**	**-271**	**-294**	**-22**	**-316**
Equity at 31 December 2023	**895**	**1,316**	**2,211**	**372**	**51**	**134**	**557**	**70**	**3**	**-60**	**13**	**207**	**2,988**	**64**	**3,052**
Equity at 1 January 2022	**889**	**1,173**	**2,062**	**334**	**61**	**147**	**542**	**-14**	**8**	**52**	**46**	**207**	**2,857**	**53**	**2,910**
Profit for the year	**-**	**74**	**74**	**39**	**-**	**-**	**39**	**-**	**-**	**-**	**-**	**269**	**382**	**18**	**400**
Other comprehensive income	-1	-	-1	-	-	-	-	225	-3	-65	157	-	156	-	156
Total comprehensive income	**-1**	**74**	**73**	**39**	**-**	**-**	**39**	**225**	**-3**	**-65**	**157**	**269**	**538**	**18**	**556**
Transactions with owners	2	-	2	-15	-5	-4	-24	-	-	-	-	-	-22	-	-22
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-11	-11
Half-year supplementary payment	-	-	-	-	-	-	-	-	-	-	-	-61	-61	-	-61
Supplementary payment regarding 2021	-	-	-	-	-	-	-	-	-	-	-	-211	-211	-	-211
Foreign currency translation adjustments	13	-	13	-10	-1	-6	-17	-	-	-	-	4	-	7	7
Total transactions with owners	**15**	**-**	**15**	**-25**	**-6**	**-10**	**-41**	**-**	**-**	**-**	**-**	**-268**	**-294**	**-4**	**-298**
Equity at 31 December 2022	**903**	**1,247**	**2,150**	**348**	**55**	**137**	**540**	**211**	**5**	**-13**	**203**	**208**	**3,101**	**67**	**3,168**

Understanding equity

Equity accounts regulated by the Articles of Association can be divided into three main categories: common capital, individual capital and other equity accounts. The characteristics of each equity category are explained below.

Common capital

Common capital is by nature unallocated to individual members and consists of the capital account and the reserve for special purposes. The capital account represents a strong foundation for the cooperative's equity, as the non-impairment clause, described in the accounting policies below, ensures that the account cannot be used for payments to owners. The reserve for special purposes is an account that in extraordinary situations can be used to compensate owners for losses or impairment affecting the profit for appropriation. Amounts transferred from the annual profit appropriation to common capital are recognised in this account.

Individual capital

Individual capital is equity instruments allocated to each owner based on their delivered milk volumes. Individual capital consists of contributed individual capital, delivery-based owner certificates and injected individual capital. Amounts registered to these accounts will, subject to approval by the Board of Representatives, be paid out if owners leave the cooperative. Interest is credited the contributed individual capital and disbursed with the supplementary payment.

Other equity accounts

Other equity accounts include accounts prescribed by IFRS. These include reserves for value adjustments of hedging instruments, the reserve for fair value adjustments of certain financial assets and the reserve for foreign currency translation adjustments.

Supplementary payment

The account for proposed supplementary payment represents the transactions of supplementary payments in the year, and the balance represents the amount to be paid out following the approval of the annual report.

Non-controlling interests

Non-controlling interests represent the share of group equity attributable to holders of non-controlling interests in group companies.

Financial comments

Equity decreased by EUR 116 million in 2023 and totalled EUR 3,052 million at 31 December 2023 (2022: EUR 3,168 million). The equity share was 36%, calculated as equity excluding non-controlling interests of EUR 2,988 million divided by total assets of EUR 8,299 million.

Comprehensive income

Profit for the year amounted to EUR 399 million (2022: EUR 400 million), and other comprehensive income amounted to EUR -199 million (2022: EUR 156 million) . Other comprehensive income included income and expenses as well as gains and losses that are excluded from the income statement and not realised at the balance sheet date. Other comprehensive income of EUR -199 million was due to negative value adjustments on hedging instruments, negative value adjustments on net assets measured in foreign currencies and remeasurement of pension assets and liabilities.

Transactions with farmer owners

The Board of Directors decided to pay out an interim supplementary payment of EUR 63 million for milk deliveries in the first six months of the year. An additional supplementary payment of EUR 207 million was proposed to be paid subject to the Board of Representatives' approval of the annual report. In total this is a supplementary payment of EUR 270 million for the year, which includes interest on contributed individual capital.

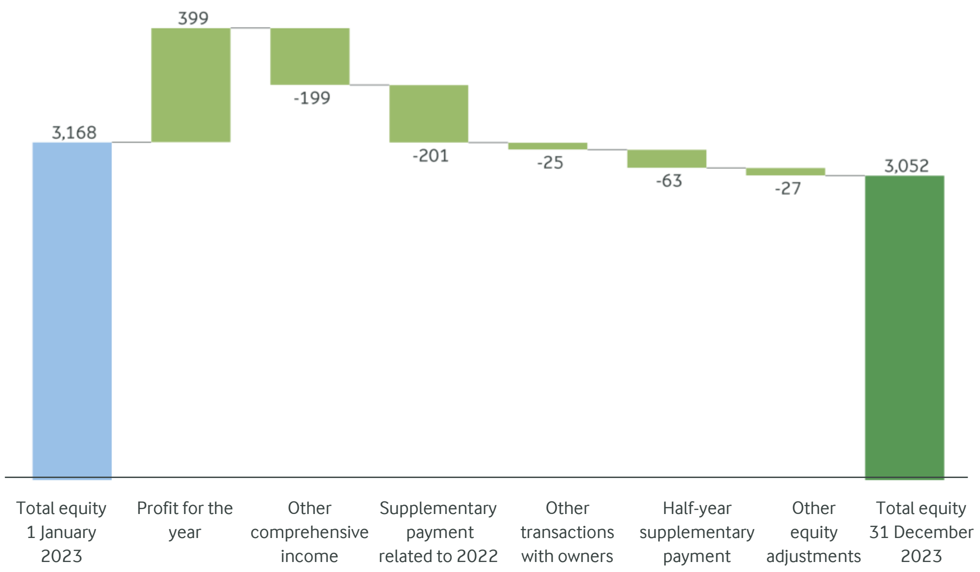
A supplementary payment related to 2022 totalling EUR 201 million was paid out in March 2023. Other transactions with farmer owners amounted to net EUR 25 million. This consisted of EUR 27 million paid out to owners resigning or retiring from the cooperative and an amount of EUR 2 million relating to payments from new members.

In 2024, it is expected that EUR 28 million will be paid to owners resigning or retiring, subject to approval by the Board of Representatives.

Other equity adjustments

Other equity adjustments amounted to EUR -27 million (2022: EUR -4 million), specified as transactions with non-controlling interests of EUR -22 million and foreign exchange rate adjustments of EUR -5 million.

Development in equity
(EUR million)



Accounting policies

Below we describe how our Articles of Association and IFRS regulations are reflected in our accounting policies.

Common capital

Recognised in the capital account are technical items such as remeasurement of defined benefit pension schemes, effects from disposals and acquisitions of non-controlling interests in subsidiaries and exchange rate differences in equity instruments issued to owners. Furthermore, the capital account is impacted by agreed contributions from new owners of the cooperative.

Recognised in the reserve for special purposes is the annual profit appropriation to common capital. It may, upon the Board of Directors' proposal, be applied by the Board of Representatives for the full or partial offsetting of material extraordinary losses or impairment in accordance with article 20.1(iii) of the Articles of Association.

Individual capital
Individual capital instruments are regulated in article 20 of the Articles of Association and the general membership terms.

Equity instruments issued as *contributed individual capital* relate to amounts transferred as part of the annual profit appropriation. The individual balances carry interest at CIBOR 12 months + 1.5%, which is approved and paid together with the supplementary payment in connection with the annual profit appropriation.

Delivery-based owner certificates are equity instruments issued to Danish and Swedish owners until 2010 when these instruments ceased.

Injected individual capital is equity instruments issued in connection with cooperative mergers and when new owners join the cooperative.

Balances on delivery-based owner certificates and injected individual capital instruments carry no interest.

Balances on contributed individual capital, delivery-based owner certificates and injected individual capital can be paid out over three years upon termination of the membership of Arla Foods amba in accordance with the Articles of Association, subject to the Board of Representatives' approval. Balances are denominated in the currency relevant to the country in which owners are registered. Foreign currency translation adjustments are calculated annually and the effect is transferred to the capital account.

Proposed supplementary payment to owners is recognised separately in equity until approved by the Board of Representatives.

Other equity accounts
Reserve for value adjustments of hedging instruments comprises the fair value adjustment of derivatives classified as and meeting the conditions for hedging of future cash flows where the hedged transaction has not yet been realised.

Reserve for fair value adjustments through OCI comprises the fair value adjustments of mortgage credit bonds classified as financial assets measured at fair value through other comprehensive income.

Reserve for foreign currency translation adjustments comprises foreign currency translation differences arising during the translation of the financial statements of foreign companies, including value adjustments relating to assets and liabilities that constitute part of the group's net investment and value adjustments relating to hedging transactions securing the group's net investment.

Non-impairment clause
Under the Articles of Association, no payment may be made by Arla Foods amba to owners which impairs the sum of the capital account and equity accounts prescribed by law and IFRS. The non-impairment clause is assessed on the basis of the most recent annual report presented under IFRS. Individual capital and the reserve for special purposes are not covered by the non-impairment clause.

No pay-out of individual capital can be made without retainment of a corresponding amount in either the cooperative's unallocated equity, the individual capital accounts or the reserve for special purposes as specified in article 20.1.(i), (ii) and (iii) of the Articles of Association.

Non-controlling interests
Subsidiaries are fully recognised in the consolidated financial statements. Non-controlling interests' share of the results for the year and of the equity in subsidiaries is recognised as part of the consolidated results and equity, respectively, but is listed separately.

On initial recognition, non-controlling interests are measured at either the fair value of the equity interest or the proportional share of the fair value of the acquired companies' identified assets, liabilities and contingent liabilities. The measurement of non-controlling interests is selected on a transactional basis.

Milk payment to owners
The on-account settlement of owner milk is recognised as a production cost in the income statement.

The supplementary payment is based on the results for the year as part of the profit appropriation. The supplementary payment is recognised as a reserve in the equity statement until approved by the Board of Representatives, based on a recommendation by the Board of Directors.

The supplementary payment is settled as an interim supplementary payment based on the first six months of milk deliveries, and a final supplementary payment at year-end. The interim supplementary payment in the year was recognised in equity.

CASH FLOW

(EUR million)	Note	2023	2022
EBITDA		1,079	1,001
Reversal of share of profit in joint ventures and associates	3.3	-51	-60
Reversal of other operating items without cash impact		-54	21
Change in net working capital	2.1	320	-707
Change in other receivables and other current liabilities		-23	11
Dividends received, joint ventures and associates		18	15
Interest paid		-145	-67
Interest received		55	23
Taxes paid		-48	-53
Cash flow from operating activities		**1,151**	**184**
Investment in intangible assets	3.1	-68	-81
Investment in property, plant and equipment	3.2	-445	-373
Sale of property, plant and equipment	3.2	6	13
Operating investing activities		**-507**	**-441**
Acquisition of financial assets		-18	-16
Sale of financial assets		29	17
Acquisition of enterprises	3.4	-26	-11
Sale of enterprises		3	8
Financial investing activities		**-12**	**-2**
Cash flow from investing activities		**-519**	**-443**

(EUR million)	Note	2023	2022
Half-year supplementary payment		-63	-61
Supplementary payment regarding the previous financial year		-201	-211
Transactions with owners		-25	-22
Transactions with non-controlling interests		-13	-11
New loans obtained	4.3.c	777	810
Other changes in loans	4.3.c	-967	-143
Payment of lease debt	4.3.c	-78	-71
Payment to pension plans	4.3.c	-22	-22
Cash flow from financing activities		**-592**	**269**
Net cash flow		**40**	**10**
Cash and cash equivalents at 1 January		106	97
Net cash flow for the year		40	10
Exchange rate adjustment of cash funds		-8	-1
Cash and cash equivalents at 31 December		**138**	**106**

(EUR million)	Note	2023	2022
Free operating cash flow			
Cash flow from operating activities		1,151	184
Cash flow from operating investing activities		-507	-441
Free operating cash flow		**644**	**-257**
Free cash flow			
Cash flow from operating activities		1,151	184
Cash flow from investing activities		-519	-443
Free cash flow		**632**	**-259**

Financial comments

Cash flow from operating activities increased to EUR 1,151 million (2022: EUR 184 million), primarily driven by changes in working capital positions. The trend towards a normalisation of milk prices in 2023 on the back of the very unusual high level at the end of 2022 meant that the adverse effect on funds tied up in net working capital positions from last year was partly released during 2023. The release of net working capital values during 2023 contributed to a positive cash flow of EUR 320 million (2022: EUR -707 million). In addition, cash flow from operating activities improved due to a higher EBITDA, partly offset by higher paid interest expenses.

The net cash flow from investing activities amounted to EUR -519 million (2022: EUR -443 million). CAPEX investments amounted to EUR 445 million (2022: EUR 373 million), where the investments in milk-based beverages capacity in Esbjerg, Denmark, and the growth of Arla Foods Ingredients continued. Other investments were primarily production capacities, including the investment in butter capacity in Holstebro, Denmark.

Investments in intangible assets amounted to EUR 68 million (2022: EUR 81 million), consisting primarily of goodwill from the MV Ingredients Ltd. investment, and the continued general upgrade of Arla's SAP platform.

The effect of financial investing activities was net EUR -12 million (2022: EUR -2 million) and related to proceeds paid and received from various activities, the most significant being the acquisition of the shares in MV Ingredients Ltd.

The cash flow from financing activities was EUR -592 million (2022: EUR 269 million), comprising transactions with owners and the effect of funding activities, including cash management.

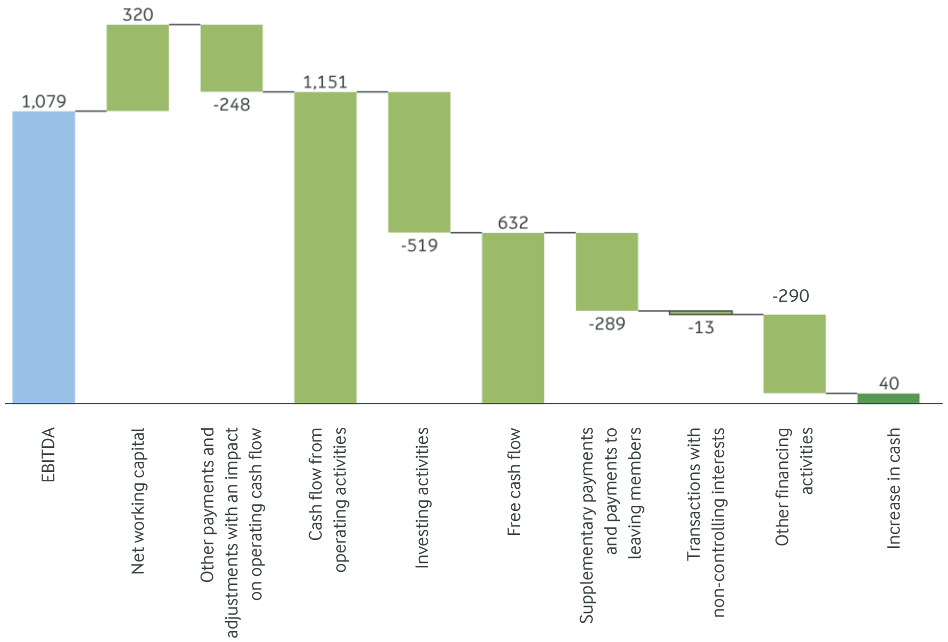
Transactions with owners constituted a negative cash flow of EUR 289 million, specified as an interim supplementary payment of EUR 63 million, a supplementary payment regarding 2022 of EUR 201 million and net payment of individual capital of EUR 25 million.

Transactions with non-controlling interests amounted to EUR -13 million (2022: EUR -11 million).

The net cash flow from funding activities was EUR -290 million, consisting of net repayment of loans of EUR -190 million and other funding activities of net EUR -100 million. Please refer to Note 4.3 for more details.

Cash and cash equivalents at 31 December 2023 amounted to EUR 138 million (2022: EUR 106 million).

Illustration of cash flow
(EUR million)



NOTES INTRODUCTION

Basis for preparation
The consolidated financial statements are based on the group's monthly reporting procedures. Group entities are required to report using standard accounting principles in accordance with the IFRS Accounting Standards as adopted by the EU (IFRS).

The consolidated financial statements are prepared on a going concern basis. The group's general accounting principles are disclosed in Note 5.7, while accounting policies for the respective areas are explained in the relevant note sections.

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the group. These APMs, and in particular the performance price, are deemed critical to understanding the financial performance and financial position of the group. As they are not defined by IFRS, they may not be directly comparable with other companies that use similar measures. Definitions are provided in the Glossary and supported by calculations in Note 1.4.

Applying materiality
Our focus is to present information that is considered of material importance to our stakeholders in a simple and structured way.

Considering the potential future impact of strategic risks
When preparing the consolidated financial statements, identified strategic risks were considered. In addition to the going concern assumption applied, market and regulatory risks, including sustainability-related risks, were considered. On top of a potential direct impact on Arla's performance, these risks could potentially also negatively impact future milk volumes delivered by the owners of Arla Foods amba and thereby indirectly impact the future value in use of certain parts of the asset base. These risks are monitored closely and no material impairment losses were identified. The assessment of risk and potential impact on future performance is inherently judgemental, and different conclusions could materialise in the future. Please refer to page 25-27 and 43-44 for more details on strategic risks.

Currency exposure
The group's financial position is significantly exposed to currencies, both due to transactions conducted in currencies other than the EUR and due to the translation of financial reporting from entities not part of the euro zone. The most significant exposure relates to financial reporting from entities operating in GBP and SEK, and to transactions relating to sales in USD or USD-related currencies. The group's activities in Argentina related to AFI are reported using USD as the functional currency. Items denominated in ARS were negatively impacted by a devaluation in December 2023. Exchange rate losses related to the devaluation of ARS, BDT and NGN totalled EUR 93 million for the group.

Please refer to page 27 for more details on currencies as part of strategic risk and to Note 4.1.2 on currency risks.

Special focus areas for 2023
Comparability
The group's activity level is normally determined by the volume of milk delivered by the owners and by the success

The following sections provide additional disclosures supplementing the primary financial statements.

NOTE 1 REVENUE AND COSTS

Details on the group's performance and profitability.

Read more on page 99

NOTE 2 NET WORKING CAPITAL

Development and composition of the group's inventory and trade balances.

Read more on page 105

NOTE 3 CAPITAL EMPLOYED

Details on production capacity, intangible assets and financial investments.

Read more on page 108

NOTE 4 FUNDING

Details on funding of the group's activities.

Read more on page 116

NOTE 5 ACCOUNTING POLICIES

The group's general accounting principles and accounting policies.

Read more on page 136

INTRODUCTION TO NOTES (CONTINUED)

of moving milk volumes into branded positions and to international markets.

2023 was yet another very unusual year with general macroeconomic uncertainty.

The record high commodity prices of milk, especially in the second half of 2022, dropped rapidly in the first half of 2023. Despite the volatile market conditions, revenue for 2023 amounting to EUR 13,674 million was only 1% lower than the record high level from last year.

The high inflationary pressure from 2022 eased during the initial months of 2023 but remained on a high level compared to previous years, impacting the level of operational costs such as salaries, packaging, additives and consumables.

Lower milk costs paid to farmers were therefore partly offset by increased costs within production.

In addition to this, the high prices paid to farmers, especially in the second half of 2022, for milk used in the production of products sold in the first half of 2023 had a significant negative impact on the cost of goods sold compared to last year.

The performance price for 2023 totalled 47.0 EUR-cent/kg of owner milk, representing a reduction of 14.7% compared to last year.

The continued volatility in milk prices also impacted net working capital and therefore cash flow. Cash flow from operating activities increased to EUR 1,151 million (2022: EUR 184 million).
The trend towards a normalisation of milk prices on the back of the very unusual high level at the end of 2022 meant that the adverse effect on funds tied up in net working capital positions from last year was partly released during 2023.

This reduced net interest-bearing debt and leverage landed at 2.6, safely below our target range of 2.8 to 3.4.

The volatility experienced in the second half of 2022 and continuing during 2023 makes comparison with previous years difficult. As uncertainty continues into 2024, predictability is still difficult and stakeholders should be careful about using reported results as projections for the future.

Valuation of inventory
Due to the macroeconomic volatility and the related effect on commodity prices, the valuation of individual cost components (such as milk-based components, additives, packaging, energy etc.) in our standard cost models was frequently updated throughout 2023 and thoroughly reviewed at 31 December 2023.

The conversion from standard cost to actual cost at the time of production for the individual inventory categories was correspondingly carefully assessed.

Furthermore, net realisable value was assessed based on the price development for especially milk commodity products at the end of the year.

Please refer to Note 2.1 Inventory for more details.

Valuation of certain assets and liabilities based on a projection of expected future cash flow
Interest rates remained at the high level from last year. The valuation of goodwill, gross pension liabilities and interest hedge instruments was therefore also in 2023 carefully assessed.

Headroom related to goodwill increased, primarily due to improvements in expected future cash flow.

The value of interest hedge instruments decreased by EUR 52 million as a result of lower long-term interest levels and utilisation of interest hedges during the year, while pension liabilities remained at the same level as last year.

Please refer to Note 3.1 Goodwill, Note 4.4 Hedge instruments and Note 4.7 Pension liabilities for more details.

Sustainability Incentive model recognised as part of milk costs
A new Incentive model for owners was introduced during the summer of 2023, allowing up to EUR 500 million to be redistributed among farmers depending on sustainability initiatives on farms. This is one of the key levers to achieve the CO_2e savings on farms and is expected to have a positive effect on sales and the value of our brands.

In 2023, a total of EUR 226 million of the cost of owner milk was paid out related to Climate Checks and the new Sustainability Incentive model introduced in July. The amount was included in the cost of owner milk. Read more in Note 1.2 Operational costs.

Classification of power purchase agreements
To support the reduction of scope 1+2 CO2e emissions, Arla has entered into 11 power purchase agreements (PPAs) with a contractual annual energy volume of 446 GWh. Solar energy accounts for 287 GWh and wind energy accounts for 159 GWh. The first two agreements went live in 2023.

Through a structured process, the accounting classification of the individual contracts was rigorously assessed based on the latest available guidance and involvement of external expertise. All contracts are for the purpose of own use and classified as executory supplier contracts.

Please refer to Note 4.1.4 Commodity price risk and Note 5.5 Contractual commitments, contingent assets and liabilities.

Climate-related risks in the consolidated financial statements
Climate-related risks are high on the agenda in Arla. The management has assessed the impact on the consolidated financial statements from such risks and initiatives taken or to be taken towards addressing them. There was no material impact on the consolidated financial statements 2023 from climate changes or the actions taken against climate-related risks. Potential future impacts were also evaluated. Read more on pages 43-44.

Points of considerations are described below.

Risk of decline in milk volumes
Climate-related risks that can potentially reduce milk volumes in the future are:

- The Danish Government's commitment to introducing a carbon tax on methane and nitrous oxide emissions from agricultural activities. Also, the EU is discussing an Emissions Trading System (ETS) related to farm emissions. A carbon tax would increase production costs and could potentially force farmers to reduce production or leave the business.
- Extreme weather events like heat waves, draughts or floods which can have a negative impact on crop yields and cows' productivity.
- Land use regulations to reach EU climate targets of converting agriculture to forest land which would potentially reduce the production of feed for cows and shrink herd numbers on farms.

INTRODUCTION TO NOTES (CONTINUED)

Risk of increased production costs
Climate-related risks that could potentially affect the future of dairy operations are:

- Regulations to reduce emissions in production. Denmark has proposed an emission tax on industry operations. Arla's operations will be impacted by this. Other countries will potentially follow Denmark and introduce similar taxes, or employ other regulatory tools to reduce emissions in the future. Dairy production would be more expensive compared to countries where such initiatives are not implemented, which would harm Arla's competitiveness. We are constantly lowering CO_2 emissions from operations. This is enforced by the Future 26 strategy's science-based targets of lowering scope 1 and 2 CO_2 emissions by 63% by 2030.

- Changes in consumer behaviour driven by costumers pushing for more sustainable products increase the need for sustainable dairy production to stay competitive.

Risk of impairment of production capacity
As a consequence of the above climate-related risks, Arla could face impairment of its production capacity due to:

- Equipment becoming outdated in the sustainability transformation.

- Excess production capacity if milk volumes and operations decline.

The potential consequences of the above were considered as part of our impairment test conducted during 2023 and our assessment of value in use for property, plant and equipment. Non-current assets in the balance sheet were not affected by such impairment in 2023. Sustainability is now an integral part of all investments in property, plant and equipment which ensures future investments to address the risks identified.

Significant accounting estimates and judgements
Preparing the group's consolidated financial statements requires management to apply accounting estimates and judgements that affect the recognition and measurement of the group's assets, liabilities, income and expenses. The estimates and judgements are based on historical experience and other factors. By nature, these are associated with uncertainty and unpredictability which can have a significant effect on the amounts recognised in the consolidated financial statements. The most significant accounting estimates and judgements are listed below with reference to further comments in the notes.

Note	Significant accounting estimates and judgements	Estimate/ Judgement
1.1	Measurement of revenue and rebates	Estimate
2.1	Valuation of inventory	Estimate
2.1	Measurement of trade receivables	Estimate
3.1	Valuation of goodwill	Estimate
3.3	Classification of investments	Judgement
4.1.4.a	Classification of power purchase agreements	Judgement
4.7	Valuation of pension plans	Estimate
5.1	Tax	Estimate

NOTE 1. REVENUE AND COSTS

1.1 REVENUE

Financial comments
Revenue decreased by 0.9% to EUR 13,674 million (2022: EUR 13,793 million). Prices contributed negatively to revenue by EUR -206 million, mainly driven by Global Industry Sales and AFI, but partly offset by higher commercial pricing.

Branded volumes were under pressure in 2023 due to high inflation and elevated dairy prices. However, consumers started returning to branded products in the second half of the year. The result was a slight decline in strategic branded sales volumes of 0.7% (2022: -3.2%). This was offset by higher volumes in Global Industry Sales, resulting in a positive net volume impact of EUR 429 million.

Europe is Arla's largest commercial segment, comprising 58.4% of total revenue (2022: 56.3%). Revenue in Europe increased to EUR 7,984 million (2022: EUR 7,771 million).

Development in revenue
(EUR million)

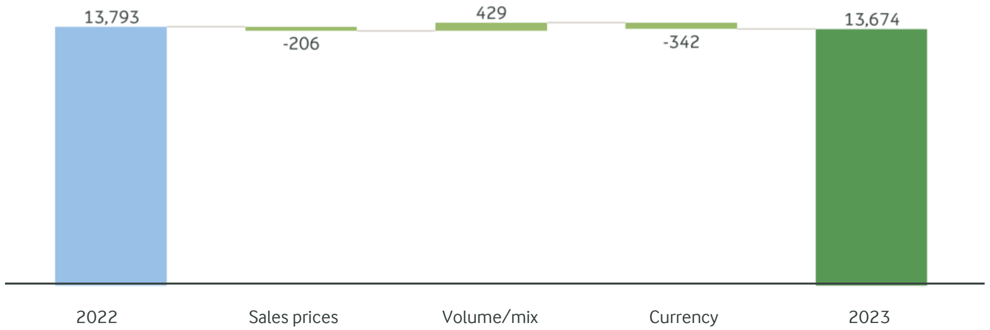


Table 1.1.a Revenue split by country*

(EUR million)	2023	2022	Share of revenue in 2023
United Kingdom	3.441	3.474	25%
Germany	1.661	1.737	12%
Sweden	1.645	1.717	12%
Denmark	1.319	1.306	10%
Netherlands	873	775	6%
Saudi Arabia	499	468	4%
Finland	388	337	3%
USA	302	278	2%
UAE	277	230	2%
China	270	328	2%
Other**	2.999	3.143	22%
Total	**13.674**	**13.793**	**100%**

**The figures in this table represents total revenue by country and includes all sales in the countries, irrespective of organisational structure. Therefore, the figures cannot be compared to the commercial segment review in the management review.*

***Other countries include, among others, Belgium, Canada, Oman, Spain, France and Australia*

Table 1.1.b - Revenue split by brand

(EUR million)	2023	2022
Arla	3,618	3,702
Lurpak	772	750
Puck	529	504
Castello	246	239
Milk based beverage	376	353
Other supported brands	834	746
Strategic branded revenue	**6,375**	**6,294**
Arla Foods Ingredients	963	1,028
Global Industry Sales, private label and other	6,336	6,471
Total	**13,674**	**13,793**

1.1 REVENUE (CONTINUED)

The increase was driven by higher prices and stable volumes. In Europe, strategic branded revenue declined by 1.3%, primarily driven by butter and spreadable product categories. Branded sales increased from EUR 4,183 million in 2022 to EUR 4,228 million in 2023, and accounted for 53.0% of total revenue in the European commercial segment (2022: 53.9%).

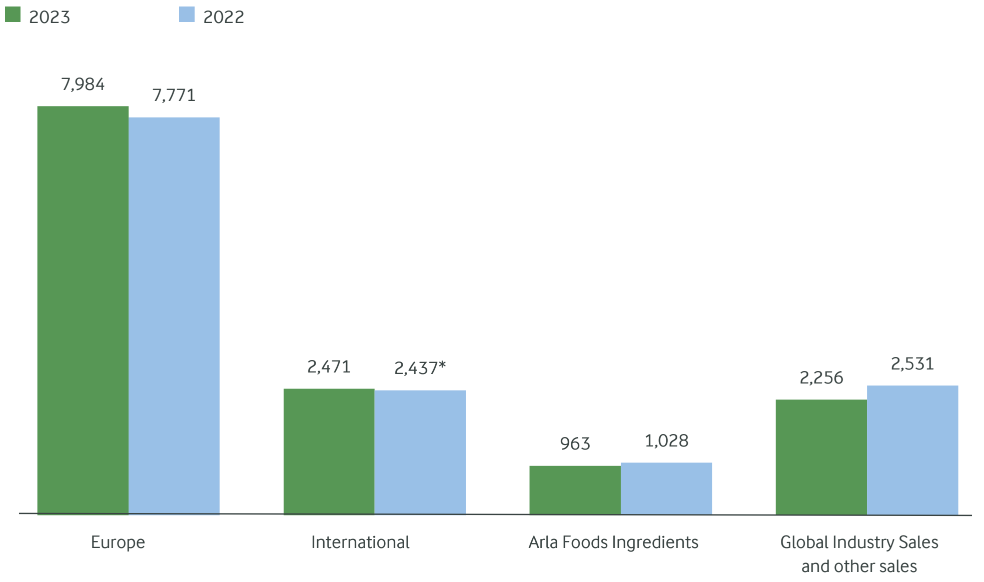
The International segment accounted for 18.1% of total revenue (2022: 17.7%). The revenue in International increased to EUR 2,471 million (2022: EUR 2,437 million), driven by branded volume growth, despite high prices and macroeconomic challenges in emerging markets such as inflation and devaluation of currencies. Branded sales made up 85.7% of total sales in International (2022: 85.4%).

Arla Foods Ingredients accounted for 7.0% of total revenue (2022: 7.5%), amounting to EUR 963 million (2022: EUR 1,028 million). AFI maintained a high value-add share of 79.7% (2022: 80.4%).

Global Industry Sales and other segments represented 16.5% of total revenue and decreased by 10.8% to EUR 2,256 million (2022: EUR 2,531 million). The development was primarily commodity price driven.

Arla's revenue was negatively impacted by currency effects of EUR 342 million, primarily driven by lower SEK, GBP and USD related exchange rates.

Revenue split by commercial segment
(EUR million)



*Excluding sales in Russia of EUR 26 million.

Accounting policies

Revenue is recognised when a contract exists with a customer for the production and transfer of dairy products across various product categories and geographical regions. Revenue by commercial segment or market is based on the group's internal financial reporting practices.

Revenue is recognised in the income statement when a performance obligation is satisfied, at the price allocated to that performance obligation. This is defined as the point in time when control of the products has been transferred to the buyer, the amount of revenue can be measured reliably and collection is probable. The transfer of control to customers takes place according to trade agreement terms, i.e. the Incoterms, and can vary depending on the customer or specific trade.

Revenue comprises invoiced sales for the year less customer-specific payments such as sales rebates, cash discounts, listing fees, promotions, VAT and duties. Contracts with customers can contain various types of discounts. Historical experience is used to estimate discounts in order to correctly recognise revenue.

Furthermore, revenue is only recognised when it is highly probable that a material reversal in the amount of revenue will not occur. This is generally the case when control of the product is transferred to the customer, also taking into consideration the level of rebates.

The vast majority of all contracts have short payment terms. Therefore, an adjustment of the transaction price with regard to a financing component in the contracts with customers is not required.

Uncertainties and estimates

Revenue, net of rebates, is recognised when goods are transferred to customers. Estimates are applied when measuring accruals for rebates and other sales incentives. The majority of rebates are calculated based on terms agreed with the customer. For some customer relationships, the final settlement of the rebate depends on future sales volumes, prices and other incentives. Therefore, there is an element of estimation and judgement in determining whether performance obligations are achieved. Estimates are based on historical experience and forecasted future sales.

1.2 OPERATIONAL COSTS

Financial comments

Operational costs amounted to EUR 13,117 million, which was a decrease of 2% compared to last year. Lower milk costs paid to farmers were partly offset by increased production costs. In addition, the higher level of milk prices paid to farmers, especially in the second half of 2022, had a significant negative impact on the development of the cost of goods sold in 2023 compared to last year.

Production costs decreased by 2% to EUR 10,894 million (2022: EUR 11,145 million). Excluding costs of raw milk, production costs increased to EUR 4,741 million (2022: EUR 3,965 million), representing an increase of 19.6%. The increase was driven by inflation effects on production materials such as packaging, additives and consumables and higher costs related to salaries, partly offset by lower energy prices. Besides, the level of cost of goods sold was impacted negatively by the phasing effect related to products produced last year at a higher milk cost and sold during 2023.

Sales and distribution costs decreased by 1% to EUR 1,764 million (2022: EUR 1,771 million).

Administration costs increased by 5% to EUR 459 million (2022: EUR 439 million), mainly driven by an increase in staff costs.

The volatility of the external environment, especially the swings in raw milk availability, put pressure on our transformation and efficiency programme, Fund our Future. However, for 2023 we achieved net savings of EUR 114 million of which EUR 89 million related to

Development in operational costs
(EUR million)

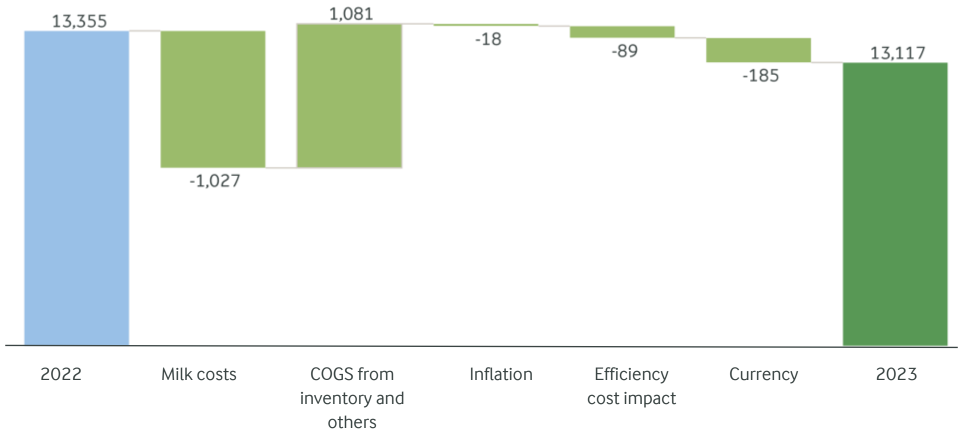


Table 1.2.a Operational costs split by function and type

(EUR million)	2023	2022
Production costs	10,894	11,145
Sales and distribution costs	1,764	1,771
Administration costs	459	439
Total	**13,117**	**13,355**
Specification:		
Weighed-in raw milk	6,153	7,180
Other production materials*	2,884	2,181
Staff costs	1,511	1,427
Transport costs	795	820
Marketing costs	262	240
Depreciation, amortisation and impairment	479	472
Other costs**	1,033	1,035
Total	**13,117**	**13,355**

**Other production materials includes packaging, additives, consumables, variable energy and effects of cost of goods sold related to changes in inventory*
***Other costs mainly includes maintenance, utilities and IT*

Table 1.2.b Weighed-in raw milk	2023		2022	
	Mkg	EUR million	Mkg	EUR million
Owner milk	13,058	5,751	12,815	6,661
Other milk	816	402	963	519
Total	**13,874**	**6,153**	**13,778**	**7,180**

Milk volumes have been restated from raw milk to standardised milk. Standardised milk with a composition of 3.4% protein and 4.2% fat is the generally used measure for weighed-in milk in Arla. Comparison numbers have been restated as well.

1.2 OPERATIONAL COSTS (CONTINUED)

operational costs, reducing our future cost base.

Cost of raw milk
The cost of raw milk decreased by 14.3% to EUR 6,153 million (2022: EUR 7,180 million).

Owner milk
Costs related to owner milk decreased by EUR 910 million due to a lower average prepaid milk price. Arla's average prepaid milk price decreased to 44.1 EUR-cent/kg in 2023 (2022: 52.0 EUR-cent/kg), which constitutes a 15.2% decrease.

In 2023, a total of EUR 226 million were paid out related to Climate Checks and the new Sustainability Incentive model introduced in July. The amount was included in the cost of owner milk.

Other milk
The cost of other milk decreased by EUR 117 million due to lower prices, and lower volume intake in the UK. Other milk consists of speciality milk and other contract milk acquired to meet local market demands.

Staff costs and number of FTEs
Staff costs increased by 5.9% to EUR 1,511 million (2022: EUR 1,427 million). Staff costs increased due to regular salary increases, additional FTEs in Denmark and the UK and continued insourcing of IT activities. The total number of FTEs increased to 21,307 (2022: 20,907). Please refer to the ESG section, Note 1.2, for further details.

Marketing spend
The marketing spend increased by EUR 22 million to EUR 262 million (2022: EUR 240 million), driven by higher marketing spend to encourage sales, especially in the UK and China.

Depreciation, amortisation and impairment
Depreciation, amortisation and impairment were consistent with last year and amounted to EUR 479 million (2022: EUR 472 million).

Accounting policies
Production costs
Production costs cover direct and indirect costs related to production, including volume movements in inventory and related inventory revaluation. Direct costs comprise purchase of milk from owners, inbound transport costs, packaging, additives, consumables, energy and variable salaries directly related to production. Indirect costs comprise other costs related to the production of goods, including depreciation and impairment losses on production equipment and other supply chain-related costs. The purchase of milk from cooperative owners is recognised at prepaid prices for the accounting period and therefore does not include the supplementary payment, which is classified as distributions to owners and recognised directly in equity.

Sales and distribution costs
Costs relating to sales staff, write-down of receivables, sponsorships, research and development, depreciation and impairment losses are recognised as sales and distribution costs. Sales and distribution costs also include marketing expenses relating to investment in the group's brands such as the development of marketing campaigns, advertisements, exhibits and others.

Administration costs
Administration costs relate to management and administration, including administrative staff, office premises and office costs as well as depreciation and impairment.

Table 1.2.c Staff costs

(EUR million)	2023	2022
Wages, salaries and remuneration	1,324	1,239
Pensions – defined contribution plans	85	88
Pensions – defined benefit plans	1	3
Other social security costs	101	97
Total	**1,511**	**1,427**
Staff costs relate to:		
Production costs	842	800
Sales and distribution costs	434	412
Administration costs	235	215
Total	**1,511**	**1,427**
Average number of full-time employees	21,307	20,907

Table 1.2.d Depreciation, amortisation and impairment

(EUR million)	2023	2022
Intangible assets, amortisation	62	61
Property, plant and equipment and RoU, depreciation	417	411
Total	**479**	**472**
Depreciation, amortisation and impairment relate to:		
Production costs	346	336
Sales and distribution costs	60	67
Administration costs	73	69
Total	**479**	**472**

1.3 OTHER OPERATING INCOME AND COSTS

Financial comments

Other operating income decreased by 30% to EUR 113 million (2022: EUR 162 million).

Income from the sale of excess electricity volumes from power production plants was EUR 30 million (2022: EUR 58 million). The reduction was due to lower market prices for electricity compared to last year.

Remeasurement of our existing 50% share in MV Ingredients Ltd. following the acquisition of the remaining 50% share in MV Ingredients Ltd. in the UK led to a gain of EUR 22 million in 2023. Please refer to Note 3.4 for further details.

Income from currency hedging instruments reclassified from OCI was EUR 18 million (2022: EUR 8 million). Please refer to Note 4.4 for further details.

Gains on the disposal of intangible assets and property, plant and equipment were EUR 6 million (2022: EUR 11 million) following disposals in the UK and Saudi Arabia.

Other items amounted to EUR 37 million (2022: EUR 13 million), mainly driven by EUR 8 million insurance compensation following a fire accident, and EUR 8 million following the termination of a rental agreement.

Other operating costs decreased by 8% to EUR 121 million (2022: 131 EUR million).

Costs of commodity hedging instruments reclassified from OCI were EUR 61 million (2022: a gain of EUR 72 million), exclusively driven by energy hedging instruments. Please refer to Note 4.4 for further details.

Costs related to the sale of electricity were EUR 27 million (2022: EUR 32 million) in line with the previous year.

Costs of currency hedging instruments reclassified from OCI were EUR 15 million (2022: EUR 76 million). Please refer to Note 4.4 for further details.

Other items amounted to EUR 18 million (2022: EUR 23 million) and were mainly driven by write-downs on non-dairy assets in the amount of EUR 5 million.

Table 1.3 Other operating income and costs

(EUR million)	2023	2022
Sale of electricity	30	58
Remeasurement gain of existing shares of MV Ingredient Ltd.	22	-
Income from currency hedging instruments reclassified from OCI	18	8
Gains on the disposal of intangible assets and property, plant and equipment	6	11
Income from commodity hedging instruments reclassified from OCI	-	72
Other income items	37	13
Other operating income	**113**	**162**
Costs of commodity hedging instruments reclassified from OCI	61	-
Costs related to the sale of electricity	27	32
Costs of currency hedging instruments reclassified from OCI	15	76
Other cost items	18	23
Other operating costs	**121**	**131**

Accounting policies

Other operating income and costs consist of items outside the regular course of dairy business activities, including items such as gains and losses relating to the settlement of disputes, remeasurement gains from step acquisitions of entities, net results from financial hedging activities and net results from the production and sale of energy from our biogas plants. Furthermore, this item includes gains and losses from the disposal of non-current assets and divestment of entities.

1.4 KEY PERFORMANCE INDICATORS

The alternative performance measures disclosed in Note 1.4 are key performance indicators for the group. They are not IFRS requirements.

1.4.1 PERFORMANCE PRICE

Financial comments

Arla's performance price is a key measure of the overall performance, expressing the value added to each kg of milk supplied by our farmer owners. The performance price is calculated as the standardised prepaid milk price included in production costs, plus Arla Foods amba's share of profit attributable to farmer owners, divided by the weighed-in milk volume in 2023. The performance price was 47.0 EUR-cent/kg of owner milk, (2022: 55.1 EUR-cent/kg).

1.4.2 STRATEGIC BRANDED VOLUME-DRIVEN REVENUE GROWTH

Financial comments

Volume-driven revenue growth (VDRG) is defined as revenue growth derived from growth in volumes keeping prices constant.

VDRG of strategic brands is a performance measure applied to support and understand the non-price revenue growth and performance of our branded business.

Strategic branded VDRG decreased by 0.7% (2022: -3.2%). Sales of branded products were also in 2023 under pressure from high dairy pricing and inflation, however demand started returning in the second half of the year.

Accounting policies

Strategic branded volume-driven revenue growth (strategic branded VDRG) is a measure of the share of revenue growth relative to volumes.

Volume-driven revenue is calculated by keeping prices fixed year on year.

Strategic branded VDRG is calculated as the volume growth of EUR -46 million divided by total strategic branded revenue of EUR 6,375 million and equalled -0.7% in 2023.

1.4.3 PROFIT SHARE

Financial comments

The profit share of Arla is targeted at 2.8-3.2% of revenue, calculated on the basis of the profit attributable to our farmer owners.

For 2023, the profit attributable to our farmer owners amounted to EUR 380 million (2022: EUR 382 million). This corresponded to 2.8% of revenue, or 2.9 EUR-cent/kg of milk delivered, and was distributed to the supplementary payment and retainment as disclosed in the statement of profit appropriation.

Accounting policies

Profit share is a measure of profit relative to revenue calculated as Arla Foods amba's share of profit for the year divided by total revenue.

Profit share is calculated as EUR 380 million divided by EUR 13,674 million and equalled 2.8% in 2023.

Table 1.4.1 Performance price

	2023			2022		
	EUR million	Mkg.	EUR-cent/kg	EUR million	Mkg.	EUR-cent/kg
Owner milk (Standard milk (4.2% fat, 3.4% protein))	5,751	13,058	44.1	6,661	12,494	52.0
Arla Foods amba's share of profit for the year	380		2.9	382		3.1
Total	**6,131**	**13,058**	**47.0**	**7,043**	**12,494**	**55.1**

Table 1.4.2 Strategic branded volume driven revenue growth

(EUR million)	2023	2022
Strategic branded revenue last year	6,294	5,472
Strategic branded VDRG	-46	-176
Price and exchange rate adjustments	127	998
Strategic branded revenue	**6,375**	**6,294**
Strategic branded volume driven revenue growth, %	**-0.7%**	**-3.2%**

Table 1.4.3 Profit share

(EUR million)	2023	2022
Revenue	13,674	13,793
Profit for the year	399	400
Profit relating to non-controlling interests	-19	-18
Profit attributable to farmer owners	**380**	**382**
Profit share	**2.8%**	**2.8%**

NOTE 2. NET WORKING CAPITAL

2.1 NET WORKING CAPITAL

Financial comments
Net working capital decreased by EUR 338 million to EUR 1,104 million, (2022: EUR 1,442 million), representing a decrease of 23% compared to last year. The decrease was driven by lower inventory, trade receivables positions and lower trade payables and other payables, including owner milk positions.

Inventory
Inventory decreased by 22% to EUR 1,384 million (2022: EUR 1,772 million). The decrease was driven by lower milk prices paid to our farmer owners, a decrease in the prices of energy and utilities, partly offset by inflation in staff costs, packaging and ingredients, and to a lesser extent lower volumes. In addition, the effect from currencies reduced the inventory value. Excluding currency effects, the carrying amount of inventory decreased by EUR 363 million.

Trade receivables
Trade receivables decreased by 10% to EUR 1,145 million (2022: EUR 1,267 million). The development was driven by lower selling prices and negative currency effects, partly offset by higher

Development in net working capital
(EUR million)

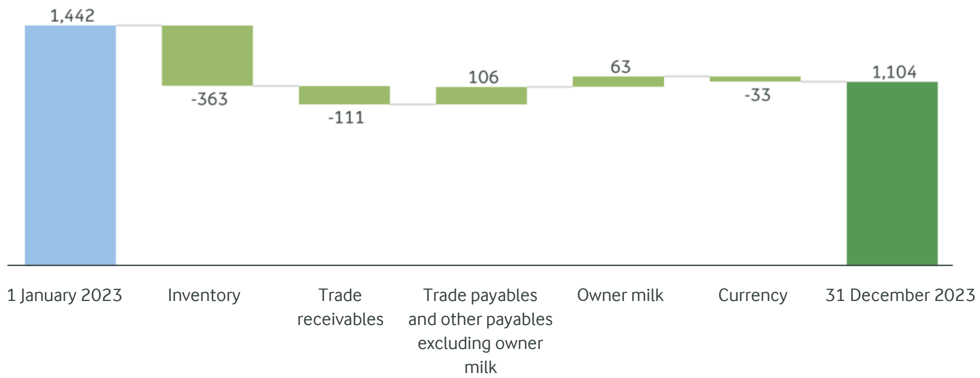


Table 2.1.a Net working capital

(EUR million)	1 January	Cash flow: Included in operating cash flow	Non-cash flow: M&A	Non-cash flow: Write-downs	Non-cash flow: Currency	31 December
2023						
Inventory	1,772	-375	2	10	-25	1,384
Trade receivables	1,267	-117	4	2	-11	1,145
Trade payables and other payables	-1,597	172	-3	-	3	-1,425
Total net working capital	1,442	-320	3	12	-33	1,104
2022						
Inventory	1,248	569	-	-11	-34	1,772
Trade receivables	1,007	318	-	-4	-54	1,267
Trade payables and other payables	-1,445	-180	-	-	28	-1,597
Total net working capital	810	707	-	-15	-60	1,442

Table 2.1.b Inventory

(EUR million)	2023	2022
Inventory before write-downs	1,403	1,801
Write-downs	-19	-29
Total inventory	**1,384**	**1,772**
Raw materials and consumables	307	401
Work in progress	380	622
Finished goods and goods for resale	697	749
Total inventory	**1,384**	**1,772**

2.1 NET WORKING CAPITAL (CONTINUED)

volumes. Accordingly, the utilisation of trade receivables finance programmes decreased to EUR 267 million (2022: EUR 335 million). The group utilises these programmes to manage liquidity and reduce credit risk on trade receivables.

Managing credit risk exposure on trade receivables is guided by group-wide policies. Credit limits are set based on the customer's financial position and current market conditions. The customer portfolio is diversified in terms of geography, industry sector and customer size. In 2023, the group was not extraordinarily exposed to credit risk related to significant individual customers, but to the general credit risk in the retail sector. Read more about credit risk in Note 4.1.5.

Overdue above 30 days amounted to 6.6% of the trade receivables position (2022: 8.8%). Provision for expected losses was EUR 17 million (2022: EUR 19 million).

Excluding currency effects, the carrying amount of trade receivables decreased by EUR 111 million.

Trade payables and other payables
Trade payables and other payables decreased by 11% to EUR 1,425 million (2022: EUR 1,597 million). A lower prepaid milk price and lower inflation were the main reasons for the development.

A number of Arla's strategic suppliers participate in supply chain finance programmes, where the supply chain finance provider and related financial institutions act as a funding partner. When suppliers participate in these programmes, the supplier has the option, at their own discretion and flexibility, to receive early payment from the funding partner based on invoices sent to Arla. This is conditioned by Arla's recognition and approval of received goods or services and an irrevocable acceptance to pay the invoice at the due date via the funding partner. The arrangement of early payment is an exclusive transaction between the supplier and the supply chain finance provider.

Extended payment terms are not embedded in the programmes themselves, but agreed with vendors directly.

The liquidity risk for Arla on termination of the programmes is limited. The payment terms for suppliers participating in the programmes are no more than 180 days. Utilisation of supply chain finance programmes at year-end decreased by 16% to EUR 176 million (2022: EUR 210 million).

Excluding currency effects, the carrying amount of trade payables and other payables, including owner milk, decreased by EUR 169 million.

Accounting policies

Inventory
Inventories are measured at the lower of cost or net realisable value, calculated on a first-in, first-out basis. The net realisable value is established taking into account inventory marketability and an estimate of the selling price, less completion costs and costs incurred to execute the sale.

The cost of raw materials, consumables and commercial goods includes the purchase price plus delivery costs. The prepaid milk price to Arla's owners is used as the purchase price for owner milk.

The cost of work in progress and manufactured goods also includes an appropriate share of production overheads, including depreciation, based on the normal operating capacity of the production facilities.

Trade receivables
Trade receivables are recognised at the invoiced amount less expected losses in accordance with the simplified approach for amounts considered irrecoverable (amortised cost). Expected losses are measured as the difference between the carrying amount and the present value of anticipated cash flows.

Table 2.1.c Trade receivables

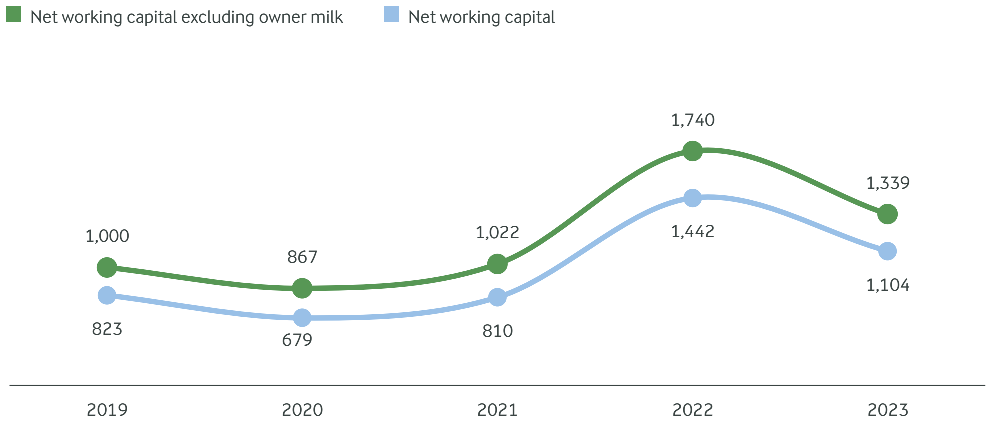
(EUR million)	2023	2022
Trade receivables before provision for expected losses	1,162	1,286
Provision for expected losses	-17	-19
Total trade receivables	**1,145**	**1,267**

Table 2.1.d Trade receivables age profile

	2023		2022	
(EUR million)	Gross carrying amount	Expected loss rate	Gross carrying amount	Expected loss rate
Not overdue	912	0%	1,013	0%
Overdue by less than 30 days	173	1%	160	0%
Overdue by between 30 and 89 days	32	0%	72	1%
Overdue by more than 90 days	45	33%	41	44%
Total trade receivables	**1,162**		**1,286**	

Historically, experienced loss rates on balances not overdue or overdue by less than 30 days are below 1%.

Net working capital
(EUR million)



2.1 NET WORKING CAPITAL (CONTINUED)

Expected losses are assessed for major individual receivables or in groups at portfolio level based on the receivables' age and maturity profile as well as historical records of losses. Calculated expected losses are adjusted for specific significant negative developments in geographical areas.

Trade receivables are derecognised once the criteria for derecognition have been met and all substantial risk and rewards transferred.

Trade payables and other payables
Trade payables are measured at amortised cost, which usually corresponds to the invoiced amounts.

The amounts payable to suppliers included in supply chain finance programmes are classified as trade payables in the balance sheet and in the cash flow statement as cash flow from working capital.

Uncertainties and estimates
Inventory
The group uses monthly standard costs to calculate inventory and revises all indirect production costs at least once a year. Standard costs are also revised if they deviate materially from the actual cost of the individual product. A key component in the standard cost calculation is the cost of raw milk from farmers. This is determined using the average prepaid milk price that matches the production date of inventory.

Due to the macroeconomic volatility and the related effect on commodity prices, the valuation of individual cost components such as milk-based components, energy, packaging, consumables and utilities etc. in our standard cost models was frequently updated throughout 2023 and thoroughly assessed at 31 December 2023.

Conversion from standard cost to reflect cost at the time of production for the individual inventory categories was correspondingly assessed.

Indirect production costs are calculated based on relevant assumptions with respect to capacity utilisation, production time and other factors characterising the individual product.

The assessment of the net realisable value requires judgement, particularly in relation to the estimate of the selling price of certain cheese stock with long maturities and bulk products to be sold on European or global commodity markets.

Receivables
Expected losses are based on a calculation including several parameters, for example the number of days overdue, adjusted for significant negative developments in certain geographical areas.

The financial uncertainty associated with the provision for expected losses is usually considered to be limited. However, if a customer's ability to pay were to deteriorate in the future, further write-downs may be necessary.

Based on the macroeconomic volatility in 2023, expected losses were carefully assessed.

Customer-specific bonuses are calculated based on actual agreements with retailers, however some uncertainty exists when estimating the exact amounts to be settled and the timing of these settlements.

Finance programmes
The classification of trade receivables finance programmes and supply chain finance programmes is subject to judgement. The utilisation of these programmes is recognised in net working capital.

2.2 OTHER RECEIVABLES AND OTHER CURRENT LIABILITIES

Financial comments
Other receivables
Other receivables decreased by EUR 10 million to EUR 309 million (2022: EUR 319 million). They mainly consist of VAT receivables, prepayments, income tax receivables and other items.

Other items amounted to EUR 83 million (2022: EUR 113 million), mainly driven by insurance recoveries, various subsidies, disposal proceeds and other taxes.

Other current liabilities
Other current liabilities increased by EUR 5 million to EUR 306 million (2022: EUR 301 million). They mainly consist of employee-related accruals, income tax and VAT payables, accrued interests and other items.

Employee-related accruals amounted to EUR 174 million (2022: EUR 156 million), mainly driven by holiday pay, salary and bonuses and related salary cost accruals.

Other items amounted to EUR 64 million (2022: EUR 68 million), mainly driven by invoice financing payables within the framework of our finance programme.

Accounting policies
Other receivables and other current liabilities
Other receivables and other current liabilities are measured at amortised cost usually corresponding to the nominal amount.

Table 2.2 Other receivables and current liabilities

(EUR million)	2023	2022
VAT	125	159
Prepayments	55	33
Income tax	21	7
Amounts owed by associates and joint ventures	20	5
Accrued interest	5	2
Other	83	113
Other receivables	**309**	**319**
Employee related liabilities	174	156
Income tax	23	14
VAT	17	6
Accrued interest	12	10
Deferred income	9	24
Amounts owed to associates and joint ventures	7	23
Other	64	68
Other current liabilities	**306**	**301**

NOTE 3. CAPITAL EMPLOYED

3.1 INTANGIBLE ASSETS AND GOODWILL

Financial comments

Intangible assets and goodwill
Intangible assets and goodwill amounted to EUR 1,010 million, on par with last year.

Goodwill
The carrying amount of goodwill amounted to EUR 752 million (2022: EUR 702 million). Acquisitions during the year amounted to EUR 45 million and related to the acquisition of the remaining 50% share in MV Ingredients Ltd. from our joint venture partner. Please refer to table 3.1.b for a specification of goodwill.

Licences and trademarks
The carrying amount of licences and trademarks amounted to EUR 60 million (2022: EUR 66 million). The carrying amount primarily relates to the recognition of trademarks from business combinations and includes Yeo Valley® and Svensk Mjölk®. The decrease in value was due to amortisation.

The strategic brands Arla®, Lurpak®, Castello® and Puck® are internally generated trademarks and are consequently not recognised in the balance sheet. Arla has the licence to manufacture, distribute and market Starbucks™ premium ready-to-drink coffee beverages under a long-term strategic licence agreement. Similarly, Arla holds a long-term licence agreement on the Kraft™ branded cheese products in the MENA region. No values are recognised for these licence agreements.

IT and other development projects
The carrying amount of IT and other development projects was EUR 198 million (2022: EUR 186 million). The group continued to invest in IT projects with an additional EUR 68 million. One of the key projects in 2023 was a go-live of the SAP S/4 Hana platform.

Accounting policies

Goodwill
Goodwill represents the premium paid by Arla above the fair value of the net assets of an acquired company. On initial recognition, goodwill is recognised at cost. Goodwill is not amortised, but is subsequently measured at cost less any accumulated impairment. The carrying amount of goodwill is allocated to the group's cash-generating units that follow the management structure and internal financial reporting. Cash-generating units are the smallest group of assets which can generate independent cash inflows.

Licences and trademarks
Licences and trademarks are initially recognised at cost. The cost is subsequently amortised on a straight-line

Table 3.1.a Intangible assets and goodwill

(EUR million)	Goodwill	Licences and trademarks	IT and other develop-ment projects	Total
2023				
Cost at 1 January	702	160	631	1,493
Exchange rate adjustments	5	1	-1	5
Additions	-	-	68	68
Mergers and acquisitions	45	-	-	45
Disposals	-	-	-190	-190
Cost at 31 December	**752**	**161**	**508**	**1,421**
Amortisation and impairment at 1 January	-	-94	-445	-539
Exchange rate adjustments	-	-	-	-
Amortisation and impairment for the year	-	-7	-55	-62
Amortisation on disposals	-	-	190	190
Amortisation and impairment at 31 December	**-**	**-101**	**-310**	**-411**
Carrying amount at 31 December	**752**	**60**	**198**	**1,010**
2022				
Cost at 1 January	710	166	558	1,434
Exchange rate adjustments	-24	-6	-1	-31
Additions	-	-	76	76
Mergers and acquisitions	16	-	-	16
Disposals	-	-	-2	-2
Cost at 31 December	**702**	**160**	**631**	**1,493**
Amortisation and impairment at 1 January	-	-90	-398	-488
Exchange rate adjustments	-	3	5	8
Amortisation and impairment for the year	-	-7	-54	-61
Amortisation on disposals	-	-	2	2
Amortisation and impairment at 31 December	**-**	**-94**	**-445**	**-539**
Carrying amount at 31 December	**702**	**66**	**186**	**954**

3.1 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

basis over their expected useful lives, with a maximum of 20 years.

IT and other development projects
Costs accrued during the research or exploration phase of conducting general assessments of requirements and available technologies are treated as expenses as incurred. On the other hand, costs directly related to the development stage of IT and other development projects, including design, programming, installation and testing, are recognised as intangible assets. However, this is only the case if the expenditure can be measured reliably, the project is technically and commercially viable, there is a likelihood of future economic benefits and the group intends to and has the necessary resources to complete and utilise the asset. These IT and development projects are then amortised on a straight-line basis over a period of five to eight years.

3.1.1 IMPAIRMENT TEST OF GOODWILL

Financial comments
Goodwill is allocated to relevant cash-generating units, primarily in our UK activities within the commercial segment Europe.

Basis for impairment test and applied estimates
Impairment tests are conducted using expected future cash flows derived from forecasts and long-term strategic targets. Projections for future cash flows and earnings targets are made for each individual cash-generating unit, taking into account expected developments identified in the Future 26 strategy process and past experience. This includes costs related to sustainability initiatives initiated as a part of Arla's Future 26 ambitions. The impairment tests do not include revenue growth in the terminal value.

Procedure for impairment tests
Impairment tests of goodwill are based on an assessment of the value in use. Milk costs in the forecast are recognised at a milk price that corresponds to the price at the time the test was performed and longer term. The key operational assumption is future profitability, which considers the impact of moving milk intake into value-add products and more profitable markets as well as operational efficiency initiatives.

Test results
In 2023, high interest rates persisted, leading to continued high discount rates that exerted pressure on the headroom in the goodwill impairment tests. Throughout the year, close monitoring of all goodwill positions and assessments of supporting business cases were conducted. No impairment was identified.

Stronger cash flows in many markets improved the expected future cash flow levels in the impairment models. Sensitivity calculations indicated that with the currently applied discount rate, a 1 percentage point reduction in margins would not result in impairment on any markets. However, in Finland, break-even was reached when a similar calculation of a 1 percentage point reduction in margins was performed.

Furthermore, the inclusion of a goodwill position related to the MV Ingredients Ltd. acquisition did not alter the conclusions of the impairment test in AFI.

Table 3.1.b Goodwill split by commercial segment and country

(EUR million)	2023	2022
UK	480	473
Finland	40	40
Sweden	20	20
Other	62	60
Europe	**602**	**593**
MENA	80	83
China	16	16
International	**96**	**99**
Argentina	9	10
UK	45	-
Arla Foods Ingredients	**54**	**10**
Total	**752**	**702**

Table 3.1.1 Applied key assumptions

(EUR million)	2023 Discount rate, net of tax	2023 Discount rate, before tax	2022 Discount rate, net of tax	2022 Discount rate, before tax
UK	8.5%	9.5%	8.6%	9.5%
Finland	7.5%	8.3%	7.6%	8.2%
Sweden	6.9%	7.7%	7.6%	8.4%
Europe, other	7.4%	8.3%	7.4%	8.3%
MENA	11.1%	12.4%	13.0%	14.4%
China	7.8%	8.5%	11.5%	12.2%
Arla Foods Ingredients	7.9%	8.7%	8.1%	9.1%

3.1 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

Accounting policies
Impairment occurs when the carrying amount of an asset exceeds its recoverable amount through use or sale. For impairment testing, assets are grouped into the smallest cash-generating unit that generates largely independent cash inflows. However, for goodwill, which does not generate independent cash inflows, impairment tests are prepared at the level where cash flows are considered to be largely independent.

The grouping of cash-generating units is determined based on the management structure and internal financial reporting, which is assessed annually.

The carrying amount of goodwill is tested for impairment together with other non-current assets in the cash-generating unit to which the goodwill is allocated. The recoverable amount of goodwill is recognised as the present value of the expected future net cash flows from the group of cash-generating units to which the goodwill is allocated, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money and risks specific to the asset or cash-generating unit.

The carrying amount of other non-current assets is assessed annually against their recoverable amount to identify any indications of impairment. Any impairment of goodwill is separately recognised in the income statement and cannot be reversed.

The recoverable amount of other non-current assets is determined as the higher value of the asset's value in use (present value of estimated future net cash flows from its use or the group of cash-generating units) and its market value (fair value) less expected disposal costs.

An impairment loss on other non-current assets is recognised in the income statement under production costs, selling and distribution costs or administration costs, respectively. Impairment recognised can only be reversed to the extent that the assumptions and estimates that led to the impairment have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Uncertainties and estimates
Uncertainties and estimates play a significant role in the goodwill impairment tests. The group of cash-generating units to which goodwill is allocated is defined based on the management structure and assessed annually.

Goodwill impairment tests are conducted at least once a year for each group of cash-generating units. The expected cash flow approach is used to determine the value in use, with key parameters including anticipated future free cash flows and assumptions on discount rates.

Anticipated future free cash flows
The anticipated future free cash flows are determined based on current forecasts and long-term 2026 targets derived from the Future 26 process. These forecasts and targets are established at the cash-generating unit level during the forecast and target planning process. External sources of information and industry-relevant observations, such as macroeconomic and market conditions, are considered in this determination.

All applied assumptions undergo scrutiny during the forecast and target planning process, relying on management's best estimates and expectations, which inherently involve judgement. These assumptions encompass expectations related to revenue growth, EBIT margins and capital expenditure. They also include moving milk intake into value-add products and more profitable markets and operational efficiency initiatives. For the growth rate beyond the strategy period, it has been set to the expected inflation rate in the terminal period, assuming no nominal growth.

Discount rates
A discount rate, specifically the weighted average cost of capital (WACC), is applied for each individual cash-generating unit. The rate is determined based on assumptions regarding interest rates and risk premiums. WACC is recalculated to a before-tax rate. Changes in future cash flow or discount rate estimates can lead to significantly different values.

3.2 PROPERTY, PLANT AND EQUIPMENT

Financial comments

Arla's main property, plant and equipment are located in Denmark, the UK, Germany and Sweden. The carrying amount was EUR 3,149 million (2022: EUR 3,031 million).

Additions amounted to EUR 533 million 2022: EUR 429 million).

Additions included major projects, such as investments in a capacity increase for milk-based beverages in Esbjerg, Denmark, and growth investments for Arla Foods Ingredients, Denmark.
In 2023, new investments were initiated, including investments in butter capacity in Holstebro, Denmark.

Depreciation amounted to EUR 417 million, on a par with last year.

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Assets under construction, land and decommissioned plants are not depreciated.

Property, plant and equipment by country
(EUR million)

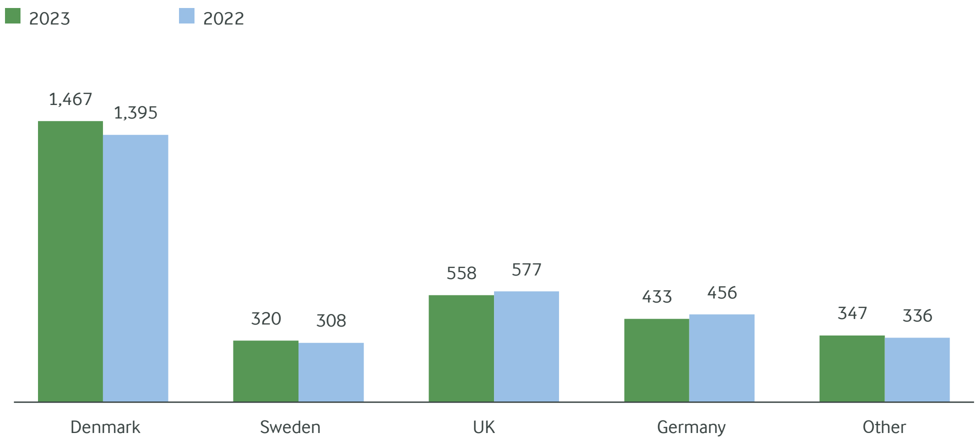


Table 3.2.a Property, plant and equipment

(EUR million)	Land and building	Plant and machinery	Fixture and fitting, tools and equipment	Asset in the course of construction	Total
2023					
Cost at 1 January	2,047	3,984	805	333	7,169
Exchange rate adjustments	-2	4	1	-2	1
Additions	79	101	68	285	533
Mergers and acquisitions	2	19	-	3	24
Transferred from assets in the course of construction	43	109	17	-169	-
Disposals	-11	-24	-48	-	-83
Cost at 31 December	**2,158**	**4,193**	**843**	**450**	**7,644**
Depreciation and impairment at 1 January	-888	-2,641	-609	-	-4,138
Exchange rate adjustments	2	-4	-1	-	-3
Depreciation and impairment for the year	-94	-248	-75	-	-417
Mergers and acquisitions	-1	-12	-	-	-13
Depreciation on disposals	7	22	47	-	76
Depreciation and impairment at 31 December	**-974**	**-2,883**	**-638**	**-**	**-4,495**
Carrying amount at 31 December	**1,184**	**1,310**	**205**	**450**	**3,149**
Right-of-use assets carrying amount at 31 December	120	19	83	-	222
2022					
Cost at 1 January	1,987	3,800	782	413	6,982
Exchange rate adjustments	-43	-73	-19	-3	-138
Additions	58	114	58	199	429
Transferred from assets in the course of construction	62	189	21	-272	-
Disposals	-17	-46	-37	-4	-104
Cost at 31 December	**2,047**	**3,984**	**805**	**333**	**7,169**
Depreciation and impairment at 1 January	-838	-2,489	-583	-	-3,910
Exchange rate adjustments	22	57	17	-	96
Depreciation and impairment for the year	-86	-247	-78	-	-411
Mergers and acquisitions	-	-	-	-	-
Depreciation on disposals	14	38	35	-	87
Depreciation and impairment at 31 December	**-888**	**-2,641**	**-609**	**-**	**-4,138**
Carrying amount at 31 December	**1,159**	**1,343**	**196**	**333**	**3,031**
Right-of-use assets carrying amount at 31 December	124	11	74	-	209

3.2 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Cost

Cost comprises the acquisition price as well as costs directly associated with an asset until the asset is ready for its intended use. For self-constructed assets, cost comprises direct and indirect costs relating to materials, components, payroll and the borrowing costs from specific and general borrowing that directly concerns the construction of assets. If significant parts of an item of property, plant and equipment have different useful lives, they are recognised as separate items (major components) and depreciated separately. When component parts are replaced, any remaining carrying amount of replaced parts is removed from the balance sheet and recognised as an accelerated depreciation charge in the income statement. Subsequent expenditure items of property, plant and equipment are only recognised as an addition to the carrying amount of the item, when it is likely that incurring the cost will result in financial benefits for the group. Other costs such as general repair and maintenance are recognised in the income statement as incurred.

Depreciation

Depreciation aims to allocate the cost of the asset, less any amounts estimated to be recoverable at the end of its expected use, to the periods in which the group obtains benefits from its use. Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition, or when the asset is available for use based on an assessment of the estimated useful life.

The depreciation base is measured taking into account the residual value of the asset, being the estimated value the asset can generate through sale or scrappage at the balance sheet date if the asset was of the age and in the condition expected at the end of its useful life, and reduced by any impairment made. The residual value is determined at the date of acquisition and reviewed annually. Depreciation ceases when the carrying amount of an item is lower than the residual value, or when an item is decommissioned. Changes during the depreciation period or in the residual value are treated as changes to accounting estimates, the effect of which is adjusted only in current and future periods. Depreciation is recognised in the income statement in production costs, sales and distribution costs or administration costs.

Uncertainties and estimates

Estimates are made in assessing the useful lives of items of property, plant and equipment that determine the period over which the depreciable amount of the asset is expensed in the income statement. The depreciable amount of an item of property, plant and equipment is a function of the asset's cost or carrying amount and its residual value. Estimates are made in assessing the amount that the group can recover at the end of the useful life of an asset. An annual review is performed to assess the appropriateness of the depreciation method and the useful life and residual values of items of property, plant and equipment.

As a consequence of climate-related risks, Arla could face future impairment of production capacity due to equipment becoming outdated in the sustainability transformation or from excess production capacity if milk volumes and operations decline.

Non-current assets in the balance sheet were not affected by such impairment in 2023. Sustainability is now an integral part of all CAPEX investments which ensures future investments to address the risks identified.

Investments in and depreciation of property, plant and equipment and right-of-use assets
(EUR million)

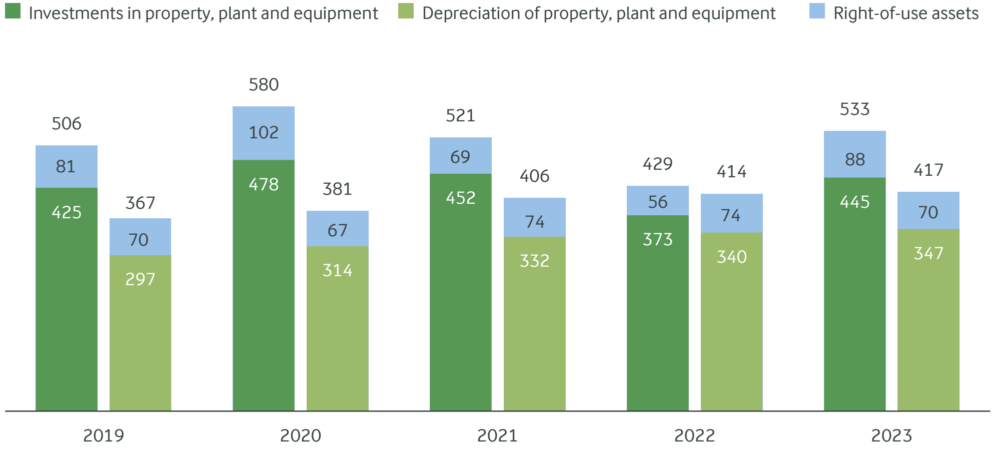


Table 3.2.b Estimated useful life in years

(EUR million)	2023	2022
Office buildings	50	50
Production buildings	20-30	20-30
Technical facilities	5-20	5-20
Other fixtures and fittings, tools and equipment	3-7	3-7

3.2 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.2.1 RIGHT-OF-USE ASSETS

Financial comments

Arla leases various offices, warehouses, vehicles and other equipment. Leases are typically agreed for a fixed duration, but may include an extension option. Significant right-of-use assets include office buildings and warehouses in Denmark, Germany, Sweden and the UK with remaining useful lives between 10 and 20 years.

Filling machinery and other technical plants represent another major right-of-use asset category. Filling machines typically have useful lives of seven years, whereas other technical plants are depreciated between one and seven years. Cars and trucks have on average useful lives of four and five years, respectively. In total, the group has approximately 4,000 leases.

Additions to right-of-use assets during the year amounted to EUR 88 million (2022: EUR 56 million). The total carrying amount of right-of-use assets was EUR 222 million (2022: EUR 209 million), as specified in table 3.2.1.a. Lease liabilities are specified in Note 4.3.

Accounting policies

All leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. A lease liability is initially measured on a present value basis, which comprises the net present value of fixed lease payments less any lease incentives receivable, variable lease payments based on an index or a rate and a potential exercise price if a purchase option exists.

The lease payments are discounted using an incremental borrowing rate.

The corresponding right-of-use asset is measured at cost comprising initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs and restoration costs.

The right-of-use asset is subsequently depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

Each lease payment comprises a reduction of the lease liability and a finance cost. The finance cost is charged to profit or loss over the lease period as a constant periodic rate of interest on the remaining balance of the liability.

Short-term leases and leases of low-value assets are recognised as an expense in the income statement.

Uncertainties and estimates

The group has applied estimates and judgements with an impact on the recognition and measurement of right-of-use assets and lease liabilities. This includes an assessment of the incremental borrowing rate, service components and facts and circumstances that could create an economic incentive to utilise the extension options of lease arrangements.

Table 3.2.1.a Right-of-use assets

(EUR million)	RoU Land and buildings	RoU Plant and machinery	RoU Fixtures and fittings, tools and equipment	Total
2023				
Carrying amount at 1 January	124	11	74	**209**
Additions	29	12	47	**88**
Disposals	-10	-8	-26	**-44**
Depreciations and impairments for the year	-30	-4	-36	**-70**
Depreciation on disposals	8	8	24	**40**
Exchange rate adjustments	-1	-	-	**-1**
Carrying amount at 31 December	**120**	**19**	**83**	**222**
2022				
Carrying amount at 1 January	141	8	81	**230**
Additions	17	9	30	**56**
Disposals	-7	-12	-32	**-51**
Depreciations and impairments for the year	-30	-6	-35	**-71**
Depreciation on disposals	7	12	31	**50**
Exchange rate adjustments	-4	-	-1	**-5**
Carrying amount at 31 December	**124**	**11**	**74**	**209**

Table 3.2.1.b Amounts recognised in the income statement

(EUR million)	2023	2022
Expenses related to short-term and low-value leases	39	40
Interest expenses on lease liabilities	8	7
Total amounts recognised in the income statement	**47**	**47**
Payment of lease debt	78	71
Total cash outflow from right of use assets	**125**	**118**

3.3 JOINT VENTURES AND ASSOCIATES

Financial comments

The share of the profit in joint ventures and associates decreased by 15% to EUR 51 million (2022: EUR 60 million), and related primarily to the profit from our investment in Mengniu.

COFCO Dairy Holdings Limited (CDH) and China Mengniu Dairy Company Limited (Mengniu)

The group's proportionate share of the net asset value of CDH including the investment in Mengniu was EUR 445 million, unchanged from last year. The carrying amount of the investment in CDH included goodwill amounting to EUR 152 million (2022: EUR 158 million) driven by currency adjustments.

The fair value of the indirect share in Mengniu equalled EUR 507 million (2022: EUR 888 million) based on the official listed share price at 31 December 2023.

Impairment risks included substantial and long-term reductions in leading stock indexes in Asia or an adverse and permanent reduction in the expected performance of Mengniu. As the fair value exceeded the carrying amount of the investment, there was no indication of impairment.

In 2022, Mengniu reported group revenue of EUR 12,481 million and a profit of EUR 699 million. Consolidated figures are not available for the CDH group. CDH holds no significant investments other than the investment in Mengniu, and reported revenue relates to received dividend payments from Mengniu. Through the investment in CDH, Arla holds a 5.3% indirect investment in Mengniu. See table 3.3.b for more details on CDH.

The carrying amount of the investment related to the membership of Lantbrukarnas Riksförbund in Sweden amounted to EUR 91 million and was on a par with last year.

Joint ventures

The carrying amount of joint ventures equalled EUR 24 million, unchanged from last year.

In 2023, Arla acquired the remaining 50% share in MV Ingredients Ltd. from a joint venture partner. See Note 3.4 for more details on the MV Ingredients Ltd. acquisition.

Accounting policies

Investments in which Arla has a significant but not controlling influence are classified as associates. Investments in which Arla has joint control are classified as joint ventures.

The proportionate share of the net profit or loss in associates and joint ventures is recognised in the consolidated income statement, after elimination of the proportionate share of unrealised intercompany profits or losses.

Investments in associates and joint ventures are recognised according to the equity method and measured at the proportionate share of the entities' net asset values, calculated in accordance with Arla's accounting policies. The proportionate share of unrealised intercompany profits and the carrying amount of goodwill is added, whereas the proportionate share of unrealised inter-company losses is deducted. Dividends received from associates and joint ventures reduce the value of the investment.

For investments held in listed companies, computation of Arla's share of profit and equity is based on the latest published financial information of the company, other publicly available information on the company's financial development and the effect of revalued net assets.

Investments in associates and joint ventures with negative net asset values are measured at zero. If Arla has a legal or constructive obligation to cover a loss in the associate or joint venture, the loss is recognised under provisions. Any amounts owed by associates and joint ventures are written down to the extent

Table 3.3.a Associates and joint ventures

(EUR million)	2023	2022
Value of associates and joint ventures		
Share of equity in COFCO Dairy Holdings Ltd. (Mengniu)	293	290
Goodwill in COFCO Dairy Holdings Ltd. (Mengniu)	152	158
Share of equity in immaterial associates	91	93
Recognised value of associates	**536**	**541**
Share of equity in immaterial joint ventures	24	24
Recognised value of associates and joint ventures	**560**	**565**

Table 3.3.b COFCO Dairy Holdings Ltd. Disclosures of financial information*

(EUR million)	2023	2022
Revenue	36	44
Net profit	36	44
Non-current assets	708	742
Dividends received	11	12
Ownership share	30%	30%
Group share of net profit	34	44
Recognised value	445	448
COFCO Dairy Holdings Ltd. has no other significant assets or liabilities		
** Based on the latest available financial reporting*		
Fair value based on listed share price	507	888

Table 3.3.c Transactions with associates and joint ventures

(EUR million)	2023	2022
Sales of goods	-	31
Purchase of goods	77	48
Trade receivables*	15	3
Trade payables*	-6	-21

** Included in other receivables and other payables*

3.3 JOINT VENTURES AND ASSOCIATES (CONTINUED)

that the amount owed is deemed irrecoverable.

An impairment test is performed when there are indications of impairment, such as significant adverse changes in the environment in which the equity-accounted investee operates, or a significant or prolonged decline in the fair value of the investment below its carrying amount.

Where the equity-accounted investment is considered to be an integral part of a cash-generating unit (CGU), the impairment test is performed at the CGU level using expected future net cash flows of the CGU. An impairment loss is recognised when the recoverable amount of the equity-accounted investment (or CGU) becomes lower than the carrying amount. The recoverable amount is defined as the higher of value in use and fair value less costs to sell of the equity-accounted investment (or CGU).

Uncertainties and estimates

Significant influence is defined as the power to participate in financial and operating policy decisions of the investee, but does not constitute control or joint control over those policies. Judgement is necessary in determining when a significant influence exists. When determining significant influence, factors such as representation on the Board of Directors, participation in policy-making, material transactions between the entities and interchange of managerial personnel are considered.

CDH and Mengniu

The group has a 30% investment in CDH, which is considered an associate based on a cooperation agreement extending significant influence, including the right to representation on the Board of Directors. The cooperation agreement with CDH also entitles Arla to representation on the Board of Directors of Mengniu, a Hong Kong-listed dairy company in which CDH is a significant shareholder.

Based on these underlying agreements, it is our assessment that Arla exercises a significant influence in Mengniu.

Lantbrukarnas Riksforbund, Sweden (LRF)

Arla has an ownership interest of 24% in LRF, which is a politically independent professional organisation for Swedish entrepreneurs involved in agriculture, forestry and horticulture.

Based on a detailed analysis of the LRF arrangement, Arla's active ownership interest constitutes a significant influence in LRF. This includes, but is not limited to, owner representation on the Board of Directors. Furthermore, Arla's owners have represented the Swedish dairy industry on the Board of Directors of LRF, and both Arla and our Swedish owners are individual members of LRF.

Based on this, it is our assessment that Arla exercises a significant influence in LRF, and the investment is therefore classified as an associate.

3.4 PURCHASE AND SALE OF BUSINESS ACTIVITIES

MV Ingredients Ltd.

In August 2023, Arla acquired the remaining 50% of the shares in the joint venture MV Ingredients Ltd. located in UK.

Through the transaction, the group's share in MV Ingredients Ltd. increased from a 50% owned joint venture to a wholly owned subsidiary.

With the reclassification from investments in joint ventures and associates to investments in subsidiaries, the existing investment was deemed disposed of and remeasured to fair value according to the new acquisition when recognised as a fully controlled entity.

The fair value of the acquired activities amounted to EUR 62 million including recognised goodwill of EUR 45 million.

The assets acquired were whey-based production facilities and working capital items. Goodwill represented the value of synergies, nearby capacity and access to a higher whey pool.

The remeasurement of the existing share in MV Ingredients Ltd. to fair value generated a gain of EUR 22 million recognised as other operating income in the income statement. Please refer to Note 1.3 for more details.

Table 3.4 Mergers and acquisitions

(EUR million)	2023	2022
Property, plant and equipment	11	-
Inventory	2	2
Cash	5	-
Other assets	4	-
Liabilities	-5	-7
Fair value of acquired net assets	**17**	**-5**
Goodwill	45	16
Fair value of acquired activities	**62**	**11**
Cash balance in acquired activities	-5	-
Fair value of previously held investments	-31	-
Cash flow from acquisition	**26**	**11**

NOTE 4. FUNDING

4.1 FINANCIAL RISKS

Financial comments
Financial risks are an inherent part of the group's operating activities and as a result, the group's profit is impacted by the development in currencies, interest rates and certain types of commodities. The global financial markets are volatile, and so it is critical for the group to have an appropriate financial risk management approach in place to mitigate short-term market volatility, while simultaneously achieving the highest possible milk price.

The group's comprehensive financial risk management strategy and system builds on a thorough understanding of the interaction between the group's operating activities and underlying financial risks. The overall framework for managing financial risks, being the treasury and funding policy, is approved by the Board of Directors and managed centrally. The policy outlines risk limits for each type of financial risk, permitted financial instruments and counterparties.

The Board of Directors receives a report on the group's financial risk exposure on a monthly basis. Hedging the volatility of milk prices is not within the scope of financial risk management, but is an inherent component of the group's business model.

4.1.1 LIQUIDITY RESERVES

Adequate liquidity reserves
In 2023, liquidity reserves increased by EUR 359 million to EUR 1,349 million. Looking at the maturity profile of the group's debt and the forecasted cash flow, the liquidity reserves are considered adequate and are expected to remain at the same level during 2024. Ensuring the availability of sufficient operating liquidity and credit facilities for operations is the primary goal of managing liquidity risk. Based on the liquidity models suggested by the rating agencies, Arla's liquidity reserves amounting to EUR 1,349 million are assessed as adequate for the coming 12 months.

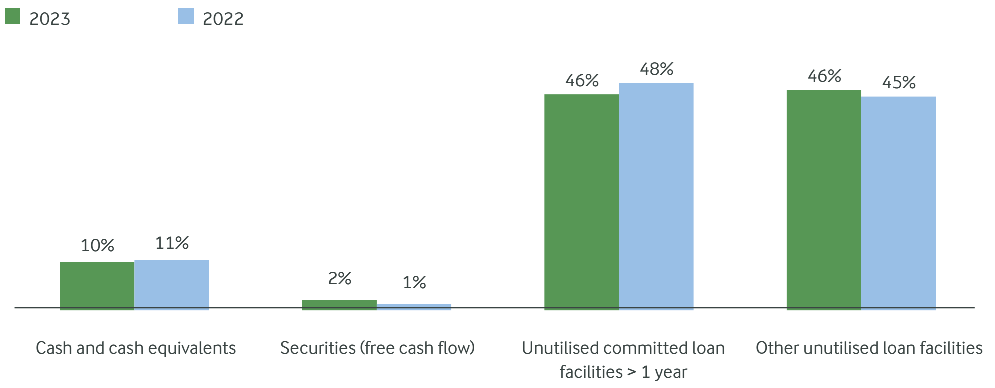
Supply chain finance programmes and trade receivables financing relating to customers form part of the group's liquidity management. Selected suppliers have access to the group's supply chain finance facilities, which allow those suppliers to benefit from the group's credit profile.

More than 93% (2022: 95%) of the day-to-day liquidity flow of the group is managed and controlled centrally and to a wide extent via cash pooling arrangements. This secures a scalable and efficient operating model. As a result, the group is able to ensure cost-efficient utilisation of credit facilities.

Table 4.1.1.a Liquidity reserves

(EUR million)	2023	2022
Free cash	78	55
Restricted cash	16	18
Not readily available cash	44	33
Cash and cash equivalents	**138**	**106**
Free securities	29	13
Restricted securities	37	49
Securities used in repurchase arrangements	337	370
Securities	**403**	**432**
Free cash	78	55
Free securities	29	13
Unutilised committed loan facilities > 1 year	615	475
Other unutilised loan facilities	627	447
Liquidity reserves	**1,349**	**990**
Interest-bearing debt maturing < 1 year	**477**	**401**

Liquidity reserves



4.1 FINANCIAL RISKS (CONTINUED)

Arla operates in several countries with restrictions and regulations on the transferability of cash and securities. At 31 December 2023, cash of EUR 16 million (2022: EUR 18 million) was located in countries with restrictions and regulations on the transferability of cash, while the amount related to restricted securities was EUR 37 million (2022: EUR 49 million). Cash and securities in Argentina, China, Bangladesh and Senegal are reported as restricted.

Cash is considered not readily available for upstreaming in the group if a transfer is not possible within five days. Arla has cash positions in a number of countries where a transfer is deemed to take more than five days due to various circumstances such as local administrative processes or shareholder agreements. At 31 December 2023, EUR 44 million (2022: EUR 33 million) were considered as not readily available cash.

Table 4.1.1.b Expected non-discounted contractual cash flow on gross financial liabilities

		Non-discounted contractual cash flow									
(EUR million)	Carrying amount	Total	2024	2025	2026	2027	2028	2029	2030	2031-2033	After 2033
2023											
Issued bonds	535	534	127	109	181	-	117	-	-	-	-
Mortgage credit institutions	1,212	1,216	10	85	49	54	61	68	90	295	504
Credit institutions	852	1,142	891	47	1	101	1	100	1	-	-
Schuldschein	350	352	-	-	201	-	151	-	-	-	-
Lease liabilities	223	223	63	50	37	25	16	32	-	-	-
Other non-current liabilities	10	18	18	-	-	-	-	-	-	-	-
Interest expense - interest-bearing debt	-	916	110	101	84	68	59	52	52	156	234
Trade payables and other payables	1,425	1,425	1,425	-	-	-	-	-	-	-	-
Derivative instruments	43	43	36	2	2	1	1	1	-	-	-
Total	**4,650**	**5,869**	**2,680**	**394**	**555**	**249**	**406**	**253**	**143**	**451**	**738**

		Non-discounted contractual cash flow									
(EUR million)	Carrying amount	Total	2023	2024	2025	2026	2027	2028	2029	2030-2032	After 2032
2022											
Issued bonds	490	493	134	135	-	179	-	45	-	-	-
Mortgage credit institutions	1,221	1,229	11	11	86	50	54	61	68	273	615
Credit institutions	1,424	1,425	507	517	47	1	251	1	101	-	-
Schuldschein	-	-	-	-	-	-	-	-	-	-	-
Lease liabilities	214	218	59	47	38	25	17	23	1	4	4
Interest expense - interest-bearing debt	-	359	53	41	38	30	22	17	17	51	90
Trade payables and other payables	1,597	1,597	1,597	-	-	-	-	-	-	-	-
Derivative instruments	36	36	30	5	1	-	-	-	-	-	-
Total	**5,000**	**5,375**	**2,409**	**756**	**210**	**285**	**344**	**147**	**187**	**328**	**709**

Assumptions

The contractual cash flows are based on the following assumptions:

- The cash flows are based on the earliest possible date at which the group can be required to settle the financial liability.
- The forecasted interest expense cash flows are based on the contractual interest rate. Floating interest payments have been determined using the current floating rate for each item at the reporting date.

4.1 FINANCIAL RISKS (CONTINUED)

Risk mitigation

Risk

Liquidity and funding are vital for the group to be able to pay its financial liabilities as they become due. Risk management impacts our ability to attract new funding in the longer term and is crucial to fulfilling the group's strategic ambitions.

Policy

The treasury and funding policy states the minimum average maturity threshold for net interest-bearing debt and sets limitations on debt maturing within the next 12- and 24-month periods. Unused committed facilities are taken into account when calculating average maturity.

How we act and operate

In addition to the treasury and funding policy, the Board of Directors has approved a long-term financing strategy, which defines the direction for financing of the group. This includes counterparties, instruments and risk appetite and describes future funding opportunities to be explored and implemented. The funding strategy is supported by farmer owners' long-term commitment to investing in the business. It is the group's objective to maintain its credit quality at a robust investment grade level.

Table 4.1.1.c Average maturity

	2023	2022	Policy Minimum	Policy Maximum
Average maturity, gross debt	4.9 years	5.2 years	2 years	-
Maturity < 1 year, net debt	0%	0%	-	25%
Maturity > 2 year, net debt	96%	78%	50%	-

4.1.2 CURRENCY RISK

Financial comments

The group is exposed to both transaction and translation effects from foreign exchange rates.

Transaction effects are due to sales in currencies other than the functional currencies of the individual entities. The group is mainly exposed to USD and USD-pegged currencies as well as GBP. Revenue decreased by EUR 24 million compared to last year due to negative transaction effects. Part of this exposure was hedged by costs in the same currency. Financial instruments such as trade receivables, trade payables and other items denominated in currencies other than the individual entities' functional currencies are also exposed to currency risks. The net effect from the revaluation of these financial instruments is recognised in financial income or financial costs. A net loss of EUR 62 million (2022: EUR -46 million) was recognised in financial costs. Exchange rate losses related primarily to the devaluations of the Argentine, Bangladeshi and Nigerian currencies, amounting to EUR 93 million in total. The negative effect from the devaluation in Argentina was partly offset by interest income from securities of EUR 40 million.

To manage short-term volatility from currency fluctuations, derivatives are used to hedge the currency exposure. When settling the hedging instrument, a positive or negative amount is recognised in other income or other costs, respectively. A net profit impact of EUR 3 million (2022: EUR 68 million) was recognised. Please refer to table 1.3. A profit impact from hedging should be expected in years where export currencies weaken during the year and vice versa.

The group is exposed to translation effects from entities reporting in currencies other than EUR. The group is mainly exposed to translation of entities reporting in GBP, SEK, USD and DKK. Due to translation effects, revenue decreased by EUR 317 million compared to the revenue reported last year.

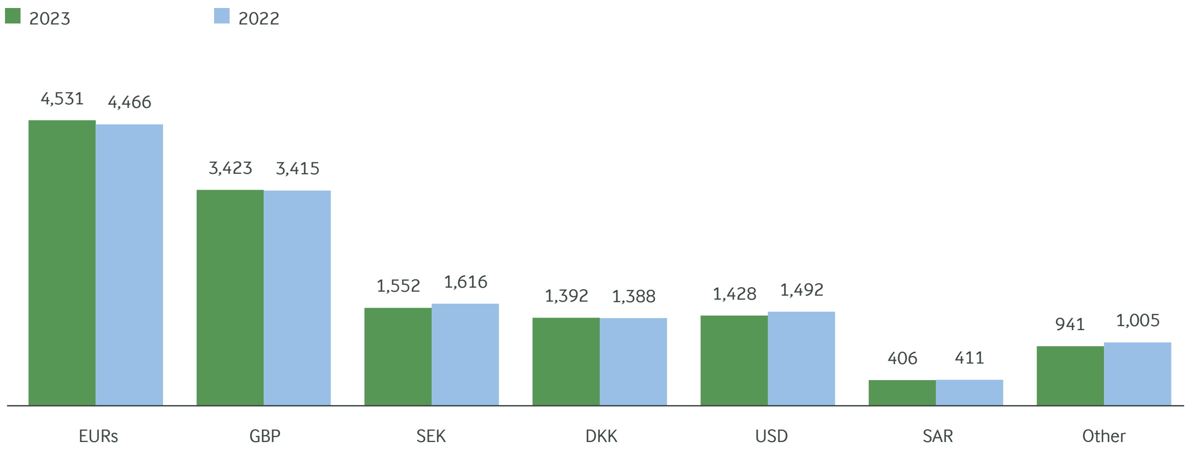
Simultaneously, costs increased by EUR 41 million compared to last year's reported costs. The group's financial position is similarly exposed, impacting the value of assets and liabilities reported in currencies other than EUR. The translation effect on net assets is recognised in other comprehensive income as foreign currency translation adjustments. In 2023, a net loss of EUR 47 million (2022: EUR 48 million) was recognised in other comprehensive income.

The prepaid milk price indirectly absorbs both transaction and translation effects, and therefore the net profit or loss has limited exposure to currency risks. The prepaid milk price is set based on achieving an annual profit of 2.8% to 3.2%. The prepaid milk price is initially measured and paid out based on an EUR amount and is consequently exposed to EUR fluctuations against GBP, SEK and DKK.

Compared to last year, the average rate of the SEK weakened by 7.3%, USD weakened by 2.8% and GBP weakened by 2.0%.

The group is increasingly involved in emerging markets where efficient hedging is often not feasible due to currency regulations, illiquid financial markets or expensive hedging costs. Among the most important markets are Nigeria, the Dominican Republic, Bangladesh, Lebanon and Argentina. Countries with less efficient currency markets represented 4% (2022: 4%) of the group's revenue in 2023.

Revenue split by currency
(EUR million)



4.1 FINANCIAL RISKS (CONTINUED)

Risk mitigation

The group's external exposure is calculated as external financial assets and liabilities denominated in currencies other than the functional currency of each legal entity, plus any external derivatives converted at group level into currency risk against DKK, i.e. EUR/DKK, USD/DKK etc. The same also applies to the group's net internal exposure. The aggregate of the group's external and internal currency exposure is the net exposure, which is outlined in table 4.1.2.b.

Net foreign currency investments in subsidiaries, as well as instruments hedging those investments, are excluded.

Risk

According to the treasury and funding policy, the Treasury department can hedge:

- Up to 15 months of the net forecasted cash receipts and payables.
- Up to 100% of the net recognised trade receivables and trade payables.

The currency exposure is continuously managed by the Treasury department. Individual currency exposures are hedged in accordance with the treasury and funding policy.

Financial instruments used to hedge the currency exposure do not necessarily need to qualify for hedge accounting, and hence some of the applied financial instruments, i.e. some option strategies, are accounted for as fair value through the income statement.

Arla Foods amba's functional currency is DKK. However, the risk in relation to the EUR currency is assessed in the same manner as for DKK. The Executive Management Team has the discretion to decide if and when investments in foreign operations should be hedged (translation risks) with an obligation to inform the Board of Directors at the next meeting.

Table 4.1.2.a Exchange rates

	Closing rate			Average rate		
	2023	2022	Change	2023	2022	Change
EUR/GBP	0.869	0.884	1.8%	0.870	0.852	-2.0%
EUR/SEK	11.048	11.156	1.0%	11.468	10.629	-7.3%
EUR/DKK	7.454	7.436	-0.2%	7.451	7.439	-0.2%
EUR/USD	1.106	1.066	-3.6%	1.081	1.051	-2.8%
EUR/SAR	4.164	3.982	-4.4%	4.057	3.947	-2.7%

Table 4.1.2.b Currency exposure

	Balance sheet exposure			Potential accounting impact		
(EUR million)	Open positions	Hedging of future cash flows	External exposure	Sensitivity	Income statement	Other comprehensive income
2023						
EUR/DKK	107	-	107	1.0%	1	-
USD/DKK*	-12	-335	-347	5.0%	-1	-17
GBP/DKK	45	-311	-266	5.0%	2	-16
SEK/DKK	-30	-14	-44	5.0%	-2	-1
SAR/DKK	3	-84	-81	5.0%	-	-4
2022						
EUR/DKK	270	11	281	1.0%	3	-
USD/DKK*	-62	-544	-606	5.0%	-3	-27
GBP/DKK	10	-345	-335	5.0%	-	-17
SEK/DKK	45	-65	-20	5.0%	2	-3
SAR/DKK	47	-103	-56	5.0%	2	-5

** Including AED*

4.1 FINANCIAL RISKS (CONTINUED)

4.1.3 INTEREST RATE RISK

Financial comments

The average duration of the group's interest hedging of interest-bearing debt, including derivatives but excluding pension liabilities, has decreased by 0.8 to 2.3.

The duration decreased due to a reduction in interest rate hedges and reduced time to maturity which was only partly offset by lower net interest-bearing debt.

The value of hedged future interest cash flow amounts to EUR 80 million. Please refer to table 4.4.a.

Risk mitigation

Risk

The group is exposed to interest rate risk on interest-bearing borrowings, pension liabilities, interest-bearing assets and on the value of non-current assets where an impairment test is performed. The risk is divided between profit exposure and other comprehensive income exposure. Profit exposure relates to net potential impairment of non-current assets. Other comprehensive income exposure relates to revaluation of net pension liabilities and interest hedging of future cash flows.

Fair value sensitivity

A change in interest rates will impact the fair value of the group's interest-bearing assets, interest rate derivative instruments and debt instruments measured on a 1% increase in interest rates. A decrease in the interest rate would have the opposite effect.

Cash flow sensitivity

A change in interest rates will impact interest rate payments on the group's unhedged floating-rate debt. Table 4.1.3.a shows the one-year cash flow sensitivity, depicting a 1% increase in interest rates at 31 December 2023. A decrease in the interest rate would have the opposite effect.

Policy

Interest rate risk must be managed according to the treasury and funding policy. Interest rate risk is measured as the duration of the debt portfolio, including hedging instruments, but excluding pension liabilities.

How we act and operate

The purpose of interest rate hedging is to mitigate risk and secure relatively stable and predictable financing costs. The interest rate risk from net borrowing is managed by having an appropriate split between fixed and floating interest rates.

The group actively uses derivatives to reduce risks related to fluctuations in the interest rate, and to manage the interest profile of the interest-bearing debt. By having a portfolio approach and using derivatives, the group can independently manage and optimise interest rate risk, as the interest rate profile can be changed without having to change the funding itself. This allows the group to operate in a fast, flexible and cost-efficient manner without changing underlying loan agreements.

The mandate from the Board of Directors provides the group with the opportunity to use derivatives, such as interest rate swaps and options, in addition to interest conditions embedded in the loan agreements.

Table 4.1.3.a Interest rate risk

			Potential accounting impact	
(EUR million)	Carrying amount	Sensitivity	Income statement	Other comprehensive income
2023				
Financial assets	-499	1.0%	5	-1
Derivatives	-	1.0%	6	36
Financial liabilities	3,182	1.0%	-17	-
Net interest-bearing debt excluding pension liabilities	**2,683**		**-6**	**35**
2022				
Financial assets	-542	1.0%	5	-1
Derivatives	-	1.0%	6	42
Financial liabilities	3,367	1.0%	-19	-
Net interest-bearing debt excluding pension liabilities	**2,825**		**-8**	**41**

Table 4.1.3.b Duration

			Policy	
	2023	2022	Minimum	Maximum
Duration	2.3	3.1	1	7

4.1 FINANCIAL RISKS (CONTINUED)

4.1.4 COMMODITY PRICE RISK

Financial comments

Energy commodity contracts are predominately related to a floating official price index. The Treasury department uses financial derivatives to hedge energy commodity price risk. This secures full flexibility to change suppliers without having to take future hedging into consideration.

Hedging activities focus on the most significant risks, including electricity, natural gas and diesel. The total forecasted energy commodity spend for 2024 excluding taxes and distribution costs, is EUR 167 million with the prices at 31 December 2023.

The purpose of hedging is to reduce volatility in energy-related costs. In 2023, hedging activities resulted in a loss of EUR 61 million (2022: EUR +72 million), please refer to table 1.3. However, the loss in 2023 was more than offset by significantly lower physical energy costs. The result of hedging activities, classified as hedge accounting, is recognised in other income and costs.

At the end of 2023, 49% of the forecasted energy spend for 2024 was hedged. A 50% increase in commodity prices would negatively impact the forecasted unhedged energy spend by approximately EUR 43 million. If the forecasted energy prices were 50% higher at 31 December 2023, a gain of EUR 48 million would positively impact other comprehensive income.

Other commodity contracts covering ingredients and packaging primarily depend on a fluctuating official price index.

Power purchase agreements

Arla has signed power purchase agreements covering 446 GWh, of which 83 GWh went into operation in 2023.

Accounting classification of the individual contracts was assessed through a structured process based on the latest available guidance and involvement of external expertise. It was concluded that all contracts are for the purpose of own use and are therefore classified as executory supplier contracts.

For contractual obligations, please refer to Note 5.5.

Risk mitigation

Risk

The group is exposed to commodity risks related to the production and distribution of dairy products. Increased commodity prices negatively impact production and distribution costs.

Fair value sensitivity

A change in commodity prices will impact the fair value of the group's hedged commodity derivative instruments, measured through other comprehensive income and the unhedged energy consumption through the income statement. Table 4.1.4.b shows the sensitivity of a 50% increase in commodity prices for both hedged and unhedged commodity purchases. A decrease in commodity prices would have the opposite effect.

Policy

According to the treasury and funding policy, the forecasted consumption of electricity, natural gas and diesel can be hedged for up to 48 months, of which 100% can be hedged for the first 18 months, with a declining proportion thereafter.

How we act and operate

Energy commodity price risks are managed by the Treasury department. Commodity price risks are mainly hedged by entering into financial derivative contracts, which are independent of the physical supplier contracts. Arla is also exploring other commodities relevant for financial risk management.

Arla's energy exposure and hedging are managed as a portfolio across energy type and country. Not all energy commodities can be effectively hedged by

Table 4.1.4.a Contracted power purchase agreements

Country	Annual MWh of energy contracted	Price terms	Average duration	Operating	Objective	Classification
Denmark	276,630	Fixed	10 years	2023	Own use	Executory contracts
Sweden	100,000	Fixed	10 years	2025	Own use	Executory contracts
Germany	49,207	Fixed	12 years	2024	Own use	Executory contracts
UK	19,732	Fixed	15 years	2024	Own use	Executory contracts
Total	**445,569**					

Type of energy	
Solar	286,754
Wind	158,815
Total	**445,569**

Table 4.1.4.b Hedged commodities

			Potential accounting impact	
	Sensitivity	Carrying amount	Income statement	Other comprehensive income
2023				
Diesel / natural gas	50%	-9	-26	30
Electricity	50%	-9	-17	18
		-18	-43	48
2022				
Diesel / natural gas	50%	6	-10	94
Electricity	50%	31	-14	58
		37	-24	152

4.1 FINANCIAL RISKS (CONTINUED)

matching the underlying costs, but Arla aims to minimise the basic risk.

Dairy derivative markets in the EU, the USA and New Zealand remain small, but are evolving. The group has engaged in hedging activities for a small part of the group's dairy commodity trading volume. As the dairy derivative market develops, we expect this to play an increasing role in managing fixed price contracts with customers in the coming years.

4.1.5 CREDIT RISK

Financial comments

In 2023, the group continued to experience very limited losses from defaulting counterparties such as customers, suppliers and financial counterparties.

All major financial counterparties had satisfactory credit ratings at year-end. The Arla requirement is a credit rating of at least A-/A-/A3 from either S&P, Fitch or Moody's either for the financial counterparty or its parent company. In a small number of geographical locations which are not serviced by our relationship banks and where financial counterparties with a satisfactory credit rating do not operate, the group deviated from the rating requirement. Out of the EUR 59 million placed in weaker speculative grade EUR 37 million was restricted surplus cash in Argentina invested in securities.

Further information on trade receivables is provided in table 2.1.c.

The maximum exposure to credit risk is approximately equal to the carrying amount.

As in previous years, the group continuously worked with credit exposure and experienced a very low level of losses arising from customers.

To manage the financial counterparty risk, the group uses master netting agreements when entering into derivative contracts. Table 4.1.5 shows the counterparty exposure for those agreements covered by entering into netting agreements that qualify for netting in case of default.

Risk mitigation

Risk

Credit risks arise from operating activities and engagement with financial counterparties. Furthermore, a weak counterparty credit quality can reduce their ability to support the group going forward, thereby jeopardising the fulfilment of our group strategy.

Policy

Counterparties for financial contracts are selected based on a relationship bank strategy. Approval by the Executive Board and the CFO is required, following a recommendation from Treasury. A minimum long-term rating of A3 from Moody's, A- from S&P or A- from Fitch is needed for a counterparty (or its parent). If credit is solely obtained from the counterparty, no rating is necessary. If the counterparty has multiple credit ratings, the average rating is used, rounded up. However, in geographies without sufficient coverage from our relationship banks, Treasury may deviate from these requirements.

How we act and operate

The group has a comprehensive credit risk policy and utilises credit insurance and trade financing products extensively for exports. In some emerging markets, obtaining the required credit coverage may be challenging, but the group strives to secure the best available coverage. This is considered an acceptable risk due to the group's investments in emerging markets. If a customer payment is delayed, internal procedures are followed to minimise losses. The group works with a select few financial counterparties and continuously monitors their credit ratings.

External rating of financial counterparties

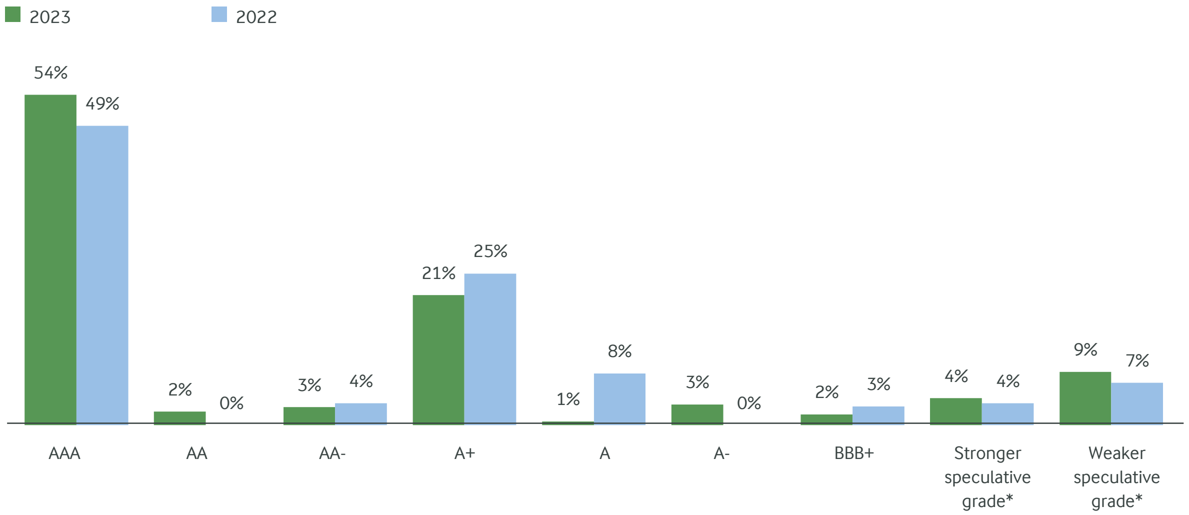


Table 4.1.5 External rating of financial counterparties and securities

(EUR million)	Counterparty rating									
	AAA	AA	AA-	A+	A	A-	BBB+	Stronger speculative grade*	Weaker speculative grade*	Total
2023										
Securities	366	-	-	-	-	-	-	-	37	403
Cash	-	15	5	30	4	22	11	29	22	138
Derivatives	-	-	15	114	-	1	1	1	-	132
Total	**366**	**15**	**20**	**144**	**4**	**23**	**12**	**30**	**59**	**673**
2022										
Securities	383	-	-	-	-	-	-	-	49	432
Cash	-	-	15	5	33	-	20	28	5	106
Derivatives	-	-	13	189	33	-	4	-	-	239
Total	**383**	**-**	**28**	**194**	**66**	**-**	**24**	**28**	**54**	**777**

** Definition based on S&P rating scale. Stronger speculative grade: BB+ to B- and weaker speculative grade: CCC+ to D.*

4.2 FINANCIAL ITEMS

Financial comments

Financial items increased by EUR 65 million to EUR 145 million, mainly due to higher interest on financial instruments.

Net interest expenses amounted to EUR 97 million, representing an increase of EUR 44 million compared to last year due to higher interest rates compared to last year.

Average interest expenses, excluding interest related to pension assets and liabilities, were 3.9% (2022: 2.3%). For a definition of average interest expenses, excluding interest related to pension assets and liabilities, please refer to the glossary. Interest cover decreased to 11.1 (2022: 19.6).

Exchange rate losses related to the devaluation of the Argentine, Bangladeshi and Nigerian currencies amounted to EUR 93 million, of which EUR 40 million were offset by interest income on the restricted cash and securities. The negative foreign currency effect in Argentina was partly offset by interest income from investments in money market funds.

Accounting policies

Financial income and financial costs as well as capital gains and losses are recognised in the income statement at amounts that can be attributed to the year. Financial items comprise realised and unrealised value adjustments of securities and currency adjustments of financial assets and financial liabilities as well as the interest portion of financial lease payments. Additionally, realised and unrealised gains and losses on derivatives not classified as hedging contracts are included. Borrowing costs from general borrowing, or loans that directly relate to the acquisition, construction or development of qualified assets are attributed to the costs of such assets and are therefore not included in financial costs.

Capitalisation of interest was performed by using an interest rate matching the group's average external interest rate in 2023. Financial income and financial costs relating to financial assets and financial liabilities were recognised using the effective interest method.

Table 4.2 Financial income and financial costs

(EUR million)	2023	2022
Financial income:		
Interest securities, cash and cash equivalents	57	22
Foreign exchange rate gains	74	83
Fair value adjustments and other financial income	4	15
Total financial income	**135**	**120**
Financial costs:		
Interest on financial instruments measured at amortised cost	-151	-71
Foreign exchange rate losses	-136	-129
Interest on pension liabilities	-3	-2
Interest transferred to property, plant and equipment	14	7
Fair value adjustments and other financial costs	-4	-5
Total financial costs	**-280**	**-200**
Net financial costs	**-145**	**-80**

4.3 NET INTEREST-BEARING DEBT

Financial comments

Net interest-bearing debt, excluding pension liabilities, decreased to EUR 2,683 million (2022: EUR 2,825 million). The decrease in net interest-bearing debt was mainly driven by the decrease in net working capital.

Pension liabilities increased by EUR 6 million to EUR 167 million. Net interest-bearing debt, including pension liabilities, amounted to EUR 2,850 million (2022: EUR 2,986 million). The UK pension scheme net assets were EUR 21 million (2022: EUR 16 million). These assets are excluded from the calculation of pension liabilities, net interest-bearing debt and leverage.

Arla's leverage ratio was 2.6, a decrease of 0.4 compared to last year. This is according to expectations, however better than the long-term target range of 2.8-3.4.

The average maturity of interest-bearing borrowings decreased by 0.3 years to 4.9 years. Average maturity is impacted by a lapse of time to maturity, the level of net interest-bearing debt and offset by new facilities.

The equity ratio increased to 36% (2022: 35%).

Funding

The group applies a diversified funding strategy to balance the liquidity and refinancing risk with the aim of achieving low financing costs. Major acquisitions or investments are funded separately.

A diverse funding strategy includes diversification of markets, currencies, instruments, banks, lenders and maturities to secure broad access to funding and to ensure that the group is independent of one single funding partner or one single market. All funding opportunities are benchmarked against the three-month EURIBOR rate, and derivatives are applied to match the currency of our funding needs. The interest profile is managed with interest rate swaps independently of the individual loans. At 31 December 2023, 24% (2022: 22%) of the total interest-bearing borrowings is covered by interest rate swaps.

The credit facilities contain financial covenants on equity/total assets and minimum equity as well as standard non-financial covenants. The group did not default on or fail to fulfil any loan agreements in 2023.

During 2023, the group's most significant funding activities were:

- Extension of EUR 400 million ESG-linked revolving credit multi-bank facility to 2029.
- Bond issue of SEK 1,200 million which will expire after two years while SEK 800 million will expire after five years.
- Schuldschein issue of EUR 350 million, of which EUR 200 million will expire after three years and EUR 150 million will expire after five years. A Schuldschein is a form of private placement loan, primarily used by companies to raise funds directly from investors, typically institutional investors or banks. The loan is unsecured.
- Arla has a commercial paper programme in Sweden denominated in SEK and EUR. The average utilisation in 2023 was EUR 144 million.
- During the year, Arla entered into sale and repurchase arrangements based on its holdings of listed AAA-rated Danish mortgage bonds. Please refer to Note 4.6 for more details.

In 2023, bonds were repaid at a value of EUR 137 million, of which EUR 128 million matured before the end of 2023. EUR 9 million will mature in April 2024.

2.6

Leverage in 2023

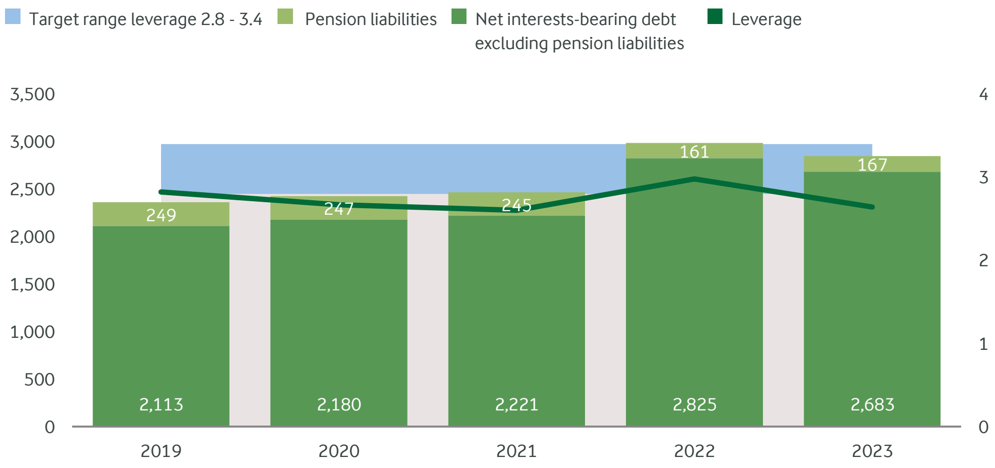
(2022: 3.0)

Net interest-bearing debt consists of current and non-current liabilities, less interest-bearing assets.

The definition of leverage is the ratio between net interest-bearing debt, including pension liabilities and EBITDA, and expresses the group's capacity to service its debt.

The group's long-term target range for leverage is between 2.8 and 3.4.

Net interest-bearing debt
(EUR million)



4.3 NET INTEREST-BEARING DEBT (CONTINUED)

Table 4.3.a Net interest-bearing debt

(EUR million)	2023	2022
Long-term borrowings	2,369	2,640
Short-term borrowings	813	727
Securities, cash and cash equivalents (excluding restricted securities and cash)	-488	-538
Other interest-bearing assets	-11	-4
Net interest-bearing debt excluding pension liabilities	**2,683**	**2,825**
Pension liabilities	167	161
Net interest-bearing debt including pension liabilities	**2,850**	**2,986**

Table 4.3.b Borrowings

(EUR million)	2023	2022
Long-term borrowings:		
Issued bonds	407	357
Mortgage credit institutions	1,201	1,210
Bank borrowings	251	918
Schuldschein	350	-
Lease liabilities	160	155
Total long-term borrowings	**2,369**	**2,640**
Short-term borrowings:		
Issued bonds	128	133
Commercial papers	103	88
Mortgage credit institutions	11	11
Bank borrowings	161	48
Repurchased liability	337	370
Lease liabilities	63	59
Other current liabilities	10	18
Total short-term borrowings	**813**	**727**
Total interest-bearing borrowings	**3,182**	**3,367**

Table 4.3.c Cash flow, net interest-bearing debt

		Cash flow	Non-cash changes					
(EUR million)	1 January	Included in financing activities	Additions	Reclassifi-cations	Foreign exchange movements	Fair value changes	Restricted cash and securities	31 December
2023								
Pension liabilities	161	-22	-	9	-	19	-	167
Long-term borrowings	2,640	-27	76	-335	2	13	-	2,369
Short-term borrowings	727	-241	-	335	-8	-	-	813
Total interest-bearing debt	3,528	-290	76	9	-6	32	-	3,349
Securities and other interest-bearing assets	-436	17	-	-	3	2	37	-377
Cash	-106	-40	-	-	8	-	16	-122
Net interest-bearing debt	2,986	-313	76	9	5	34	53	2,850

Long- and short-term borrowings payments of EUR -268 million (EUR -27 million and EUR -241 million, respectively) can be reconciled to the cash flow statement as new loans obtained (EUR 777 million), other changes in loans (EUR -967 million) and lease payments (EUR -78 million)

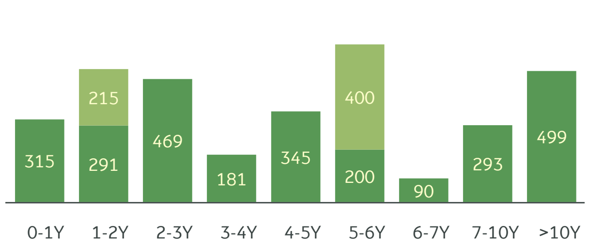
(EUR million)	1 January	Included in financing activities	Additions	Reclassifi-cations	Foreign exchange movements	Fair value changes	Restricted cash and securities	31 December
2022								
Pension liabilities	245	-22	-		-14	-48		161
Long-term borrowings	2,113	696	49	-190	-32	4		2,640
Short-term borrowings	644	-100	-	190	-7	-		727
Total interest-bearing debt	**3,002**	**574**	**49**	**-**	**-53**	**-44**	**-**	**3,528**
Securities and other interest-bearing assets	-439	1	-	-	-	2		-436
Cash	-97	-9	-	-	-	-		-106
Net interest-bearing debt	**2,466**	**566**	**49**	**-**	**-53**	**-42**	**-**	**2,986**

Long- and short-term borrowings payments of EUR 596 million (EUR 696 million and EUR -100 million, respectively) can be reconciled to the cash flow statement as new loans obtained (EUR 810 million), other changes in loans (EUR -143 million) and lease payments (EUR -71 million)

4.3 NET INTEREST-BEARING DEBT (CONTINUED)

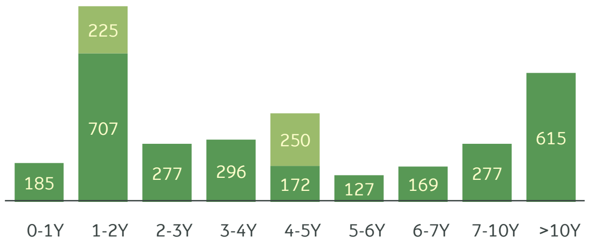
Maturity of net interest-bearing debt excluding pension liabilities at 31 December 2023
(EUR million)

Debt · Unused committed facilities



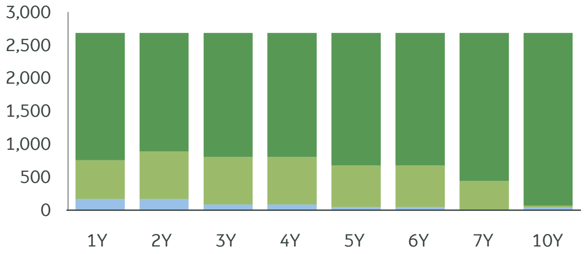
Maturity of net interest-bearing debt excluding pension liabilities at 31 December 2022
(EUR million)

Debt · Unused committed facilities



Interest profile for net interest-bearing debt excluding pension liabilities at 31 December 2023
(EUR million)

Fixed debt · Fixed via swap · Floating



Interest profile for net interest-bearing debt excluding pension liabilities at 31 December 2022
(EUR million)

Fixed debt · Fixed via swap · Floating

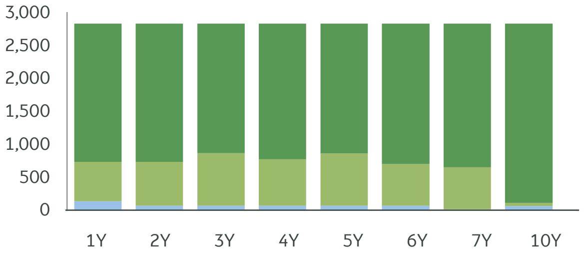


Table 4.3.d Net interest-bearing debt excluding pension liabilities and the effect of hedging, maturity

(EUR million)	Total	2024	2025	2026	2027	2028	2029	2030	2031-2033	After 2033
2023										
DKK	982	-9	99	60	59	64	76	66	215	352
SEK	671	239	116	187	5	120	4	-	-	-
EUR	930	79	14	209	108	156	112	24	78	150
GBP	34	5	8	7	6	3	5	-	-	-
Other	66	1	54	6	3	2	3	-	-	-3
Total	**2,683**	**315**	**291**	**469**	**181**	**345**	**200**	**90**	**293**	**499**

	Total	2023	2024	2025	2026	2027	2028	2029	2030-2032	After 2032
2022										
DKK	1,046	30	36	97	57	58	61	67	201	439
SEK	606	228	139	5	183	3	48	-	-	-
EUR	1,014	-10	390	163	5	105	7	102	76	176
GBP	39	8	7	6	5	5	8	-	-	-
Other	120	-71	135	6	46	1	3	-	-	-
Total	**2,825**	**185**	**707**	**277**	**296**	**172**	**127**	**169**	**277**	**615**

Table 4.3.e Currency profile of net interest-bearing debt excluding pension liabilities*

(EUR million)	Original principal	Effect of swap	After swap
2023			
DKK	982	-	982
SEK	671	-570	101
EUR	930	46	976
GBP	34	524	558
Other	66	-	66
Total	**2,683**	**-**	**2,683**
2022			
DKK	1,046	-	1,046
SEK	606	-538	68
EUR	1,014	183	1,197
GBP	39	355	394
Other	120	-	120
Total	**2,825**	**-**	**2,825**

** Before and after derivative financial instruments.*

4.3 NET INTEREST-BEARING DEBT (CONTINUED)

Table 4.3.f Interest rate risk excluding effect of hedging

(EUR million)	Interest rate	Average interest rate	Fixed for	Carrying amount	Interest rate risk
2023					
Issued bonds:					
Commercial papers	Fixed	4.4%	0-1 year	103	Fair value
652 mSEK maturing 03.04.2024	Floating	5.3%	0-1 year	59	Cash flow
750 mSEK maturing 03.04.2024	Fixed	1.6%	0-1 year	68	Fair value
1,200 mSEK maturing 16.06.2025	Floating	5.2%	1-2 years	109	Cash flow
500 mSEK maturing 14.04.2026	Floating	5.5%	2-3 years	45	Cash flow
1,500 mSEK maturing 17.07.2026	Floating	4.8%	2-3 years	137	Cash flow
500 mSEK maturing 14.01.2028	Floating	5.8%	4-5 years	45	Cash flow
400 mSEK maturing 12.10.2028	Floating	5.9%	4-5 years	36	Cash flow
400 mSEK maturing 12.10.2028	Fixed	4.9%	4-5 years	36	Fair value
Total issued bonds		**4.7%**		**638**	
Mortgages credit institutions:					
Fixed-rate	Fixed	3.8%	1-2 years	71	Fair value
Floating-rate	Floating	4.7%	0-1 year	1,141	Cash flow
Total mortgage credit institutions		**4.6%**		**1,212**	
Bank borrowings:					
Fixed-rate	Fixed	3.8%	0-1 year	402	Fair value
Floating-rate	Floating	4.7%	0-1 year	697	Cash flow
Total bank borrowings		**4.4%**		**1,099**	
Other borrowings:					
Finance leases	Fixed	3.8%	0-20 years	223	Cash flow
Other borrowings	Floating	3.0%	0-1 year	10	Cash flow
Total other borrowings		**3.7%**		**233**	

	Interest rate	Average interest rate	Fixed for	Carrying amount	Interest rate risk
2022					
Issued bonds:					
Commercial papers	Fixed	2.5%	0-1 year	88	Fair value
750 mSEK maturing 03.07.2023	Floating	3.7%	0-1 year	67	Cash flow
750 mSEK maturing 03.07.2023	Fixed	1.5%	0-1 year	66	Fair value
750 mSEK maturing 03.04.2024	Fixed	1.6%	2-3 years	66	Fair value
750 mSEK maturing 03.04.2024	Floating	3.9%	2-3 years	67	Cash flow
500 mSEK maturing 14.01.2026	Floating	4.0%	3-4 years	45	Cash flow
1,500 mSEK maturing 17.07.2026	Floating	2.4%	3-4 years	134	Cash flow
500 mSEK maturing 14.01.2028	Floating	4.2%	5-6 years	45	Cash flow
Total issued bonds		**2.8%**		**578**	
Mortgages credit institutions:					
Fixed-rate	Fixed	1.9%	1-2 years	125	Fair value
Floating-rate	Floating	3.0%	0-1 year	1,096	Cash flow
Total mortgage credit institutions		**2.9%**		**1,221**	
Bank borrowings:					
Fixed-rate	Fixed	1.9%	0-1 year	377	Fair value
Floating-rate	Floating	2.9%	0-1 year	959	Cash flow
Total bank borrowings		**2.6%**		**1,336**	
Other borrowings:					
Finance leases	Fixed	3.1%	0-20 years	214	Cash flow
Other borrowings	Floating	3.7%	0-1 year	18	Cash flow
Total other borrowings		**3.2%**		**232**	

4.3 NET INTEREST-BEARING DEBT (CONTINUED)

Accounting policies

Financial instruments

Financial instruments are recognised at the date of trade. The group ceases to recognise financial assets when the contractual rights to the underlying cash flows either cease to exist or are transferred to the purchaser of the financial asset, and substantially all risks and rewards related to ownership are also transferred to the purchaser.

Financial assets and liabilities are offset, and the net amount is presented in the balance sheet when, and only when, the group has a legal right of offsetting and either intends to offset or settle the financial asset and the liability simultaneously.

Financial assets

Financial assets are classified on initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income or fair value through the income statement.

The classification of financial assets on initial recognition depends on the financial asset's contractual cash flow characteristics and how these are managed.

Financial assets where the group intends to collect the contractual cash flow are classified and measured at amortised cost.

Financial assets that are part of liquidity management are classified and measured at fair value through other comprehensive income. All other financial assets are classified and measured at fair value through the income statement.

Financial assets measured at amortised cost

Financial assets measured at amortised cost consist of readily available cash at bank and deposits, together with exchange-listed debt securities with an original maturity of three months or less, which have an insignificant risk of change in value and can be readily converted to cash or cash equivalents.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income consist of mortgage credit bonds, which correspond in part to raised mortgage debt.

Financial assets are measured on initial recognition at fair value plus transaction costs. The financial assets are subsequently measured at fair value with adjustments made in other comprehensive income and accumulated in the fair value reserve in equity.

Interest income, impairment and foreign currency translation adjustments of debt instruments are recognised in the income statement on a continuous basis under financial income and financial costs. In connection with the sale of financial assets classified at fair value through other comprehensive income, accumulated gains or losses previously recognised in the fair value reserve are recycled to financial income and financial costs.

Financial assets measured at fair value through profit or loss

Securities classified at fair value through the income statement consist primarily of listed securities which are monitored, measured and reported continuously in accordance with the group's treasury and funding policy. Changes in fair value are recognised in the income statement under financial income and financial costs.

Liabilities

Upon initial recognition, debt to mortgage credit and credit institutions as well as issued bonds are measured at the trade date at fair value plus transaction costs. Subsequently, liabilities are measured at amortised cost with the difference between loan proceeds and the nominal value recognised in the income statement over the expected life of the loan.

Capitalised residual lease obligations related to leases are recognised under liabilities and measured at amortised cost. Other financial liabilities are measured at amortised cost. For details on pension liabilities, please refer to Note 4.7.

4.4 DERIVATIVES

Financial comments

The group has entered into derivative contracts to secure a stable cash flow in future years. The value of cash flow hedges decreased by EUR 141 million to EUR 70 million. The decrease was due to lower values of currency, interest and commodity hedge contracts.

Currency contracts

The value of currency contracts decreased by EUR 34 million compared to last year. The lower value was due to changed currency exchange rates combined with maturing of existing contracts and value adjustments of new contracts.

Interest rate contracts

The value of interest rate contracts used for hedging decreased by EUR 52 million compared to last year. The lower value is a result of lower long-term interest levels and utilisation of interest hedges during the year.

Commodity contracts

The value of commodity contracts used for hedging decreased by EUR 55 million compared to last year. The lower value is a result of market prices decreasing to levels below the hedged prices combined with maturing of existing contracts and value adjustments of new contracts.

Hedging of future cash flows

The group uses currency forwards to hedge currency risks on expected future net revenue and costs. Interest rate swaps are used to hedge risks against movements in expected future interest payments, and commodity swaps are used for energy hedging.

Fair value of hedge instruments not qualifying for hedge accounting (financial hedge)

The group uses currency options which hedge forecasted sales and purchases. Some of these options do not qualify for hedge accounting and the fair value adjustment is therefore recognised directly in the income statement.

Currency swaps are used as part of the daily liquidity management. The objective of the currency swaps is to match the timing of the in- and outflow of foreign currency cash flows.

Accounting policies

Derivatives are recognised from the trade date and measured in the financial statements at fair value. Positive and negative fair values of derivatives are recognised as separate items in the balance sheet.

Fair value hedging

Changes in the fair value of derivatives which meet the criteria for hedging the fair value of recognised assets and liabilities are recognised alongside changes in the value of the hedged asset or the hedged liability for the portion that is hedged.

Cash flow hedging

Changes in the fair value of derivatives that are classified as hedges of future cash flows and effectively hedge changes in future cash flows are recognised in other comprehensive income as a reserve for hedging transactions under equity until the hedged cash flows impact the income statement. The reserve for hedging instruments under equity is presented net of tax. The cumulative gains or losses from hedging transactions that are retained in equity are reclassified and recognised under the same item as the basic adjustment for the hedged item.

The accumulated change in value recognised in other comprehensive income is recycled to the income statement once the hedged cash flows affect the income statement or are no longer likely to be realised. For derivatives that do not meet the criteria for classification as hedging instruments, changes in fair value are recognised as they occur in the income statement under financial income and costs.

Table 4.4.a Hedging of future cash flow from highly probable forecast transactions

			Expected recognition				
(EUR million)	Carrying amount	Fair value recognised in OCI	2024	2025	2026	2027	After 2027
2023							
Currency contracts	8	8	8	-	-	-	-
Interest rate contracts	80	80	22	21	12	11	14
Commodity contracts	-18	-18	-18	-	-	-	-
Hedging of future cash flow	**70**	**70**	**12**	**21**	**12**	**11**	**14**

			Expected recognition				
(EUR million)	Carrying amount	Fair value recognised in OCI	2023	2024	2025	2026	After 2026
2022							
Currency contracts	42	42	42	-	-	-	-
Interest rate contracts	132	132	30	27	25	15	35
Commodity contracts	37	37	28	8	1	-	-
Hedging of future cash flow	**211**	**211**	**100**	**35**	**26**	**15**	**35**

Table 4.4.b Value adjustment of hedging instruments

(EUR million)	2023	2022
Deferred gains and losses on cash flow hedges arising during the year	-112	265
Value adjustments of currency hedging instruments reclassified to other operating income and costs	3	-69
Value adjustments of commodity hedging instruments reclassified to other operating income and costs	-61	72
Value adjustments of currency hedging instruments reclassified to financial items	20	-34
Value adjustments of interest hedging instruments reclassified to financial items	9	-9
Total value adjustment of hedging instruments recognised in other comprehensive income during the year	**-141**	**225**

4.5 FINANCIAL INSTRUMENTS

Table 4.5.a Categories of financial instruments

(EUR million)	2023	2022
Derivatives	45	47
Shares	8	7
Financial assets measured at fair value through the income statement	**53**	**54**
Securities	403	432
Financial assets measured at fair value through other comprehensive income	**403**	**432**
Currency instruments	9	43
Interest rate instruments	66	96
Commodity instruments	12	53
Derivative assets used as hedging instruments	**87**	**192**
Trade receivables	1,145	1,267
Other receivables	309	319
Cash	138	106
Financial assets measured at amortised cost	**1,592**	**1,692**
Derivatives	2	19
Financial liabilities measured at fair value through the income statement	**2**	**19**
Currency instruments	1	1
Interest rate instruments	10	-
Commodity instruments	30	16
Derivative liabilities used as hedging instruments	**41**	**17**
Long-term borrowings	2,369	2,640
Short-term borrowings	813	727
Trade payables and other payables	1,425	1,597
Financial liabilities measured at amortised cost	**4,607**	**4,964**

Table 4.5.b Fair value hierarchy - carrying amount

(EUR million)	Level 1	Level 2	Level 3	Total
2023				
Financial assets:				
Bonds	403	-	-	403
Shares	8	-	-	8
Derivatives	-	132	-	132
Total financial assets	**411**	**132**	**-**	**543**
Financial liabilities:				
Issued bonds	-	535	-	535
Mortgage credit institutions	1,212	-	-	1,212
Derivatives	-	43	-	43
Total financial liabilities	**1,212**	**578**	**-**	**1,790**
2022				
Financial assets:				
Bonds	432	-	-	432
Shares	7	-	-	7
Derivatives	-	239	-	239
Total financial assets	**439**	**239**	**-**	**678**
Financial liabilities:				
Issued bonds	-	490	-	490
Mortgage credit institutions	1,221	-	-	1,221
Derivatives	-	36	-	36
Total financial liabilities	**1,221**	**526**	**-**	**1,747**

4.5 FINANCIAL INSTRUMENTS (CONTINUED)

Risk mitigation
Methods and assumptions applied when measuring the fair values of financial instruments:

Bonds and shares
The fair value is determined using the quoted prices in an active market.

Non-option derivatives
The fair value is calculated using discounted cash flow models and observable market data. The fair value is determined as a termination price and, consequently, the value is not adjusted for credit risks.

Option instruments
The fair value is calculated using option models and observable market data such as option volatilities. The fair value is determined as a termination price and, consequently, the value is not adjusted for credit risks.

Fair value hierarchy
Level 1: Fair values measured using unadjusted quoted prices in an active market.

Level 2: Fair values measured using valuation techniques and observable market data.

Level 3: Fair values measured using valuation techniques and observable as well as significant non-observable market data.

4.6 SALE AND REPURCHASE ARRANGEMENTS

Financial comments
The group has invested in listed Danish mortgage bonds underlying its mortgage debt. By entering into a sale and repurchase arrangement on the mortgage bonds, the group is able to achieve a lower interest rate compared to current market interest rates on mortgage debt. The mortgage bonds are measured at fair value through other comprehensive income.

The proceeds from these bonds create a repurchase obligation which is recognised in short-term borrowings and measured at fair value.

In addition to mortgage bonds, the group holds other securities with a carrying amount of EUR 40 million.

Table 4.6 Transfer of financial assets

(EUR million)	Carrying amount	Notional amount	Fair value
2023			
Mortgage bonds	363	363	363
Repurchased liability	-337	-335	-337
Net position	**26**	**28**	**26**
2022			
Mortgage bonds	379	377	379
Repurchased liability	-370	-369	-370
Net position	**9**	**8**	**9**

4.7 PENSION LIABILITIES

Pension liabilities

The group's pension assets and liabilities consist primarily of defined benefit plans in Sweden and the UK.

The group also operates defined contribution plans for employees. For these defined contribution plans, the group is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit plans. The benefits that employees receive are dependent on the contribution paid, investment returns and the form of benefit chosen at retirement.

Pension plans in Sweden

The recognised net pension liability in Sweden was EUR 152 million at 31 December 2023, an increase of EUR 8 million compared to the previous year. The increase is predominantly driven by an increase in the funded liabilities resulting from a fall in the discount rate assumption used in the previous year. In addition, the inflation rate assumption used in the previous year has decreased, which has partially offset the discount rate effect. Mortality assumptions remained consistent with last year. See Note 4.7.f for a summary of assumptions used.

These pension plans are contribution-based plans, guaranteeing a defined benefit pension at retirement. The plan assets are legally structured as a trust, and the group has control over the operation of the plan and the associated investments.

These pension plans do not include a risk-sharing element between the group and the plan participants.

Pension plans in the UK

The recognised net pension asset in the UK was EUR 21 million at 31 December 2023, an increase of EUR 5 million compared to the previous year.

UK assumptions changed in a similar way to Sweden, with a fall in both the discount rate assumption and the inflation rate assumption. In addition, an update in mortality assumptions at 31 December 2023 resulted in lower life expectancy in the UK. This all resulted in lower pension liabilities in the UK, which stood at EUR 932 million at 31 December 2023, a decrease of EUR 11 million from the previous year.

2023 resulted in a negative return on plan assets of EUR 28 million. In addition to this EUR 54 million was paid out of the plan in the UK. These decreases were partially offset by interest income, contributions to the plan and favourable exchange rate adjustments, leading to an overall net decrease in the fair value of plan assets in the UK of EUR 6 million.

Arla managed to increase its net pension asset position in the UK. This was helped by the investment strategy adopted by the trustees, which aims to mitigate any major fluctuations in asset values due to external factors by incorporating matching assets into the asset portfolio. This minimises movements in the net pension asset position and increases the stability of the ongoing pension position. More details of the investment strategy can be found in the 'Plan asset investments in the UK' section.

The defined benefit plan in the UK is a defined benefit final salary scheme. The plan is closed to both new entrants and future accruals, but retains a salary link. The plan is a registered pension scheme, and the assets are held in legally separate, trustee-administered funds. The trustees of the plan are required by law to act in the best interests of the plan participants while at the same time administering the plan in accordance with the purpose for which the trust was created, and are responsible for drawing up the investment, funding and governance policies. A representative of the group attends trustee meetings to provide the group's view on the investment strategy, but the ultimate control lies with the trustees.

Table 4.7.a Pension liabilities recognised in the balance sheet

(EUR million)	Sweden	UK	Other	Total
2023				
Present value of funded liabilities	162	932	31	1,125
Fair value of plan assets	-12	-953	-17	-982
Deficit of funded plans	**150**	**-21**	**14**	**143**
Present value of unfunded liabilities	2	-	1	3
Net pension liabilities recognised in the balance sheet	**152**	**-21**	**15**	**146**
Specification of total liabilities:				
Present value of funded liabilities	162	932	31	1,125
Present value of unfunded liabilities	2	-	1	3
Total liabilities	**164**	**932**	**32**	**1,128**
Presented as:				
Pension assets	-	-21	-	-21
Pension liabilities	152	-	15	167
Net pension liabilities	**152**	**-21**	**15**	**146**
2022				
Present value of funded liabilities	153	943	35	1,131
Fair value of plan assets	-11	-959	-20	-990
Deficit of funded plans	**142**	**-16**	**15**	**141**
Present value of unfunded liabilities	2	-	2	4
Net pension liabilities recognised in the balance sheet	**144**	**-16**	**17**	**145**
Specification of total liabilities:				
Present value of funded liabilities	153	943	35	1,131
Present value of unfunded liabilities	2	-	2	4
Total liabilities	**155**	**943**	**37**	**1,135**
Presented as:				
Pension assets	-	-16	-	-16
Pension liabilities	144	-	17	161
Net pension liabilities	**144**	**-16**	**17**	**145**

4.7 PENSION LIABILITIES (CONTINUED)

Employer contributions are determined based on the advice of an independent qualified actuary on the basis of triennial valuation negotiations between the plan and Arla, and ultimately approved by HRM Pensions Regulator. The most recent triennial valuation of the plan was carried out at 31 December 2022, and on the agreed funding basis, the plan was in a surplus position.

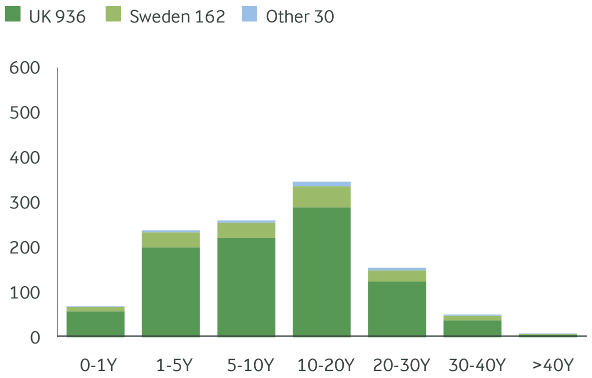
Defined contribution plans are in place for other employees. Contributions are made both by Arla and the employee at a rate determined by Arla.

Plan asset investments in the UK
Plan assets generate returns that are used to satisfy the plan liabilities. They are not necessarily intended to be realised in the short term. The trustees invest in different categories of assets and with different allocations among those categories according to the plan investment principles.

Currently, the plan investment strategy is to maintain a balance of growth assets (property and infrastructure), income assets (comprising credit investments and corporate bonds) and matching assets (comprising a liability hedge portfolio and a buy-in annuity policy), with a weighting towards matching assets.

Part of the investment objective is to minimise fluctuations in the plan's funding levels due to changes in the value of the liabilities. This is primarily achieved using a Liability Driven Investment (LDI) portfolio, the main goal of which is to align movements in the value of the assets with movements in the liabilities caused by changes in market conditions. The plan has hedging in place that covers

Maturity of pension liabilities at 31 December 2023
(EUR million)



Maturity of pension liabilities at 31 December 2022
(EUR million)

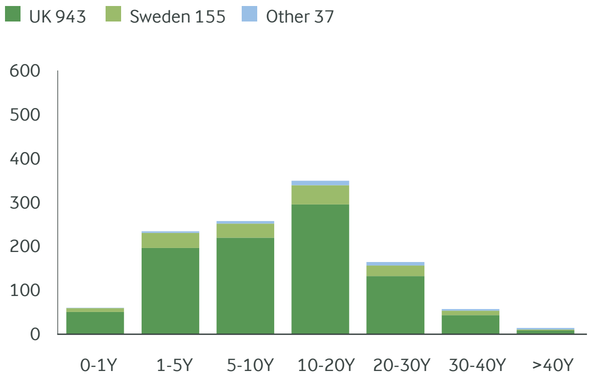


Table 4.7.b Development in pension liabilities

(EUR million)	2023	2022
Present value of liabilities at 1 January	1,135	1,757
Current service costs	1	3
Interest costs	50	31
Actuarial gains and losses from changes in financial assumptions (OCI)	22	-505
Actuarial gains and losses from changes in demographic assumptions (OCI)	-33	-6
Benefits paid	-65	-64
Exchange rate adjustment	18	-81
Present value of pension liabilities at 31 December	**1,128**	**1,135**

Table 4.7.c Development in fair value of plan assets

(EUR million)	2023	2022
Fair value of plan assets at 1 January	990	1,581
Interest income	47	29
Return on plan assets excluding amounts included in net interest on the net defined benefit liability (OCI)	-30	-512
Contributions to plans	12	12
Benefits paid	-55	-54
Exchange rate adjustments	18	-66
Fair value of plan assets at 31 December	**982**	**990**
Actual return on plan assets:		
Calculated interest income	47	29
Return excluding calculated interest	-30	-512
Actual return	**17**	**-483**

The group expects to contribute EUR 24 million to the plan assets in 2024 and EUR 83 million in 2025-2028.

4.7 PENSION LIABILITIES (CONTINUED)

the majority of interest rate and inflation movements, as measured based on the trustees' funding assumptions which use a discount rate derived from gilt yields.

LDI primarily involves the use of government bonds. Derivatives such as interest rate and inflation swaps are also used. There are no annuities or longevity swaps in the LDI portfolios. The value of the LDI assets is determined based on the latest market bid price for the underlying investments, which are traded daily on liquid markets.

Annuity policies consist of a bulk annuity contract with an insurance company. This allows the trustees to reduce their scheme's risk by acquiring an asset (annuity contract) whose cashflows are designed to exactly meet a specified set of benefit payments under the pension scheme.

Infrastructure investments are in large-scale public systems, services and facilities such as power, road and water systems. These investments aim to generate stable long-term inflation-linked cash flows.

The remainder of the plan assets consists of loans to companies or governments (debt vehicles and bonds), commercial property investments (properties) as well as insurance-linked securities and cash (other assets).

Accounting policies

Pension liabilities and similar non-current liabilities

The group has post-employment pension plan arrangements with a significant number of current and former employees. The post-employment pension plan agreements take the form of defined contribution plans and defined benefit plans.

Defined contribution plans

For defined contribution plans, the group pays fixed contributions to independent pension companies. The group has no obligation to make supplementary payments beyond those fixed payments, and the risk and reward of the value of the pension plan therefore rests with plan members, and not the group. Contributions to defined contribution plans are expensed in the income statement as incurred.

Defined benefit plans

Defined benefit plans are characterised by the group's obligation to make specific payments from the date the plan member is retired, depending on, for example, the member's seniority and final salary. The group is subject to the risks and rewards associated with the uncertainty whether the return generated by the assets will meet the pension liabilities, which are affected by assumptions concerning mortality and inflation.

The group's net liability is the amount presented as a pension liability in the balance sheet.

The net liability is calculated separately for each defined benefit plan. The net liability is the amount of future pension benefits that employees have earned in current and prior periods (i.e. the liability for pension payments for the portion of the employee's estimated final salary earned at the balance sheet date) discounted to a present value (the defined benefit liability), less the fair value of assets held separately from the group in a plan fund.

The group uses qualified actuaries to annually calculate the defined benefit liability using the projected unit credit method.

The balance sheet amount of the net liability is impacted by remeasurements, which include the effect of changes in assumptions used to calculate the future liability (actuarial gains and losses) and the return generated on plan assets (excluding interest). Remeasurements are recognised in other comprehensive income.

Interest costs for the period are calculated using the discounted rate used to

Table 4.7.d Specification of plan assets

(EUR million)	2023	%	2022	%
Liability hedge portfolio	295	30	269	27
Debt vehicles	295	30	216	22
Annuity policies	211	21	221	22
Properties	82	8	117	12
Infrastructure	64	7	81	8
Bonds	9	1	9	1
Other assets	26	3	77	8
Fair value of plan assets at 31 December	**982**	**100**	**990**	**100**

Table 4.7.e Assumptions for the actuarial calculations

%	2023	2022
Discount rate assumptions		
Discount rate, Sweden	3.5	4.0
Discount rate, UK	4.6	4.9
Inflation assumptions		
Inflation (CPI), Sweden	1.5	2.0
Inflation (CPI), UK	2.4	2.6
Mortality assumptions (life expectancy in years at age 65)		
Male in the UK	20.3	21.0
Female in the UK	22.5	23.0
Male in Sweden	22.0	22.0
Female in Sweden	24.0	24.0

Table 4.7.f Sensitivity of pension liabilities to key assumptions

(EUR million)	2023	2023	2022	2022
Impact on pension liabilities at 31 December	+	-	+	-
Discount rate +/- 10bps	-13	13	-14	14
Life expectancy +/- 1 year	41	-41	36	-36
Inflation +/- 10 bps	8	-8	8	-8

4.7 PENSION LIABILITIES (CONTINUED)

measure the defined benefit liability at the start of the reporting period applied to the carrying amount of the net liability, taking into account changes arising from contributions and benefit payments. The net interest costs and other costs relating to defined benefit plans are recognised in the income statement.

The net liability primarily covers defined benefit plans in the UK and Sweden.

Uncertainties and estimates

The defined benefit liability is assessed based on a number of assumptions, including discount rates, inflation rates, salary growth and mortality rates. Any changes in assumptions can have a significant impact on the net position. The group is aware of a case in the UK involving Virgin Media and NTL Pension Trustee, which could potentially lead to additional liabilities for some pension schemes and sponsors, including (if applicable) the group. This case is subject to appeal and the impact (if any) is not known and will be assessed as relevant in the future.

Table 4.7.g Recognised in the income statement

(EUR million)	2023	2022
Current service costs	1	3
Recognised as staff costs	**1**	**3**
Interest costs on pension liabilities	50	31
Interest income on plan assets	-47	-29
Recognised as financial costs	**3**	**2**
Total amount recognised in the income statement	**4**	**5**

Table 4.7.h Recognised in other comprehensive income

(EUR million)	2023	2022
Actuarial gains and losses on liabilities from changes in financial assumptions (OCI)	-22	505
Actuarial gains and losses on liabilities from changes in demographic assumptions (OCI)	33	6
Return on plan assets, excluding amounts included in net interest on the net defined benefit liability	-30	-512
Total amount recognised in other comprehensive income	**-19**	**-1**

NOTE 5. OTHER AREAS

5.1 TAX

Current and deferred tax

Tax in the income statement

Tax costs increased to EUR 56 million (2022: EUR 49 million), primarily due to an increase in total deferred tax costs.

The effective tax rate increased to 12.3% compared to 10.9% last year, primarily due to changes in recognised tax losses.

Current income tax

Cost related to current income taxes decreased to EUR 31 million (2022: EUR 42 million), mainly due to adjustments to current taxes relating to previous years.

Deferred tax

Costs incurred in the income statement relating to adjustments of deferred taxes amounted to EUR 25 million, representing an increase of EUR 18 million compared to last year. The increase was driven by higher deferred tax costs in the current year as well as additional deferred tax costs from prior-year effects.

Net deferred tax liabilities amounted to EUR 60 million, representing a net decrease of EUR 4 million compared to last year. See table 5.1.c. The primary changes in gross temporary differences were driven by enhanced capital allowances on property, plant and equipment, the effect of which was offset by a decrease in deferred tax liabilities relating to provisions, pension liabilities and other liabilities.

Deferred tax liabilities equalled EUR 83 million which mainly relate to provisions, pension liabilities and other liabilities, financial assets and other items. These were in part offset by deferred tax assets amounting to EUR 23 million relating to property, plant and equipment and tax losses carried forward.

The group recognises deferred tax assets, including the value of tax losses carried forward, where management assesses that the tax assets may be utilised in the foreseeable future by offsetting against taxable income. The assessment is performed on an ongoing basis and is based on the budgets and business plans for future years.

The group recognised deferred tax assets in respect of tax losses carried forward in the amount of EUR 7 million. Deferred tax assets relating to tax losses carried forward not recognised totalled EUR 31 million and related to activities in the UK, Denmark, Sweden, the USA and Brazil.

Expected effects from Pillar II taxes

Based on preliminary analyses, the group expects the impact of the Pillar II rules to result in an immaterial financial impact for the financial year 2024.

Table 5.1.a Tax recognised in the income statement

(EUR million)	2023	2022
Current income tax		
Current income tax on profit for the year relating to:		
Cooperative tax	8	10
Corporate income tax	31	31
Adjustments to current taxes of previous years	-8	1
Total current income tax costs	**31**	**42**
Deferred tax		
Change in deferred tax for the year	23	16
Adjustment to deferred taxes of previous years	2	-9
Total deferred tax costs	**25**	**7**
Total tax costs in the income statement	**56**	**49**

Table 5.1.b Calculation of effective tax rate

(EUR million)	2023		2022	
Profit before tax		455		449
Tax applying the statutory Danish corporate income tax rate	22.0%	100	22.0%	99
Effect of tax rates in other jurisdictions	-3.1%	-14	-2.8%	-13
Effect of companies subject to cooperative taxation	-8.1%	-37	-7.7%	-34
Non-deductible expenses, less tax-exempt income	0.2%	1	-0.6%	-3
Impact of changes in tax rates and laws	0.0%	-	0.0%	-
Adjustment for tax costs of previous years	-1.3%	-6	-0.8%	-4
Recognition and adjustments of previously unrecognised tax losses	0.6%	3	-1.0%	-4
Current year losses for which no deferred tax asset is recognised	0.0%	-	0.3%	1
Other adjustments	2.0%	9	1.5%	7
Total	**12.3%**	**56**	**10.9%**	**49**

5.1 TAX (CONTINUED)

Accounting policies

Tax in the income statement

Tax in the income statement comprises current tax and adjustments to deferred tax. Tax is recognised in the income statement, except to the extent that it relates to a business combination or items (income or costs) recognised directly in other comprehensive income.

Current tax

Current tax is assessed based on tax legislation for entities in the group subject to cooperative or corporate income taxation. Cooperative taxation is based on the capital of the cooperative, while corporate income tax is assessed based on the company's taxable income for the year. Current tax liabilities comprise the expected tax payable/receivable on the taxable income or loss for the year, any adjustments to the tax payable or receivable in respect of previous years and tax paid on account. Current tax liabilities are disclosed as part of other current liabilities.

Deferred tax

Deferred tax is measured in accordance with the balance sheet liability method for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognised in temporary differences on initial recognition of goodwill or arising at the acquisition date of an asset or liability without affecting either the profit or loss for the year or taxable income, except for those arising from M&A activities.

Deferred tax is determined by applying tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Changes in deferred tax assets and liabilities due to changes in the tax rate are recognised in the income statement, except for items recognised in other comprehensive income.

Deferred tax assets, including the value of tax losses carried forward, are recognised under other non-current assets at the value at which they are expected to be used, either by elimination in the tax on future earnings or by offsetting against deferred tax payable in companies within the same legal tax entity or jurisdiction.

The mandatory exception in IAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar II income taxes has been applied.

Uncertainties and estimates

Deferred tax

Deferred tax reflects assessments of actual future tax due on items in the financial statements, considering timing and probability. These estimates also reflect expectations about future taxable profits. Actual future taxes may deviate from these estimates due to changes in expectations relating to future taxable income, future statutory changes in income taxation or the outcome of tax authorities' final review of the group's tax returns. Recognition of a deferred tax asset also depends on an assessment of the future use of the asset.

Table 5.1.c. Deferred tax assets and liabilities

(EUR million)	2023	2022
Net deferred tax liability at 1 January	-64	-43
Deferred tax recognised in the income statement	-25	-7
Deferred tax recognised in other comprehensive income	13	-17
Acquisitions in connection with business combinations	-2	-
Exchange rate adjustments	-0	3
Balance sheet reclassification of deferred tax assets/liabilities	18	-
Net deferred tax liability at 31 December	**-60**	**-64**
Deferred tax, by gross temporary difference		
Intangible assets	-4	-6
Property, plant and equipment	4	22
Provisions, pension liabilities and other liabilities	-31	-51
Tax losses carried forward	7	9
Other	-36	-38
Total deferred tax, by gross temporary difference	**-60**	**-64**
Recognised in the balance sheet as:		
Deferred tax assets	23	22
Deferred tax liabilities	-83	-86
Total	**-60**	**-64**

5.2 PROVISIONS

Provisions

Provisions amounted to EUR 51 million (2022: EUR 48 million). Provisions primarily relate to provisions for insurance incidents that have occurred, but have not yet been settled.

Uncertainties and estimates

Provisions are particularly associated with estimates of insurance provisions. Insurance provisions are assessed based on historical records of, among other things, the number of insurance events and related costs considered. The scope and extent of onerous contracts were also estimated.

Table 5.2 Provisions

(EUR million)	Insurance provisions	Restructuring provisions	Other provisions	Total 2023	Total 2022
Provisions at 1 January	21	4	23	48	42
New provisions during the year	3	1	3	7	8
Reversals	-	-	-3	-3	-1
Used during the year	-	-1	-	-1	-1
Provisions at 31 December	**24**	**4**	**23**	**51**	**48**
Non-current provisions	10	1	20	31	28
Current provisions	14	3	3	20	20
Provisions at 31 December	**24**	**4**	**23**	**51**	**48**

5.3 FEES TO AUDITORS

Fees paid to EY

EY is appointed as auditors of Arla by the Board of Representatives.

Table 5.3 Fees to auditors appointed by the Board of Representatives

(EUR million)	2023	2022
Statutory audit	1.8	1.7
Other assurance engagements	0.3	0.4
Tax assistance	0.3	0.3
Other services	0.3	0.3
Total fees to auditors	**2.7**	**2.7**

5.4 MANAGEMENT REMUNERATION AND TRANSACTIONS WITH RELATED PARTIES

Remuneration paid to management

The remuneration to the 19 registered members of the Board of Directors (BoD) is assessed and adjusted on a bi-annual basis and approved by the Board of Representatives. The BoD's remuneration was most recently adjusted in 2022. The principles applied to the remuneration of the BoD are described on page 81. Members of the BoD are paid for milk supplies to Arla Foods amba in accordance with the same terms as apply to other owners. Similarly, individual capital instruments are issued to the BoD on the same terms as apply to other owners.

The Executive Board consists of Chief Executive Officer Peder Tuborgh and Chief Operations Officer, Europe, Peter Giørtz-Carlsen. The principles applied to the remuneration of the Executive Board are described on page 81.

Table 5.4.a includes accrued amounts related to the respective reporting period. The amount was based on reported key figures together with estimates of performance compared to peers and, consequently, the final future payout may differ.

Table 5.4.a Management remuneration

(EUR million)	2023	2022
Board of Directors		
Wages, salaries and remuneration	1.7	1.6
Total	**1.7**	**1.6**
Executive Board		
Fixed compensation	2.5	2.5
Pension and other benefits	0.5	0.4
Short-term variable incentives	0.7	0.5
Long-term variable incentives	1.0	0.8
Total	**4.7**	**4.2**

Table 5.4.b Transactions with the Board of Directors

(EUR million)	2023	2022
Purchase of raw milk	30.3	36.2
Half-year supplementary payment	0.4	0.3
Supplementary payment regarding previous years	1.1	1.1
Total	**31.8**	**37.6**
Unsettled milk deliveries in trade payables and other payables	1.2	1.4
Individual capital instruments	2.8	2.6
Total	**4.0**	**4.0**

5.5 CONTRACTUAL COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Financial comments

Contractual obligations and commitments amounted to EUR 614 million (2022: EUR 420 million). Arla signed power purchase agreements in Denmark, Germany, the UK and Sweden during the year, counting an increase in contractual commitments of EUR 143 million. Commitments to investments in property, plant and equipment increased by EUR 44 million. Other contractual obligations and commitments consisted of IT licences, short-term and low-value leases and others and increased by net EUR 7 million.

Arla provided security in property for mortgage debt based on the Danish Mortgage Act with a nominal value of EUR 1,216 million (2022: EUR 1,229 million). Financial surety and guarantee obligations amounted to EUR 18 million (2022: EUR 28 million).

Arla is party to a small number of lawsuits, disputes and other claims. It is management's assessment that the outcome of these will most likely not have a material impact on the group's financial position beyond what has already been recognised in the financial statements.

Table 5.5 Contractual commitments*

(EUR million)	0-1 years	1-5 years	5+ years	Total
2023				
IT contracts	34	31	-	65
Short-term and low value leases	39	-	-	27
Power purchase agreements	11	120	177	308
Property, plant and equipment investment commitments	187	27	-	214
Total	**259**	**178**	**177**	**614**
2022				
IT contracts	27	29	-	56
Short-term and low value leases	29	-	-	29
Power purchase agreements	-	23	142	165
Property, plant and equipment investment commitments	149	21	-	170
Total	**205**	**73**	**142**	**420**

** Other contractual commitments not disclosed in the table include mortgaged property provided as security for mortgage loans and financial surety and guarantee obligations.*

5.6 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent events

No subsequent events with a material impact on the financial statements have occurred after the balance sheet date.

5.7 GENERAL ACCOUNTING POLICIES

Basis for preparation

The consolidated financial statements included in this annual report are prepared in accordance with IFRS Accounting Standards as adopted by the EU, and additional disclosure requirements in the Danish Financial Statements Act for large class C companies. Arla is not an EU public interest entity as the group has no debt instruments traded in a regulated EU marketplace. The consolidated financial statements were authorised for issue by the company's Board of Directors on 19 February 2024 and presented for approval by the Board of Representatives on 28 February 2024.

The functional currency of the parent company is DKK. The presentation currency of the parent company and of the group is EUR.

These financial statements are prepared in million EUR with rounding.

Consolidated financial statements

The consolidated financial statements are prepared as a compilation of the parent company's and the individual subsidiaries' financial statements in line with the group's accounting policies. Revenue, costs, assets and liabilities, along with items included in the equity of subsidiaries, are aggregated and presented on a line-by-line basis. Inter-company shareholdings, balances and transactions as well as unrealised income and expenses arising from inter-company transactions are eliminated.

The consolidated financial statements comprise Arla Foods amba (parent company) and the subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or otherwise maintains control to obtain benefits from its activities. Entities in which the group exercises joint control through a contractual arrangement are considered joint ventures. Entities in which the group exercises a significant but not a controlling influence are considered associates. A significant influence is typically obtained by holding or having at the group's disposal, directly or indirectly, more than 20%, but less than 50% of the voting rights in an entity.

Unrealised gains arising from transactions with joint ventures and associates, i.e. profits from sales to joint ventures or associates and whereby the customer pays with funds partly owned by the group, are eliminated against the carrying amount of the investment in proportion to the group's interest in the company. Unrealised losses are eliminated in the same manner, but only to the extent that there is no evidence of impairment.

The consolidated financial statements are prepared on a historical cost basis, except for certain items with alternative measurement bases, which are identified in these accounting policies.

Translation of transactions and monetary items in foreign currencies

For each reporting entity in the group, a functional currency is determined, being the currency used in the primary economic environment where the entity operates. Where a reporting entity has transactions in a foreign currency, it will record the transaction in its functional currency using the transaction date rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate applicable at the reporting date. Exchange rate differences are recognised in the income statement under financial items. Non-monetary items, for example property, plant and equipment, which are measured based on historical cost in a foreign currency, are translated into the functional currency upon initial recognition.

5.7 GENERAL ACCOUNTING POLICIES (CONTINUED)

Translation of foreign operations
The assets and liabilities of consolidated entities, including the share of net assets and goodwill of joint ventures and associates with a functional currency other than EUR, are translated into EUR using the year-end exchange rate. The revenue, costs and share of the net profit or loss for the year are translated into EUR using the average monthly exchange rate if this does not differ materially from the transaction date rate. Exchange rate differences are recognised in other comprehensive income and accumulated in the translation reserve.

On partial divestment of associates and joint ventures, the relevant proportional amount of the cumulative foreign currency translation adjustment reserve is transferred to the net profit or loss for the year, along with any gains or losses related to the divestment. Any repayment of outstanding balances considered part of the net investment is not in itself considered to be a partial divestment of the subsidiary.

Adoption of new or amended IFRS
The group has implemented all new standards and interpretations effective in the EU from 1 January 2023. The new standards and interpretations did not have any material impact on the consolidated financial statements.

Future implementations
The IASB has issued a number of new or amended and revised accounting standards and interpretations which are not yet applicable. Arla will adopt these new standards when they become mandatory. It is expected that the future implementation of the new or amended standards will not have a material impact on the consolidated financial statements.

5.8 GROUP CHART

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Ingredients Group P/S	Denmark	DKK	100
Arla Foods Ingredients Energy A/S	Denmark	DKK	100
Arla Foods Ingredients Japan K.K.	Japan	JPY	100
Arla Foods Ingredients Inc.	USA	USD	100
Arla Foods Ingredients Korea, Co. Ltd.	Korea	KRW	100
Arla Foods Ingredients Trading (Beijing) Co. Ltd.	China	CNY	100
Arla Foods Ingredients S.A.	Argentina	USD	100
Arla Foods Ingredients Comércio de Produtos Alimentícios Unipessoal LTDA	Brazil	BRL	100
Arla Foods Ingredients Singapore Pte. Ltd.	Singapore	SGD	100
Arla Foods Ingredients S.A. de C.V.	Mexico	MXN	100
Arla Foods Holding A/S	Denmark	DKK	100
Arla Foods W.L.L.	Bahrain	BHD	100
Arla Oy	Finland	EUR	100
Massby Facility & Services Ltd. Oy	Finland	EUR	100
Osuuskunta MS tuottajapalvelu **	Finland	EUR	35
Arla Foods Distribution A/S	Denmark	DKK	100
Cocio Chokolademælk A/S	Denmark	DKK	50
Arla Foods International A/S	Denmark	DKK	100
Arla Foods UK Holding Limited	UK	GBP	100
Arla Foods UK Farmers Joint Venture Co. Limited	UK	GBP	100
Arla Foods UK plc	UK	GBP	100
Arla Foods GP Limited	UK	GBP	100
Arla Foods Limited Partnership	UK	GBP	100

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Finance Limited	UK	GBP	100
Arla Foods Limited	UK	GBP	100
Arla Foods Hatfield Limited	UK	GBP	100
Yeo Valley Dairies Limited	UK	GBP	100
Arla Foods Cheese Company Limited	UK	GBP	100
Arla Foods Ingredients UK Limited	UK	GBP	100
MV Ingredients Limited	UK	GBP	100
Arla Foods UK Property Co. Limited	UK	GBP	100
Arla Foods B.V.	Netherlands	EUR	100
Arla Foods Comércio, Importacâo e Exportacão de Productos Alimenticios Ltda.	Brazil	BRL	100
Arla Foods Ltd.	Kingdom of Saudi Arabia	SAR	75
AF A/S	Denmark	DKK	100
Arla Foods Finance A/S	Denmark	DKK	100
Kingdom Food Products ApS	Denmark	DKK	100
Ejendomsanpartsselskabet St. Ravnsbjerg	Denmark	DKK	100
Arla Insurance Company (Guernsey) Limited	Guernsey	EUR	100
Arla Foods Energy A/S	Denmark	DKK	100
Arla Foods Trading A/S	Denmark	DKK	100
Arla DP Holding A/S	Denmark	DKK	100
Arla Foods Investment A/S	Denmark	DKK	100
Arla Senegal SA.	Senegal	XOF	100
Tholstrup Cheese A/S	Denmark	DKK	100
Arla Foods Belgien AG	Belgium	EUR	100

5.8 GROUP CHART (CONTINUED)

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Ingredients (Deutschland) GmbH	Germany	EUR	100
Arla CoAr Holding GmbH	Germany	EUR	100
ArNoCo GmbH & Co. KG*	Germany	EUR	50
Arla Biolac Holding GmbH	Germany	EUR	100
Arla Foods Kuwait Company WLL	Kuwait	KWD	49
Arla Kallassi Foods Lebanon S.A.L.	Lebanon	LBP	50
Arla Foods Qatar WLL	Qatar	QAR	40
Arla Foods Trading and Procurement Limited	Hong Kong	HKD	100
Arla Foods Sdn. Bhd.	Malaysia	MYR	100
Arla Foods Corporation	Philippines	PHP	100
Arla Foods Limited	Ghana	GHS	100
Arla Global Dairy Products Ltd.	Nigeria	NGN	100
Arla Global Dairy Products Limited	Nigeria	NGN	99
TG Arla Dairy Products LFTZ Enterprise	Nigeria	NGN	50
TG Arla Dairy Products Ltd.	Nigeria	NGN	100
Arl For General Trading Ltd.	Iraq	USD	51
Arla Foods AB	Sweden	SEK	100
Arla Gelfeortens AB	Sweden	SEK	100
Årets Kock Aktiebolag	Sweden	SEK	67
Arla Foods Russia Holding AB	Sweden	SEK	100

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Inc.	USA	USD	100
Arla Foods Production LLC	USA	USD	100
Arla Foods Transport LLC	USA	USD	100
Arla Foods Deutschland GmbH	Germany	EUR	100
Dofo Cheese Eksport K/S °	Denmark	DKK	100
Dofo Inc.	USA	USD	100
Aktieselskabet J. Hansen	Denmark	DKK	100
J.P. Hansen USA Incorporated	USA	USD	100
AFI Partner ApS	Denmark	DKK	100
Andelssmør A.m.b.a.	Denmark	DKK	98
Arla Foods AS	Norway	NOK	100
Arla Foods Bangladesh Ltd.	Bangladesh	BDT	51
Arla Foods Dairy Products Technical Service (Beijing) Co. Ltd.	China	CNY	100
Arla Foods FZE	UAE	AED	100
Arla Foods Hellas S.A.	Greece	EUR	100
Arla Foods Inc.	Canada	CAD	100
Arla Foods Logistics GmbH	Germany	EUR	100
Arla Foods Mayer Australia Pty, Ltd.	Australia	AUD	51
Arla Foods Mexico S.A. de C.V.	Mexico	MXN	100
Arla Foods S.A.	Spain	EUR	100

5.8 GROUP CHART (CONTINUED)

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods France S.a.r.l.	France	EUR	100
Arla Foods S.R.L.	Dominican Republic	DOP	100
Arla Foods SA	Poland	PLN	100
Arla Global Shared Services Sp. Z.o.o.	Poland	PLN	100
Arla Foods LLC	UAE	AED	49
Arla National Food Products Company LLC	Oman	OMR	67
Cocio Chokolademælk A/S	Denmark	DKK	50
Marygold Trading K/S °	Denmark	DKK	100
Mejeriforeningen	Denmark	DKK	89
COFCO Dairy Holdings Limited**	British Virgin Islands	HKD	30
Svensk Mjölk Ekonomisk förening	Sweden	SEK	75
Svensk Mjölk AB	Sweden	SEK	100
Lantbrukarnas Riksförbund upa**	Sweden	SEK	24
Jörd International A/S	Denmark	DKK	100
Ejendomsselskabet Gjellerupvej 105 P/S	Denmark	DKK	100
Svenska Ostklassiker AB	Sweden	SEK	68
Komplementarselskabet Gjellerupvej 105 ApS	Denmark	DKK	100
PT Arla Foods Indonesia	Indonesia	IDR	100
Arla Foods Arinco A/S	Denmark	DKK	80
Green Fertilizer Denmark ApS**	Denmark	DKK	25

** Joint ventures*
*** Associates*
° According to section 5 of the Danish Financial Statements Act, the company does not prepare a statutory report.
In addition, the group owns a number of entities without material commercial activities.

Financial statements of the parent company

Under section 149 of the Danish Financial Statements Act, these consolidated financial statements represent an extract of Arla's complete annual report. In order to make this report more manageable and user-friendly, we publish consolidated financial statements that do not include financial statements of the parent company, Arla Foods amba. The annual report of the parent company is an integral part of the full annual report and is available at www.arlafoods.com. Profit sharing and supplementary payments from the parent company are set out in the equity section of the consolidated financial statements. The full annual report contains the statement by the Board of Directors and the Executive Board as well as the independent auditor's report.

Our popular heritage cheese, Castello® Creamy Blue, contributed to 13% of Castello's total revenue in 2023.

CASTELLO® CREAMY BLUE

MANAGEMENT'S AND AUDITOR'S REPORTS

BOARD OF DIRECTORS' AND EXECUTIVE BOARD'S REPORT

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Arla Foods amba for the financial year 2023. The annual report has been prepared in accordance with IFRS Accounting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the parent company's financial position at 31 December 2023 and of the results of the group's and the parent company's activities and cash flows for the financial year 1 January to 31 December 2023.

In our opinion, the management's review of the annual report (pages 4-86) includes a true and fair view of the development in the group's and the parent company's financial position, activities, financial matters, results for the year and cash flows as well as a description of the most significant risks and uncertainties which may affect the group and the parent company.

Arla's consolidated environmental, social and governance statements have been prepared in accordance with Arla's ESG accounting principles. In our opinion, they give a true and fair view and a balanced and reasonable presentation of the group's environmental, social and governance performance in accordance with these principles.

We hereby recommend the annual report for adoption by the Board of Representatives.

Aarhus, 19 February 2024

Peder Tuborgh CEO	**Peter Giørtz-Carlsen** COO	**Jan Toft Nørgaard** Chairman	**Manfred Graff** Vice Chairman	**Anders Olsson**	**Arthur Fearnall**
Bjørn Jepsen	**Daniel Halmsjö**	**Florence Rollet**	**Grant Cathcart**	**Gustav Kämpe**	**Ib Bjerglund Nielsen**
Inger-Lise Sjöström	**Johnnie Russell**	**Jørn Kjær Madsen**	**Marcel Goffinet**	**Marita Wolf**	**Nana Bule**
René Lund Hansen	**Simon Simonsen**	**Steen Nørgaard Madsen**			

INDEPENDENT AUDITOR'S REPORT

TO THE OWNERS OF ARLA FOODS AMBA

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Arla Foods amba for the financial year 1 January – 31 December 2023, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including material accounting policy information, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with IFRS Accounting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2023 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2023 in accordance with IFRS Accounting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements, or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with IFRS Accounting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aarhus, 19 February 2024
EY Godkendt Revisionspartnerselskab
CVR no. 33 94 61 71

Henrik Kronborg Iversen
State Authorised Public Accountant
MNE no. 24687

Jan K. Mortensen
State Authorised Public Accountant
MNE no. 40030

INDEPENDENT AUDITOR'S ASSURANCE REPORT ON THE SUSTAINABILITY STATEMENTS

TO THE STAKEHOLDERS OF ARLA FOODS AMBA

As agreed, we have performed an examination with a combined reasonable and limited assurance, as defined by the International Standards on Assurance Engagements, on Arla Foods amba's Sustainability Statements in the Annual Report on pages 28-86 for the period from 1 January 2023 to 31 December 2023.

Specifically, we are to conclude on:

1. Reasonable assurance over the following KPI's identified in the Sustainability Statements (In the following referred to as 'Selected sustainability KPI's under reasonable assurance'):

- KPI's in the table on Accidents on page 65
- KPI's in the tables on Numbers of employees (headcounts), Number of employees (headcounts) by contract type and Distribution of employees by age group on page 65
- KPI's in the table on Number of recalls on page 73
- KPI's in the tables on Greenhouse gas emissions progress, Greenhouse gas emissions scope 1-3 and GHG intensity per net revenue on page 40
- KPI's in the tables on Total energy consumption, Energy intensity based on net revenue and Electricity consumption in Europe on page 41
- KPI's in the table on Animal welfare indicators on page 42

2. "Limited assurance over the remaining information in the Sustainability Statements, which can be found on pages 28-86 of the Annual Report.

In preparing the Sustainability Statements, Arla Foods Amba applied the Accounting policies described on pages 28-86. The Sustainability Statements needs to be read and understood together with the Accounting policies, which management is solely responsible for selecting and applying. The absence of an established practice on which to derive, evaluate, and measure the Sustainability Statements allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Management's responsibilities
Arla Foods amba's Management is responsible for selecting the Accounting policies and for presenting the Sustainability statements in accordance with the Accounting policies, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records, and making estimates that are relevant to the preparation of the Sustainability statements, such that it is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities
Our responsibility is to express a conclusion based on our examinations on the presentation of the Sustainability statements in accordance with the scope defined above.

We conducted our examinations in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information and additional requirements under Danish audit regulation to obtain assurance for the purposes of our conclusion.

EY Godkendt Revisionspartnerselskab applies International Standard on Quality Management 1, ISQM1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour as well as ethical requirements applicable in Denmark.

Description of procedures performed
In obtaining reasonable assurance over the Selected sustainability KPI's under reasonable assurance our objective was to perform such procedures and to obtain such evidences which we consider necessary in order to provide us with sufficient appropriate evidence to express an opinion with reasonable assurance.

In obtaining limited assurance over the remaining information in the Sustainability Statements our objective was to perform such procedures as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express a conclusion with limited assurance. The procedures performed in connection with our limited assurance engagement are less than those performed in connection with a reasonable assurance engagement. Consequently, the degree of assurance for our conclusion is substantially less than the assurance which would be obtained had we performed a reasonable assurance engagement.

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

- Interviewed those in charge of Sustainability Statements to develop an understanding of the process for the preparation of the Sustainability statements and for carrying out internal control procedures.
- Performed analytical review of the data and trends to identify areas of the Sustainability Statements with a significant risk of misleading or unbalanced information or material misstatements and obtained an understanding of any explanations provided for significant variances.
- Based on inquiries we evaluated the appropriateness of A ccounting policies used, their consistent application and related disclosures in the Sustainability statements. This includes the reasonableness of estimates made by management.
- Designed and performed further procedures responsive to those risks and obtained evidence that is sufficient and appropriate to provide a basis for our conclusion.

In addition to the above we performed the following procedures for the Selected sustainability KPI's under reasonable assurance:

- Agreed key items and representative samples based on generally accepted sampling methodology to source information to check accuracy and completeness of the data
- Site visits to conduct walkthroughs of data gathering, calculation and consolidation processes related to the reasonable assurance of metrics.

In our opinion, the examinations performed provide a sufficient basis for our conclusion.

Conclusion

In our opinion the Selected sustainability KPI's under reasonable assurance for the period from 1 January 2023 to 31 December 2023, which has been subject to our reasonable assurance procedures have, in all material respects, been prepared in accordance with the Accounting policies on pages 40, 41, 42, 65, 73.

Based on the limited assurance examinations and the evidence obtained, nothing has come to our attention that causes us to believe that the remaining information in Arla Foods amba's Sustainability Statements in the Annual Report on pages 28-86 for the period from 1 January 2023 to 31 December 2023, have not been prepared, in all material respects, in accordance with the Accounting policies described on pages 28-86.

Copenhagen 19 February 2024
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Kronborg Iversen
State Authorised Public Accountant
MNE no. 24687

Monica Mai Bak Larsen
Partner, Climate Change and Sustainability Services

OTHER DISCLOSURES

LURPAK® SPREADABLE

The packaging of all our Lurpak® Spreadable products are designed for recyclability.

UN GLOBAL COMPACT

IN EARLY 2008, ARLA SIGNED UP TO THE GLOBAL COMPACT, THE UN INITIATIVE TO PROMOTE ETHICAL BUSINESS PRACTICES. AS A PARTICIPANT, WE ARE COMMITTED TO OBSERVING THE GLOBAL COMPACT'S 10 FUNDAMENTAL PRINCIPLES.

Human rights

1. Support and respect the protection of internationally proclaimed human rights
2. Make sure that they are not complicit in human rights abuses

Labour

3. Uphold the freedom of association and the effective recognition of the right to collective bargaining
4. The elimination of all forms of forced and compulsory labour
5. The effective abolition of child labour
6. The elimination of discrimination in respect of employment and occupation

Environment

7. Support a precautionary approach to environmental challenges
8. Undertake initiatives to promote greater environmental responsibility
9. Encourage the development and diffusion of environmentally friendly technologies

Anti-corruption

10. Work against corruption in all its forms, including extortion and bribery

Since 2008, Arla has been a participant of the Global Compact's Nordic Network. In May 2009, Arla signed up to Caring for Climate, a voluntary and complementary action platform seeking to demonstrate leadership around the issue of climate change. In 2010, Arla's CEO signed a CEO Statement of Support for the Women's Empowerment Principles, an initiative from the Global Compact and UNIFEM (the UN Development Fund for Women). Read more about the Global Compact and its principles at www.unglobalcompact.org and more about Arla's Code of Conduct at arla.com.

WE SUPPORT
UN GLOBAL COMPACT

OUR PROGRESS TOWARDS THE UN SUSTAINABLE DEVELOPMENT GOALS

Standard	UN SDGs	Page
Environmental data		
CO_2e emissions	2.3, 2.4, 12.2, 12.3, 12.5, 13.1	40
CO_2e reduction scope 1 and 2 (baseline: 2015)		40
CO_2e reduction scope 3 per kg of milk and whey (baseline: 2015)		40
Total CO_2e (mkg)		**40**
Energy mix		
Renewable electricity share EU (%)	7.2, 7.3	41-42
Waste and water	6.3, 6.4	
Solid waste (tonnes)		57
Water consumption (thousand m3)		50
Animal welfare	15.1	
Somatic cell count (thousand cells/ml)		42
Share of audited farmers with no major cleanliness issues		42
Share of audited farmers with no major mobility issues		42
Share of audited farmers with no major injury issues		42
Share of audited farmers with no major issues related to body condition		42
Social data		
Total share of women (%)	5.1, 5.5	66
Share of women at level director and above (%)	5.1, 5.5	66
Share of women in Executive Management Team (%)	5.1, 5.5	66
Gender pay ratio, white-collar (man to woman)	5.1, 5.5, 8.5, 8.7	66
Employee turnover (%)	8.5, 8.7	66
Food safety – number of recalls	2.1	73
Accident frequency (per 1 million working hours)	8.8	65
Governance data		
Share of women, Board of Directors (%)	5.1, 5.5	86
Non-audited targets and ambitions		
Nutrition and affordability	2.1, 3.4	69-70, 73
Resilient dairy farmer communities	1, 2.3, 2.A, 5A, 8.2, 8.3, 12.2, 17.B	64
Responsible sourcing	2.3, 2.4, 6.3, 6.4, 8.7, 8.8, 12.2, 12.4, 13.1, 15.1, 15.2	46-47, 50
Anti-corruption and bribery	16.5	84-86

DISCLOSURE REQUIREMENTS

EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS) COVERED BY ARLA'S SUSTAINABILITY STATEMENTS

Progress towards compliance with CSRD requirements:

- Under materiality threshold
- Internal work initiated
- Moderate progress
- Advanced progress

Status	Standard	Page
Advanced progress	ESRS 2 BP-1	32
Advanced progress	ESRS 2 BP-2	30-32, 40, 41, 43, 50
Advanced progress	ESRS 2 GOV-1	26, 32, 43, 75-80, 86
Advanced progress	ESRS 2 GOV-2	26, 32, 43, 76
Advanced progress	ESRS 2 GOV-3	81
Advanced progress	ESRS 2 GOV-4	62
Advanced progress	ESRS 2 GOV-5	26-27, 43-44
Advanced progress	ESRS 2 SBM-1	10, 26-27, 29, 32, 75
Advanced progress	ESRS 2 SBM-2	26-27, 32
Moderate progress	ESRS 2 SBM-3	26-27, 30-32, 43
Advanced progress	ESRS 2 IRO-1	26-27, 30-32, 43-44
Advanced progress	ESRS 2 IRO-2	26-27, 30-32, 154
Internal work initiated	ESRS E1 GOV-3	81
Moderate progress	ESRS E1-1	29, 32-38, 45, 52, 58, 68
Moderate progress	ESRS E1 SBM-3	26-27, 43
Moderate progress	ESRS E1 IRO-1	30-32, 34, 43-44
Advanced progress	ESRS E1-2	34, 42, 76,
Moderate progress	ESRS E1-3	33-42
Advanced progress	ESRS E1-4	33-36, 40-42, 76
Advanced progress	ESRS E1-5	41-42
Advanced progress	ESRS E1-6	40-41
Moderate progress	ESRS E1-7	34, 40, 41, 46
Moderate progress	ESRS E1-8	42
Internal work initiated	ESRS E1-9	
Under materiality threshold	ESRS E2 IRO-1	
Under materiality threshold	ESRS E2-1	
Under materiality threshold	ESRS E2-2	
Under materiality threshold	ESRS E2-3	
Under materiality threshold	ESRS E2-4	
Under materiality threshold	ESRS E2-5	
Under materiality threshold	ESRS E2-6	
Under materiality threshold	ESRS E3 IRO-1	
Under materiality threshold	ESRS E3-1	
Under materiality threshold	ESRS E3-2	
Under materiality threshold	ESRS E3-3	
Under materiality threshold	ESRS E3-4	
Under materiality threshold	ESRS E3-5	
Internal work initiated	ESRS E4 SBM-3	26-27
Internal work initiated	ESRS E4 IRO-1	
Internal work initiated	ESRS E4-1	
Moderate progress	ESRS E4-2	46-47, 51, 76
Internal work initiated	ESRS E4-3	
Moderate progress	ESRS E4-4	45-47, 50
Internal work initiated	ESRS E4-5	
Internal work initiated	ESRS E4-6	
Moderate progress	ESRS E5 IRO-1	32
Advanced progress	ESRS E5-1	42, 51, 53
Moderate progress	ESRS E5-2	53-55, 57
Advanced progress	ESRS E5-3	34, 53-56
Internal work initiated	ESRS E5-4	
Moderate progress	ESRS E5-5	53-54, 56-57
Internal work initiated	ESRS E5-6	
Moderate progress	ESRS S1 SBM-3	26-27, 30-32
Advanced progress	ESRS S1-1	60-63, 67
Advanced progress	ESRS S1-2	60, 66
Advanced progress	ESRS S1-3	63, 67
Moderate progress	ESRS S1-4	60-63, 85
Internal work initiated	ESRS S1-5	
Advanced progress	ESRS S1-6	65-66
Internal work initiated	ESRS S1-7	
Internal work initiated	ESRS S1-8	
Advanced progress	ESRS S1-9	65-66
Advanced progress	ESRS S1-10	63
Internal work initiated	ESRS S1-11	
Internal work initiated	ESRS S1-12	
Internal work initiated	ESRS S1-13	
Moderate progress	ESRS S1-14	65
Internal work initiated	ESRS S1-15	
Moderate progress	ESRS S1-16	66
Moderate progress	ESRS S1-17	63
Moderate progress	ESRS S2 SBM-3	26-27, 30-32
Moderate progress	ESRS S2-1	62-64, 66-67
Internal work initiated	ESRS S2-2	
Moderate progress	ESRS S2-3	63, 67, 84
Moderate progress	ESRS S2-4	62-64, 66-67
Internal work initiated	ESRS S2-5	
Under materiality threshold	ESRS S3 SBM-3	
Under materiality threshold	ESRS S3-1	
Under materiality threshold	ESRS S3-2	
Under materiality threshold	ESRS S3-3	
Under materiality threshold	ESRS S3-4	
Under materiality threshold	ESRS S3-5	
Internal work initiated	ESRS S4 SBM-3	26-27, 30-32
Advanced progress	ESRS S4-1	72-73
Advanced progress	ESRS S4-2	72
Moderate progress	ESRS S4-3	70, 72-73
Advanced progress	ESRS S4-4	70-73
Internal work initiated	ESRS S4-5	
Moderate progress	ESRS G1 GOV-1	30-31, 67, 76
Moderate progress	ESRS G1-1	42, 67, 84-86
Moderate progress	ESRS G1-2	85-86
Moderate progress	ESRS G1-3	67, 84-86
Internal work initiated	ESRS G1-4	
Moderate progress	ESRS G1-5	78, 80, 85-86
Advanced progress	ESRS G1-6	85-86

GLOSSARY

A

Arlagården® is the name of our quality assurance programme.

Arla® Nutrition Criteria are our guidelines to ensure nutritional quality of our products.

Average interest expenses excluding interest related to pension assets and liabilities is calculated as a total of external interest expenses excluding cash discounts and mora interest, plus interest on finance leases and reduced by interest income on securities divided by net interest-bearing debt excluding pension assets and liabilities.

B

BEPS is an abbreviation referring to base erosion and profit shifting. These are tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations.

Biogas is the mixture of gases produced by the break-down of organic matter in the absence of oxygen. primarily consisting of methane and carbon dioxide. In Arla, biogas is primarily produced from cow manure.

Biomass is plant or animal material used for energy production. It can be purposely grown energy crops, wood or forest residues, waste from food crops, horticulture, food processing, animal farming, or human waste from sewage plants.

Brand share measures revenue from strategic brands as a proportion of total revenue and is defined as the ratio of revenue from strategic branded products to total revenue.

C

CapEx is an abbreviation of capital expenditure.

Capacity cost is defined as the cost of running the general business, and includes staff costs, maintenance, energy, cleaning, IT, travel, consultancy, etc.

Carbon pricing describes a mechanism that places a financial cost on carbon dioxide and other greenhouse gas emissions, thereby financially incentivising low-carbon investments and more sustainable solutions.

Carbon sequestration refers to a natural or artificial process by which carbon dioxide is removed from the atmosphere and held in solid or liquid form.

CPI is an abbreviation of Consumer Price Index.

CSRD is an abbreviation for Corporate Sustainability Reporting Directive and is a regulatory framework proposed by the European Commission. It aims at improving the transparency, comparability, and reliability of companies' sustainability disclosures on environmental, social, and governance.

D

Digital engagement is defined as the number of interactions consumers have across digital channels. The interaction is measured in a number of different ways, for example by viewing a video on all media channels for more than 10 seconds, visiting a webpage, commenting, liking or sharing on our social media channels.

Digital reach is defined as engagement with Arla's digitil content, i.e. spending more than two minutes on our website, watching our videos to the end on YouTube and liking or commenting on content on our social media platforms.

E

EBIT is an abbreviation of earnings before interest and tax. and is a measure of earnings from operations.

EBITDA is an abbreviation of earnings before interest, tax, depreciation and amortisation from ordinary operations.

EBIT margin measures EBIT as a percentage of total revenue.

EMEA is an abbreviation of Europe, the Middle East and Africa.

Equity ratio is the ratio of equity, excluding minority interests, to total assets, and is a measure of the financial strength of Arla.

ESRS is an abbreviation of European Sustainability Reporting Standards and refers to a proposed set of reporting standard for sustainability-related disclosures by companies operating in the European Union. This standard is developed by the European Financial Reporting Advisory Group and aims to provide a common framework for companies to disclose their environmental, social, and governance performance.

F

FMCG is an abbreviation of fast-moving consumer goods.

Free cash flow is defined as cash flow from operating activities after deducting cash flow from investing activities.

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

G

GDPR is an abbreviation of the General Data Protection Regulation, which regulates data protection and privacy in the European Union (EU) and the European Economic Area (EEA). It also addresses the transfer of personal data outside the EU and EEA areas. The GDPR aims primarily to give control to individuals over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU.

Global industry share is a measure of the total milk consumption for producing commodity products relative to the total milk consumption, i.e. based on volumes. Commodity products are sold with lower or no value added, typically via businessto-business sales for other companies to use in their production as well as via industry sales of cheese, butter or milk powder.

Greenhouse Gas Protocol (GHGP) provides accounting and reporting standards, sector guidance, calculation tools to account for greenhouse gas emissions. It establishes a comprehensive, global, standardised framework for measuring and managing emissions from private and public sector operations, value chains, products, cities and policies.

I

IFRS is an abbreviation of International FInancial Reporting Standards which are a globally recognised set of accounting standards developed and maintained by the International Accounting Standards Board (IASB).

Incoterms refer to International Commercial Terms. These are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law. They are widely used in international commercial transactions or procurement processes, and their use is encouraged by trade councils, courts and international lawyers.

Innovation pipeline is defined as the net incremental revenue generated from innovation projects up to 36 months from their launch.

Interest cover is the ratio of EBITDA to net interest costs.

L

Lactalbumin, also known as 'whey protein', is the albu-min contained in milk and obtained from whey.

Leverage is the ratio of net interest-bearing debt, inclusive of pension liabilities, to EBITDA. It enables evaluation of the ability to support future debt and obligations: the long-term target range for leverage is between 2.8 and 3.4.

M

MENA is an abbreviation of the Middle East and North Africa.

Meal kits are a subscription service-food business model where a company sends customers pre-portioned and sometimes partially prepared food ingredients and recipes to prepare homecooked meals.

Milk volume is defined as total intake of raw milk in kg from owners and contractors.

M&A is an abbreviation of mergers and acquisitions.

N

Net interest-bearing debt is defined as current and non-current interest-bearing liabilities less securities, cash and cash equivalents, and other interest-bearing assets. Securities, cash and cash equivalents defined as restricted are not included when deducting liabilities with securities, cash and cash equivalents.

Net interest-bearing debt inclusive of pension liabilities is defined as current and non-current interest-bearing liabilities less securities, cash and cash equivalents, and other interest-bearing assets plus pension liabilities. Securities, cash and cash equivalents defined as restricted are not included when deducting liabilities with securities, cash and cash equivalents.

Net working capital is the capital tied up in inventories, receivables and payables including payables for owner milk.

Net working capital, excluding owner milk is defined as capital that is tied up in inventories, receivables and payables excluding payables for owner milk.

Non-GMO means non-genetically modified organisms, for example non-genetically modified feed crops for cows.

O

OCI is an abbreviation of other comprehensive income. OCI includes revenue, expenses, gains and losses that have yet to be realised.

OECD refers to the Organisation for Economic Cooperation and Development.

On-the-go refers to food consumed while on the go, and also to packaging solutions supporting this food consumption trend.

Other supported brands are brands other than Arla®. Lurpak®. Puck®, Castello® and milk-based branded beverages that contribute to strategic branded volume-driven revenue growth.

P

Performance price for Arla Foods is defined as the pre-paid milk price plus net profit divided by total member milk volume intake. It measures the value creation per kg of owner milk including retained earnings and supplementary payments.

PPA is an abbreviation for power purchase agreements which are contractual agreements between two parties, typically a power producer and a buyer, for the pourchase and sale of electricity.

Pre-paid milk price describes the cash payment farmers receive per kg of milk delivered during the settlement period.

Private label refers to retail brands which are owned by retailers, but produced by Arla based on contract manufacturing agreements.

Profit margin is a measure of profitability. It is the amount by which revenue from sales exceeds costs in a business.

Profit share is defined as the ratio of profit for the period allocated to owners of Arla Foods. to total revenue.

Q

QEHS stands for Quality, Environmental. Health. and Safety. It is a department within Arla's supply chain safeguarding the quality and safety of production.

R

Risk commodities refer to commodities that are associated with environmental, social, and governance risks throughout their supply chains.

S

SEA is an abbreviation of South-East Asia.

SMP is an abbreviation of skimmed milk powder.

Strategic brands are defined as products sold under branded products such as Arla®, Lurpak®, Castello®, Puck® and Starbucks™.

Strategic branded volume-driven revenue growth is defined as revenue growth associated with growth in volumes from strategic branded products while keeping prices constant. It is also referred to in the report as branded volume growth.

U

UNGP is an abbreviation for United Nations Guiding Principles on Business and Human RIghts. These principles provide a global standard for preventing and addressing the adverse human rights impacts of business activities.

UN SDGs is an abbreviation for United Nations Sustainability Development Goals. The United Nations established these 17 goals in 2015 with the aim of providing a comprehensive framework to address various social, economic, and environmental challenges and to guide global efforts towards sustainable development by 2030.

USD-related currencies are currencies which move in the same direction as the USD (i.e. when the USD depreciates against the EUR, it also depreciate against the EUR). Currencies in the MENA region are typical examples.

V

Value-added protein segment contains products with special functionality and compounds, compared to standard protein concentrates with a protein content of approximately 80%.

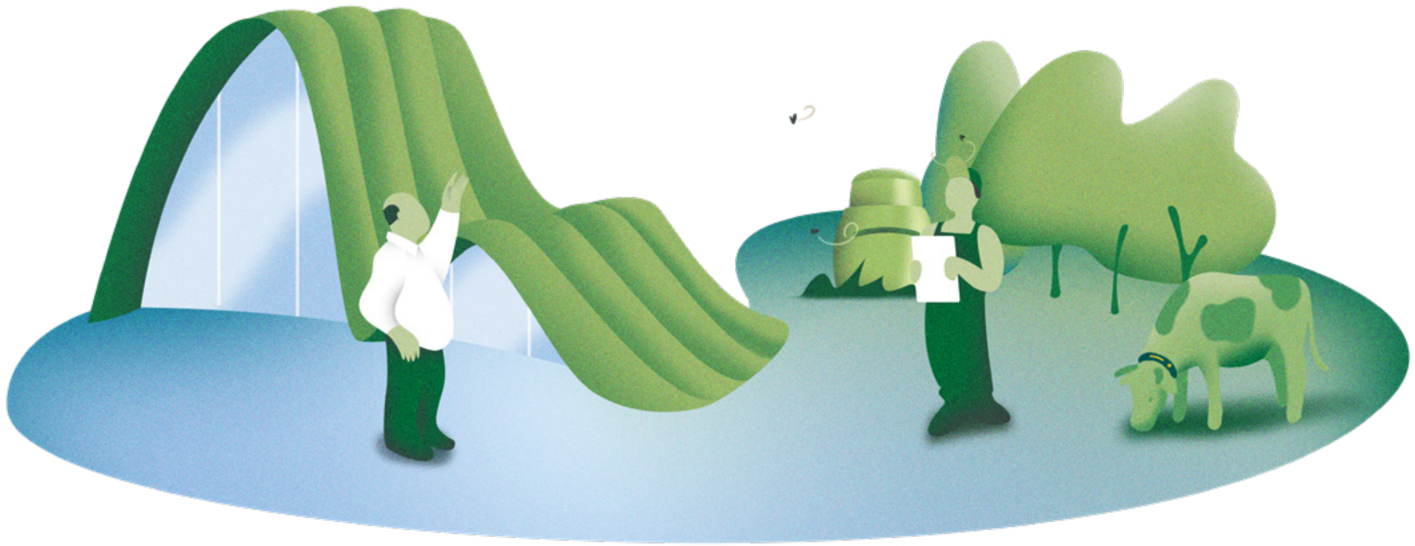
Volume-driven revenue growth is defined as revenue growth associated with growth in volumes while keeping prices constant.

W

Whey protein hydrolysate is a concentrate or isolate in which some of the amino bonds have been broken by exposure of the proteins to heat, acids or enzymes. This pre-digestion means that hydrolysed proteins are more rapidly absorbed in the gut than either whey concentrates or isolates.

WMP is an abbreviation of whole milk powder.

CORPORATE CALENDAR



FEB
28-29
Board of Representatives meeting

FEB
29
Publication of the consolidated annual report for 2023

MAY
29
Elections for the Board of Representatives

AUG
28
Publication of the consolidated half-year results for 2024

OCT
1-2
Board of Representatives meeting

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