

# CREATING VALUE IN A YEAR LIKE NO OTHER



CONSOLIDATED  
ANNUAL REPORT

# 2020



## VISION

CREATE THE  
FUTURE OF DAIRY  
TO BRING HEALTH AND  
INSPIRATION TO THE  
WORLD, NATURALLY.



## TABLE OF CONTENTS

### MANAGEMENT REVIEW

- 03 2020 Performance at a glance
- 04 CEO and Chairman letters
- 05 Message from the Chairman:  
A busy and challenging year
- 06 Message from the CEO: Creating value  
in a year like no other
- 07 Highlights
- 10 Five year overview

### OUR STRATEGY

- 12 Business model
- 13 Good Growth 2020 strategy
- 16 Creating efficiencies with  
Calcium programme
- 18 Embracing change: Major trends  
and strategic responses
- 20 Dealing with Brexit
- 21 Essential business priorities for 2020

### OUR BRANDS AND COMMERCIAL SEGMENTS

- 23 Brands
- 25 Europe
- 27 International
- 29 Arla Foods Ingredients
- 30 Global Industry Sales

### OUR RESPONSIBILITY

- 32 Sustainability strategy
- 33 Environmental ambition
- 34 Climate Checks on farms
- 35 Facilitating better animal welfare
- 36 International dairy development

### OUR GOVERNANCE

- 38 Governance framework
- 40 Diversity and inclusion
- 42 Board of Directors
- 45 Executive Management Team
- 47 Management remuneration
- 48 Responsible and transparent tax practices
- 49 Risk and compliance management

### OUR PERFORMANCE REVIEW

- 56 Market overview
- 57 Performance review
- 61 Financial outlook

### OUR CONSOLIDATED FINANCIAL STATEMENTS

- 63 Primary financial statements
- 73 Notes

### OUR CONSOLIDATED ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA

- 120 Primary statements
- 123 Notes
- 135 Glossary
- 137 Corporate calendar

# 2020 PERFORMANCE AT A GLANCE

## FINANCIAL PERFORMANCE

Revenue

**10.6**

(billion EUR)



Target 2020: 10.4-10.8 billion

Performance price

**36.9**

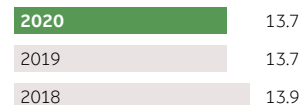
(EUR-cent/kg)



Milk volume

**13.7**

(billion kg)



Profit share\*

**3.2%**

(of revenue)



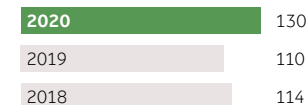
Target 2020: 2.8-3.2%

## COST AND CASH



**130**

(million EUR)



Target 2020: 75-100 million EUR

Leverage

**2.7**



Target 2020: 2.8-3.4

## QUALITY OF BUSINESS

Strategic branded volume driven revenue growth

**7.7%**



Target 2020: 2-4%

Brand share

**48.9%**



Target 2020: ≥ 45%

International share\*\*

**23.6%**



Target 2020: ≥ 23%

## CLIMATE IMPACT

CO<sub>2</sub>e emission reduction, scope 1 and 2

**24%**

Baseline: 2015

Science Based Target 2030: 30%

CO<sub>2</sub>e emission reduction, scope 3 per kg of milk and whey

**7%**

Baseline: 2015


Science Based Target 2030: 30%



\*Based on profit allocated to owners of Arla Foods amba

\*\*International share is based on retail and foodservice revenue, excluding revenue from third party manufacturing, Arla Foods Ingredients and trading activities.

# CREATING VALUE IN A YEAR LIKE NO OTHER

A photograph of three men standing in a barn. The man on the left is wearing a dark jacket over a green sweater and is looking towards the other two men. The man in the middle is wearing a dark quilted jacket and glasses, looking towards the man on the right. The man on the right is wearing a dark jacket and glasses, looking down at a cow. The barn has a wooden roof and several cows are visible in the background.

Jan Toft Nørgaard, Chairman of the Board,  
and Peder Tuborgh, CEO, visit farmer owner  
Lars Mågård Pedersen at his farm in Gjerlev,  
Denmark.

# A BUSY AND CHALLENGING YEAR

## A busy and challenging year

2020 will be remembered as one of the most challenging years in recent times, and Covid-19 continues to affect our lives and livelihoods. Maintaining the food supply has been a critical requirement of all governments, and as farmer owners of a global company we have much to be proud of in the way we have risen to the challenges presented by this devastating pandemic.

Thanks to the efforts of everyone in Arla, farmer owners, employees and management, we have kept focus on our core purpose of producing and delivering healthy and nutritious dairy products to our customers and consumers, which is an extraordinary achievement. In addition, as farmers we have continued our collective commitment to sustainability with the landmark introduction of Climate Checks on all Arla farms and the rollout of our updated Arlagården® programme.

## Strong business results

We entered 2020 with positive sales momentum underpinned by a strong financial position. Even though Arla has been affected by the harsh impact of Covid-19 on the foodservice sector and global commodity markets, our retail business and strong brand portfolio, together with our transformation and efficiency programme Calcium, delivered a financial performance above our expectations.

In a cooperative, strong results should reflect directly on its owners. Thus the Board of Directors has proposed to the Board of Representatives a EUR-cent 1.75 supplementary payment per kilo milk, thereby exceeding the retainment policy by 0.75 EUR-cent/kg as an extraordinary addition.



“OUR STRONG COOPERATIVE SPIRIT HAS BEEN CHALLENGED IN THIS UNUSUAL YEAR.”

## Competitive milk price

The Arla pre-paid milk price was kept at a competitive and relatively stable level throughout 2020. We ended the year with a performance price of EUR-cent 36.9 per kilo, indicating our progress towards a more competitive milk price. That said, as a Board of Directors we fully recognise that farmers are facing increasing production costs and additional requirements. This is a challenge across the European dairy industry that needs to be met by actions across the industry and its wider stakeholder group.

## Sustainability

As farmer owners we have made great efforts to meet important milestones in our transition towards even more sustainable dairy production, and as a cooperative we have created strong results. We have updated and implemented our two major programmes: Arlagården® and Global Climate Checks. This enables us to collect one of the world's largest sets of externally verified climate data from dairy farming, creating a solid foundation for benchmarking, knowledge sharing and research across the dairy industry. This effort will enable Arla to lead the way towards a sustainable future for dairy farming.

## New ways of working in our democracy

As farmer owners we have always valued meeting face-to-face, debating and challenging each other and our business management. Covid-19 restrictions challenged this democratic set-up, as most of our regular meetings had to be hosted on digital platforms. This was new to many of us, but in the spirit of our cooperative mindset, we have managed to overcome this challenge, until we can meet under more normal circumstances again.

## Looking ahead

In the coming year, the Board of Directors will dive deeply into forming our new business strategy and define a future-oriented cooperative that meets the changing demands of our customers and consumers. We must constantly adapt to the future demands and changes, while maintaining the strong core that the cooperative concept gives us as farmer owners. The Free Trade Agreement between the UK and EU was a great relief, and we look positively on the future of our UK business.

## Jan Toft Nørgaard

Chairman of the Board of Directors

Performance price

# 36.9

(EUR-cent/kg)

2020	36.9
2019	36.6
2018	36.4

# CREATING VALUE IN A YEAR LIKE NO OTHER

## A year like no other

2020 was defined by Covid-19, disrupting consumer behaviour, business plans and political agendas instantly as the virus spread across the world. Despite being challenged at work and at home, Arla farmers and colleagues maintained a steady flow of dairy to society, whilst doing their best to keep each other safe.

The global dairy industry was heavily affected, not least by the impact of lockdowns on the foodservice sector, which precipitated a drop in global commodity prices. We saw partial recovery in the second half, but prices have not yet returned to the same levels as before the pandemic. Despite this and a weaker US dollar, we delivered a relatively strong Arla performance price, given the volatility seen in the dairy industry.

## Solid performance

Our performance can be ascribed to the agility of our organisation, the versatility and quality of our business and solid deliveries in our Calcium transformation programme.

The quality of our brands and our ability to move more products into the soaring retail sector meant that we achieved exceptionally strong growth in our brands of 7.7 per cent. AFI also performed well, driven by increased demand for whey proteins for paediatric and medical nutrition products.

Calcium secured EUR 130 million in savings, primarily from supply chain efficiencies, optimised marketing spend and reduced expenses due to many office employees working from home. Since 2018, we have saved net EUR 354 million, and are on course to achieve our 2021 target of net EUR 400 million.

The improved quality of our business is reflected in a performance price of 36.9 EUR-cent/kg, up from 36.6 EUR-cent/kg in 2019. Our net profit ended at 3.2 per cent and the financial leverage at 2.7, enabling the Board of Directors' proposal to the Board of Representatives of a EUR-cent 1.75 supplementary payment per kilo milk, which is 0.75 EUR-cent/kg more than in previous years.

**“ DURING COVID-19, WE HAVE PROVEN TO BE AGILE AND EFFICIENT IN TIMES OF EXTREME UNCERTAINTY. ”**

## Sustainability action

2020 saw us take further sustainability action throughout the value chain, on packaging, renewable energy for dairies, biogas trucks and the launch of a carbon net zero organic milk.

The most prominent achievement is that 93 per cent of our owners with considerable efforts implemented Climate Checks and 100 per cent our Arlagården® programme. Arla farmers are among the most climate efficient in the world and committed to making ongoing progress on our climate and broader sustainability ambitions.



## Expectations for 2021

2021 will be another challenging year with the ongoing impact of Covid-19 and its effects on economies and people's livelihoods. We expect to deliver growth, but not to the extent seen in 2020.

The Free Trade Agreement between the EU and the UK announced just before the year end is welcome news. Brexit does bring some non-tariff barriers, however, we are well-prepared to manage the new procedures and focused on minimising the extra costs.

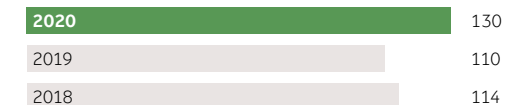
2021 will also be the year in which we will present a new strategy to replace Good Growth 2020, which has successfully improved the quality and resilience of Arla over the past five years. Our strengthened position makes our dairy cooperative a solid home for farmers in the uncertain times ahead.

**Peder Tuborgh**  
CEO



**130**

(million EUR)



# HIGHLIGHTS

The strong dedication from farmer owners and employees, close collaboration with customers, and our diverse and resilient business enabled us to continue our sustainable growth while quickly adapting to the new reality defined by Covid-19. We grew our brands in most markets, implemented Climate Checks on farms, and entered the market for plant-based products, while continuing to deliver our transformation and efficiency programme, Calcium, and maintaining a steady flow of products in all our markets.

## ADAPTING FAST TO NEW DEMAND

Extraordinary circumstances call for extraordinary solutions. While retail faced increasing demand from consumers lunching and cooking at home, our foodservice business was highly impacted by lockdowns of restaurants, cafés, hotels etc. A strong cross-functional collaboration made it possible to quickly shift products from foodservice into retail as well as to accelerate our digital marketing and e-commerce focus. This was possible due to the agility of operations and markets and the resilience of our organisation, supported by a strong collaboration with our customers and commercial partners.



## ARLA EMPLOYEES WALKED THE EXTRA MILE

Since the beginning of the pandemic, employees across the entire company worked hard to uphold a steady flow of products to consumers all over the world. It took a massive effort to adjust routes, milk allocation and production to meet the spike in products for in-home consumption. Huge extra amounts of ingredients and packaging materials were sourced in a very short time, and logistics did a tremendous job delivering the products to stores with changed time schedules and delivery procedures. The production capacities at some sites were tested, particularly at Holstebro Dairy from where a record-high 86 trucks of Lurpak® products were shipped to the UK in one week.



## ARLA FARMER OWNERS KEPT PRODUCTION GOING

Like for everyone else, it was a challenge for Arla's farmer owners to balance work and personal life during lockdowns, where home schooling of children, keeping employees safe and finding new ways of interacting with business partners required extra resources.

Despite these circumstances, our farmer owners managed to keep up milk production, while installing their own safety measures for employees at the farm. The farmer owners also managed the challenge of keeping the cooperative democracy alive by shifting to online meeting formats during the pandemic.



# HIGHLIGHTS (CONTINUED)

## BRANDED GROWTH ACROSS MOST MARKETS

In 2020, our brands grew considerably in almost all markets. The many consumers lunching, cooking and baking at home had a positive impact on particularly Lurpak®, which grew sales by 14.6 per cent after a record-year in 2019, and also the Arla® brand and Puck® delivered solid growth of 3.0 and 11.7 per cent respectively. Early concerns of less on-the-go coffee occasions were disproved as Starbucks™ witnessed double-digit growth driven by the core markets Europe and MENA. Castello® ramped up their digital campaigns and more than tripled the number of people they engaged with in 2020.

📄 Read more on page 23-24



## CONTINUING OUR SUSTAINABILITY ACTIONS ON FARMS

While keeping operations running during the pandemic, we managed to continue, together with our farmer owners, the planned sustainable actions on farms. With an updated version of our comprehensive herd management programme Arlagården®, we made it mandatory for farmers to assess their herds and facilities every three months. At the same

time, we launched the first Europe-wide, incentivised Climate Check programme. With 93 per cent of farmers having submitted climate data, we are in the process of building one of the world's largest sets of externally verified climate data from dairy farming to achieve our ambitious targets of reaching 30 per cent less CO<sub>2</sub>e emissions by 2030 and working towards carbon net zero by 2050.

📄 Read more on page 33-34



## ACCELERATING SUSTAINABILITY WITH THE ARLA® BRAND

The Arla® brand continuously takes actions towards becoming more sustainable. Across all core markets, we presented new concrete initiatives and ran sustainability campaigns under the Arla® brand to create awareness of these. The activities included several new packaging solutions, for example a new 100 per cent recyclable Skyr bucket consisting of 40 per cent less plastic and emitting 30 per cent less CO<sub>2</sub>. We also introduced carbon compensated organic milk in Denmark following a similar launch in Sweden last year. With continued strong focus on animal welfare, we were happy to achieve 2 hearts out of 3 for Arla® fresh milk in the Danish governmental animal welfare label.

📄 Read more on page 23





# HIGHLIGHTS (CONTINUED)

## CALCIUM CONTINUED TO DELIVER STRONG RESULTS

Despite the significant disruption of Covid-19 in most areas of the organisation, our transformation and efficiency programme Calcium exceeded our expectations and delivered EUR 130 million in savings primarily from supply chain efficiencies and optimised marketing spend, but also from reduced expenses due to many office employees working from home. In three years, the programme has created EUR 354 million in total savings, and we are on course to achieve our 2021 target of EUR 400 million.

Read more on page 16-17



## STRONG EXECUTION OF OUR KRAFT® BRAND

The Kraft® brand, which we acquired a licence to manufacture, market and distribute in MENA last year, got off to a good start, growing by a staggering 153 per cent, which was above our expectations. In the professional hands of our brand team, Kraft® flourished in the

Ramadan season, and growth was further boosted by the increased consumption of dairy products at home during Covid-19.

Read more on page 24



## ENTERING THE PLANT-BASED MARKET

As a response to the increasing number of people who seek to include more plant-based foods into their diets, Arla entered the plant-based category in the dairy aisle with a new drink range under the brand JÖRD. The range, which was launched in May, initially includes three variants based on the natural Nordic ingredients of oat, barley and hemp. JÖRD became available to Danish and UK consumers in 2020 and will hit the Swedish market in the third quarter of 2021.

# FIVE-YEAR OVERVIEW

FINANCIAL KEY FIGURES	2020	2019	2018*	2017*	2016*
<b>Performance price (EUR-cent)</b>					
EUR-cent/kg owner milk	36.9	36.6	36.4	38.1	30.9
<b>Income statement (EURm)</b>					
Revenue	10,644	10,527	10,425	10,338	9,567
EBITDA	909	837	767	738	839
EBIT	458	406	404	385	505
Net financials	-72	-59	-62	-64	-107
Profit for the year	352	323	301	299	356
<b>Profit appropriation for the year (EURm)</b>					
Individual capital	41	61	0	38	30
Common capital	81	123	0	120	193
Supplementary payment	223	127	290	127	124
<b>Balance sheet (EURm)</b>					
Total assets	7,331	7,106	6,635	6,442	6,382
Non-current assets	4,413	4,243	3,697	3,550	3,714
Current assets	2,918	2,863	2,938	2,871	2,668
Equity	2,639	2,494	2,519	2,369	2,192
Non-current liabilities	2,296	2,304	1,694	1,554	1,742
Current liabilities	2,396	2,308	2,422	2,499	2,448
Net interest-bearing debt including pension liabilities	2,427	2,362	1,867	1,913	2,017
Net working capital	679	823	894	970	831
<b>Cash flows (EURm)</b>					
Cash flow from operating activities	731	773	649	386	806
Cash flow from investing activities	-488	-571	-432	-219	-167
Free cash flow	243	202	217	167	639
Cash flow from financing activities	-293	-136	-191	-155	-624
Investments in property, plant and equipment	-478	-425	-383	-248	-263
Purchase of enterprises	-	-168	-51	-7	-

\* Not restated following the implementation of IFRS 16 leasing standard.

FINANCIAL KEY FIGURES	2020	2019	2018*	2017*	2016*
<b>Financial ratios</b>					
Profit share	3.2%	3.0%	2.8%	2.8%	3.6%
EBIT margin	4.3%	3.9%	3.9%	3.7%	5.3%
Leverage	2.7	2.8	2.4	2.6	2.4
Interest cover	16.8	12.0	14.9	12.9	13.3
Equity ratio	35%	34%	37%	36%	34%
<b>Inflow of raw milk (mkg)</b>					
Inflow from owners in Denmark	4,962	4,940	4,937	4,827	4,728
Inflow from owners in the UK	3,271	3,230	3,196	3,203	3,210
Inflow from owners in Sweden	1,826	1,788	1,826	1,855	1,909
Inflow from owners in Germany	1,714	1,700	1,762	1,759	1,758
Inflow from owners in Netherlands, Belgium and Luxembourg	742	724	725	729	715
Inflow from others	1,231	1,323	1,457	1,564	1,554
Total inflow of raw milk	13,746	13,705	13,903	13,937	13,874
<b>Number of owners</b>					
Owners in Sweden	2,374	2,497	2,630	2,780	2,972
Owners in Denmark	2,357	2,436	2,593	2,675	2,877
Owners in Germany	1,576	1,731	1,841	2,327	2,461
Owners in the UK	2,241	2,190	2,289	2,395	2,485
Owners in Netherlands, Belgium and Luxembourg	858	905	966	1,085	1,127
Total number of owners	9,406	9,759	10,319	11,262	11,922
<b>Environmental, social and governance data</b>					
CO <sub>2</sub> e scope 1 and 2 (mkg)	751	862	946	930	940
CO <sub>2</sub> e scope 3 (mkg)	18,479	18,243	18,411	18,528	18,644
Average number of full-time equivalents	20,020	19,174	19,190	18,973	18,765
Gender diversity board	20%**	20%**	13%	12%	7%

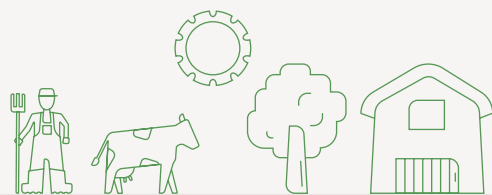
\*\* The ratio pertains to all members of the BoD (including employee representatives and external advisors). Gender ratio within the elected members is 13 per cent female, 87 per cent male.

For in-depth info please refer to the Consolidated Financial Statements (from page 63), and the Consolidated Environmental, Social and Governance Statements (from page 120).



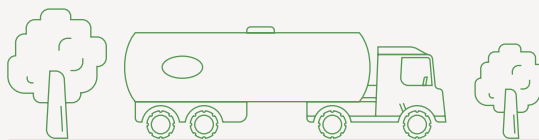
# OUR STRATEGY

# OUR BUSINESS MODEL



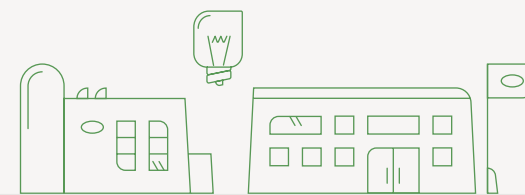
## OWNERS & COWS

- We have **9,406** farmer owners, who are responsible for over **1.5** million cows
- Our farmers are among the best in the world in innovating to make dairy farms more efficient and sustainable
- Animal welfare is key to our success: we provide digital tools to our owners to constantly track the well-being of their herds



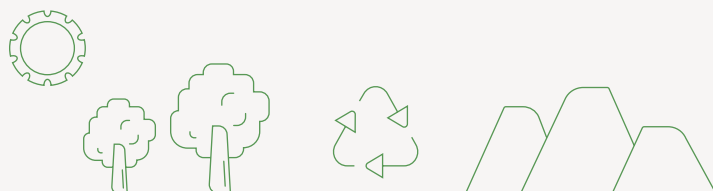
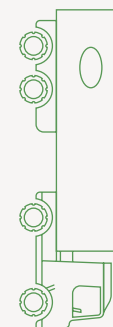
## MILK COLLECTION

- We collect around **13.7** billion kilos of raw milk mainly from our owners in seven countries each year
- We are switching to fossil-free fuel in our trucks. This is already the reality in our Swedish business



## PRODUCTION, PACKAGING & INNOVATION

- We process milk at our **60** sites
- We produce **6.8** billion kilos of nutritious dairy products each year
- We constantly develop new recyclable packaging and reduce our use of virgin plastic



## CONSUMERS & WASTE MANAGEMENT

- We provide accessible nutrition to millions of people
- It is important to us that our products have the least possible negative impact on the environment throughout the entire product lifecycle, and we continuously work to reduce our waste



## CUSTOMERS

- We sell our products in **153** countries
- We add value to our owners' milk through innovation, branding and marketing, and when the products are sold, the money goes back to our owners as part of the milk price

In 2020, we concluded our **Good Growth 2020** strategy. With the strategy we strengthened our competitiveness and our international presence, and we structurally improved the quality of our business by shifting volumes from private label and industry sales into our branded retail and food ingredient business. Our Good Growth 2020 strategy was supplemented by our transformation and efficiency programme, Calcium, launched in 2018 as well as our ambitious sustainability strategy launched in 2019.

During the strategic journey we have seen unprecedented external impacts, such as the Brexit vote in 2016, volatility in raw material prices, and most recently the Covid-19 pandemic in 2020.

In 2021, we will build on the successes and strengths of Good Growth 2020 our transformation and efficiency programme Calcium, our sustainability strategy, as well as the trends and lessons from recent external events. By the end of 2021, we will launch a new group strategy for the years to come.

# GOOD GROWTH 2020 STRATEGY DELIVERED STRONG RESULTS

## OUR VISION

Create the future of dairy to bring health and inspiration to the world, naturally.

## OUR MISSION

To secure the highest value for our farmers' milk while creating opportunities for their growth.

### EXCEL

in 8 categories

### FOCUS

in 6 regions

### WIN

as ONE Arla

## KEY ACHIEVEMENTS

Strategic branded volume driven revenue growth\*

# 4.6%

Baseline 2015: **1-2%**

2015-2020 CAGR  
Target: **3%**

Brand share

# 48.9%

Baseline 2015: **42%**

Target 2020: **>45%**

International share\*\*

# 23.6%

Baseline 2015: **17%**

Target 2020: **~23%**

Calcium savings

# 354

 EURm
 

Baseline 2015: **0 EURm**

Target 2021: **400 EURm**



## OUR STRATEGY ACCELERATOR

Cost savings at EUR 400+ million by 2021.

## OUR SUSTAINABILITY STRATEGY

### Stronger planet

Improving the environment for future generations.

### Stronger people

Increasing access to healthy dairy nutrition and inspiring good food habits.

## OUR GOOD GROWTH IDENTITY

Healthy, natural, responsible and cooperative growth.



## SUMMING UP GOOD GROWTH 2020

Despite Covid-19 and other unprecedented external impacts throughout the strategy period, our Good Growth 2020 strategy delivered above expectations on all four KPIs and was further strengthened by our ambitious sustainability strategy.

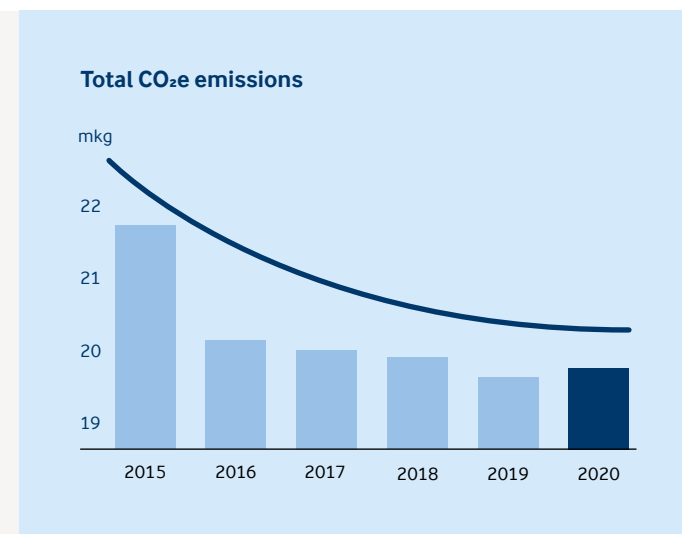
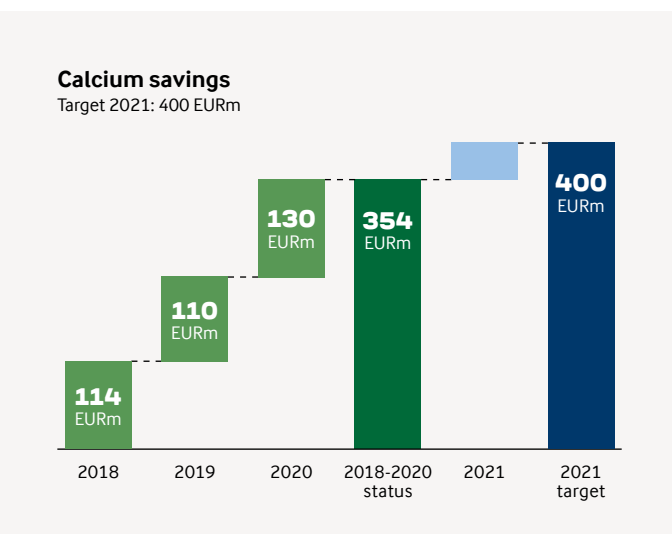
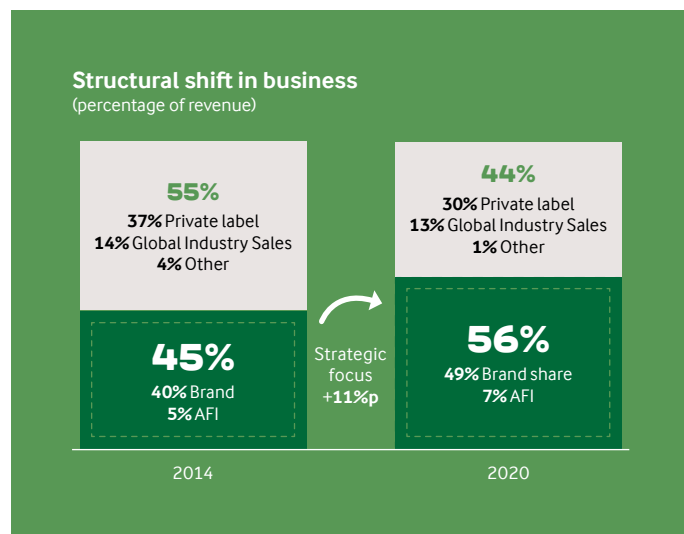
The trends and lessons from the disruption caused by Covid-19 are reflected in our 2021 business plan, where we will further build on the successes and strengths of the Good Growth 2020 strategy, our transformation and efficiency programme Calcium, and our sustainability strategy.

By the end of 2021, we will launch a new strategy for the years to come.

\* Here we refer to the CAGR figures for the Good Growth strategy period 2015-2020.

\*\* International share is based on retail and foodservice revenue, excluding revenue from third party manufacturing, Arla Foods Ingredients and trading activities.

# GOOD GROWTH 2020 STRATEGY IMPROVED THE QUALITY OF BUSINESS



## A STRONGER ARLA FOODS

The Good Growth 2020 strategy has successfully improved the quality of our business. The main value driver has been a shift of volumes from private label and global industry sales to branded products in our retail business and value added products in Arla Foods Ingredients. This effect has been strengthened further through acquisitions in Bahrain and the UK, as well the extension of our strategic cooperation with Starbucks. This structural shift of 11 percentage points has markedly contributed to improving the overall value creation of the company. We have furthermore strengthened our international footprint, increasing the international share by 7 percentage points, and thereby our position in high growth areas.

## GLOBAL TRANSFORMATION JOURNEY

The strategy delivered results above our expectations despite unprecedented external impacts on the way, including depreciation in currencies, especially GBP and SEK, export sanctions on European products in Russia, less owner milk intake than anticipated, and not least the unstable fat and protein prices.

As a response to the unforeseen external impacts on our business, we launched our savings and efficiency programme, Calcium, in 2018. The programme contributed to delivering considerable savings, improving our cost structure and strengthening our future competitiveness, which is expressed in our performance price.

## COMMITTING TO A SUSTAINABLE FUTURE

Arla is committed to being a part of the solution to the world's most pressing issues. In 2019, we launched our new sustainability strategy Stronger Planet - Stronger People, which focuses on improving the environment for future generations, increasing access to healthy dairy nutrition, and inspiring good food habits.

To accelerate our environmental ambitions we set the target to reduce greenhouse gas emissions by 30 per cent over the next decade, and to work towards becoming carbon net zero by 2050. We already made good progress reducing our scope 1 and 2 CO<sub>2</sub>e emissions related to operations by 24 per cent compared to 2015.

# CREATING EFFICIENCIES WITH CALCIUM PROGRAMME

In 2018, we launched our transformation and efficiency programme, Calcium, to accelerate Arla’s strategy by transforming the way we work, spend and invest. In 2020, Calcium continued to create efficiencies and release money to reinvest in our growth. In total, the programme has now delivered EUR 354 million in savings.

### Continued savings during Covid-19

We have come a long way on our Calcium journey and continue to deliver savings at a good pace. Meanwhile, we have delivered branded growth and made investments for the future, Calcium is now a more integrated part of our business. Despite the extraordinary circumstances in 2020, the Calcium programme exceeded our expectations and

delivered EUR 130 million in savings primarily from supply chain efficiencies, optimised marketing spend and reduced expenses due to many office employees working from home. In three years, the programme has created EUR 354 million in total savings, and we are on course to achieve the 2021 target of EUR 400 million. The net effect on our cost base was lower due to reinvestment and in-year non-recurring items\*.

### RESILIENT AND EFFICIENT SUPPLY CHAIN

During 2020, our supply chain proved to be very resilient and at the same time efficient in the way we operate. Despite the volatile environment caused by Covid-19, our supply chain delivered all time high net productivity and thereby also strong Calcium savings. Given the flexibility, agility and strong collaboration throughout the organisation, we managed to maintain high service levels to our customers, while safeguarding our employees.

### EMBRACING DIGITAL TOOLS AND NEW WAYS OF WORKING

Covid-19 pushed us to more virtual and remote ways of working. We successfully embraced the new tools and digital ways of working across countries, locations, and teams. Across our Calcium work streams, we quickly adapted to the new virtual ways of working and held multiple online training sessions events, and multi-site boosts with good results.

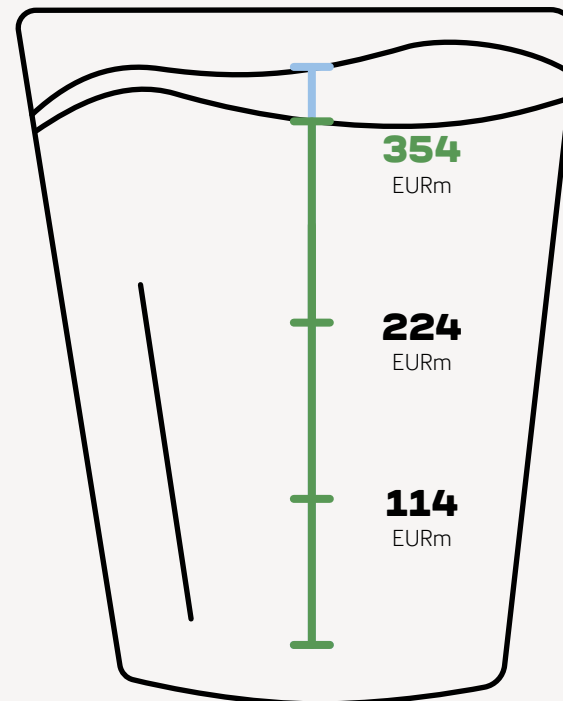


**130**

EURm saved in 2020  
Target 2020: 75-100 EURm

**400**

EURm  
(Full programme target 2021)





# CREATING EFFICIENCIES WITH CALCIUM PROGRAMME

We saved in total **105\*** EURm through initiatives in Logistics – and reduced our carbon emissions.

By making Logistics' cost to serve more transparent, we will step-change our performance management infrastructure and enable cross-functional decision-making. As an example, we have so far saved 12 EURm by enabling reason codes in our systems identifying where the finished goods waste comes from.

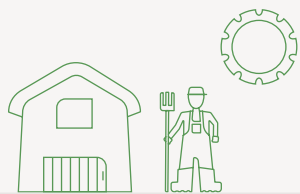
By reducing our material losses we saved in total **+70** EURm and decreased our waste.

We continuously optimise our sites, and despite the challenging year, as an example, we conducted online workshops at 10 UK sites to understand the opportunities of reducing material losses. We identified potential savings of 1.1 EURm within our focus topics.

Our new trade investment management tool called Alice is now live in UK, Sweden and Denmark.

Alice optimises trade investment management in Arla and empowers our sales organisation with improved transparency, planning, forecast accuracy and on-shelf availability during promotions.

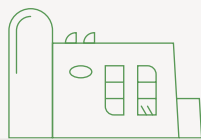
Good service and more sustainable products



**OWNER/FARMER**



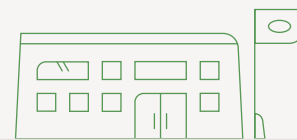
**LOGISTICS**



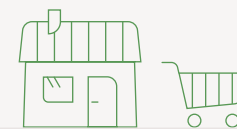
**PRODUCTION**



**SUPPLIER**



**ADMINISTRATION/  
SALES AND MARKETING**



**CUSTOMERS  
AND CONSUMERS**

Savings and efficiencies contribute to improving the milk price

By continuously reducing the number of SKUs and relentlessly harmonising product components, such as ingredients and packaging, we simplify the supply chain and increase our speed to market.

We have reduced our number of SKUs by 13 per cent and our plastic usage by **+400** tonnes in total.

We are improving our governance and compliance around purchasing processes and have reduced our number of suppliers. We increased our purchasing order compliance by 6 percentage points and spend compliance by 2 percentage points. Among others, this was a result of all new white collar employees participating in learning sessions on how to buy and order in Arla.

In total, **+560** contracts have been negotiated and signed, creating savings of **196** EURm.

Adding a new market, Germany, to our in-house agency, The Barn, we successfully continue to build strong digital capabilities internally while delivering significant efficiencies in marketing spend to fund our journey.

We embarked on a journey to make The Barn our number one digital agency in terms of size and performance.

# EMBRACING CHANGE: MAJOR TRENDS AND STRATEGIC RESPONSES



## COVID-19

### UNCERTAINTY IN GLOBAL ECONOMIES AND LOURING RECESSION

The pandemic has different impacts across markets, resulting in recession to a varying degree. IMF estimated growth in world GDP of -3.5 per cent in 2020, where especially the Euro zone posted high negative growth of -7.2 per cent and Emerging Markets and Developing Countries -2.4 per cent<sup>1)</sup>. Most markets are expected to have recovered by 2022, but there is high uncertainty on the level of economic activity into 2021 and beyond<sup>2)</sup>.

### CHANGED CUSTOMER AND CONSUMER BEHAVIOUR

In 2020, consumer food shopping behaviour changed rapidly due to the disruption of Covid-19, impacting both retail and the foodservice business. Increased in-home consumption and an accelerated shift towards e-commerce were the consequences of several lockdown periods. 2021 is starting with continued lockdowns and high infection numbers across the world, and these trends are likely to continue far into the year. However, out-of-home eating is expected to rise again as the pandemic is slowly overcome, and we enter into a 'new normal'.

### POLITICAL UNCERTAINTY

As a consequence of Covid-19, some countries may impose certain trade restrictions as focus on supporting domestic businesses is likely to be increasing. Despite the post-Brexit Free Trade Agreement between the UK and the EU, friction costs and potential delays at borders will affect trade with the UK. Ongoing trade wars between China and the USA and conflicts in the Middle East will also continuously cause uncertainty in the global markets into 2021, while a new presidency in the US may open up for new opportunities.

TREND

RESPONSE

Given our strong product portfolio and broad international footprint, Arla is prepared to face the looming recession in close collaboration with our customers. This was demonstrated in 2020, when we managed to shift product volumes from our foodservice business into retail to meet the unprecedented high demand and quickly adapt to the new market conditions. This agility and resilience of our business is our strength in uncertain times.

During 2020, our strong commercial execution and empowered front line proved that we were able to adapt fast to new customer and consumer demand and growing our e-commerce business. We kept a steady supply of products during lockdowns, and we managed to accelerate digital marketing and e-commerce at an overproportionate speed meeting our customers where they were. In 2020, Arla engaged with consumers more than 600 million times through our digital platforms.

Given our broad global market footprint and a proven resilient and agile business model, Arla is in a strengthened position to address the impacts of political uncertainty across our markets. We strongly believe in and advocate for free trade, however, we have prepared our business for different outcomes of the Brexit negotiations since the Brexit vote in 2016 (read more on p. 20).



# EMBRACING CHANGE: MAJOR TRENDS AND STRATEGIC RESPONSES (CONTINUED)

## LONG-TERM TRENDS

### ACCELERATING SUSTAINABILITY AGENDA

With the strong commitment to the Sustainable Development Goals from governments and businesses across the world, there is an increased focus on finding solutions to the world's most pressing issues. The latest UN reports highlight the severity of climate change, and the new President of the USA has expressed his aim to recommit to the Paris Agreement and ramp up global climate ambition. Consumers are also increasingly looking for sustainably produced products. Recent studies show that 35 per cent of global consumers are willing to trade up for a sustainable product<sup>1)</sup>.

In Arla, we want to be part of the solution driving the sustainability agenda in the dairy industry and creating value through sustainable dairy. We have set the bar high with our Stronger Planet – Stronger People strategy and an ambition of becoming carbon net zero by 2050, and we constantly challenge ourselves to find new ways of accelerating our sustainability journey.



### INCREASING WORLD POPULATION

By 2050, the world population is expected to have increased to 9.7 billion people<sup>2)</sup>. Half of the growth is expected to occur in Africa, and Asia is expected to be the second largest contributor with 0.9 billion people. Especially the middle class is growing rapidly in Asia and moderately in Africa. The rapidly growing world population will challenge the global food supply.

As a part of our Stronger Planet – Stronger People sustainability strategy, Arla is committed to be part of the solution of feeding the world. We have strengthened our focus on offering affordable nutrition in selected international markets, e.g. our affordable and healthy nutrition for infants and toddlers, Baby&ME organic, was introduced in emerging markets in the Middle East. We also support local dairy development in emerging markets.



### INCREASING ONLINE CHANNEL AND DIGITALISATION

Covid-19 has accelerated the channel shift towards e-commerce and discounters across countries and categories. Online consumer bases have increased on average by 30 per cent in food and household categories across markets<sup>3)</sup>. In addition to the e-commerce trend, digitalisation is swiftly penetrating all other business areas, putting increasing pressure on Arla's speed of adaptation to stay competitive.

In Arla, we have responded quickly to the accelerated digital trends. Building on our strong partnerships in the grocery sector, we have launched various initiatives in e-commerce, including investments in technology across e-commerce sales and digital marketing. Our ambition is that 10 per cent of sales across Europe come from online by 2025. We have also launched significant initiatives within supply chain and core business processes, for example digital robots and artificial intelligence.



TREND

RESPONSE

1) McKinsey 2017-2020 Global Sentiment Survey

2) UN World Population Prospects 2019

3) McKinsey & Company Covid-19 consumer pulse survey, March-September 2020

# DEALING WITH BREXIT

Since the Brexit vote in 2016, Arla has advocated for a trade deal which supports tariff-free trade in dairy, and we welcome that the UK government and the EU finally came to an agreement at the very end of 2020. However, whereas zero tariffs and quotas are good news, the non-tariff barriers within the deal will create friction resulting in additional complexity and cost. Having prepared for this scenario for four and a half years, we have plans in place to mitigate these impacts in close collaboration with our customers and suppliers, and we face the challenges posed by Brexit from a position of strength with a fundamentally resilient and agile UK business.

## Our UK business

Our UK business currently accounts for 26 per cent of our revenue and is one of the drivers of our branded growth. Hence, it is very important for Arla that our products and employees can move freely from and to the UK. Some of the successful brands in the UK market, including Lurpak®, Arla® Skyr and Lactofree, are imported to the UK, while some Castello® products are exported from the UK.

## Brexit impacts in 2020

In 2020, the uncertainties caused by Brexit were offset by Covid-19, which caused solid branded growth in the UK due to increased lunching and cooking at home. The UK business proved its resilience during the pandemic and is operationally ready to deal with the volatility caused by Brexit.

## Expected future impacts and mitigation plans

With a trade deal, Arla's UK business is much stronger than with no deal. However, as the UK has left the EU Single Market and Customs Union there will be additional administration, form filling and controls of the products we import and export, and possible delays at ports and borders may

cause significant disruption. We have plans in place to deal with this, and we are in continuous dialogue with our customers and suppliers about further mitigation measures.

Our Brexit Task Force will continue to coordinate our response as we navigate the unfolding of the new EU/UK trading relationship. We will also be monitoring the UK and EU dairy markets and currency situation carefully and be ready to respond as necessary.

As seen during Covid-19, our organisation is set up to be agile and deal with uncertainty, and we will use our resilience and agility also to face the challenges posed by Brexit.

## ARLA IN THE UK

Revenue, EURb

**2.7**

Total assets, EURm

**958**

Share of the inflow of raw milk from owners

**26%**

Number of farmers in the UK

**2,241**

Number of employees in the UK

**3,362<sup>1)</sup>**

Number of production and packaging facilities

**10**

Key brands

Lurpak®, Arla® Skyr and Lactofree, Castello®



# ESSENTIAL BUSINESS PRIORITIES FOR 2020



Arla's essential business priorities are the annual focal points on the Good Growth 2020 journey. They are set by our Executive Management Team and approved by the Board of Directors. We follow up on our progress on a monthly basis.

## DELIVER CALCIUM TRANSFORMATION

- ✓ Maintain momentum of ongoing projects
- ✓ Keep delivering supply chain savings
- Anchor the transformation beyond 2021

## SUCCEED WITH COMMERCIAL PRIORITIES

- ✓ Maintain growth momentum in markets such as China, Nigeria, SEA and MENA
- ✓ Strengthen our European market and brand positions
- Minimise any negative impacts of Brexit

## BUILD STRONG CUSTOMER PARTNERSHIP AND GROW

- ✓ Deliver improved service levels
- ✓ Overproportionately grow branded volumes with our top customers

## DRIVE CORE BRANDS AND BOOST INNOVATION

- ✓ Improve innovation impact
- ✓ Deliver big bets for our strategic brands
- ✓ Launch plant-based concept in Europe

## EXCITE OUR PEOPLE ABOUT THE FUTURE DIRECTION OF ARLA

- ✓ Improve employee engagement
- ✓ Excite employees about our strategy beyond 2020

## GROW ARLA FOODS INGREDIENTS

- Secure the growth of early life nutrition products in China
- ✓ Grow value-added segment

## TAKE LEAD AND EXECUTE SUSTAINABILITY AGENDA

- ✓ Accelerate climate performance at farm level with Climate Check programme
- ✓ Support branded growth with health and packaging innovations

## COVID-19 ADDITIONS IN HALF-YEAR REPORT

- ✓ Keep the business running and performing during Covid-19
- Adapting to new reality and planning ahead

✓ *Target achieved*   ● *Trend on track*

# OUR BRANDS & COMMERCIAL SEGMENTS



# BRANDS

Our brands are at the heart of our business and drove overall strong growth in 2020. Given the challenging conditions due to Covid-19, our brand teams quickly adapted to the new reality and changing consumer behaviour. Strong digital mindsets and creative campaigning were imperative to embracing the changes and turning them into commercial opportunities.



## STRONG ARLA SUPPLY CHAIN SUPPORTED LURPAK® GROWTH OF 15 PER CENT

2020 was another record-breaking year for Lurpak®, breaking last year's record of 300 million packs of butter and spreads sold by an additional 45 million packs. The growth can primarily be explained by high consumer loyalty to trusted brands and increased in-home lunching and cooking due to Covid-19 restrictions. To satisfy this massively increased demand the entire Arla supply chain did a remarkable job. The global planning team needed to find more Danish cream than ever before, procurement needed to source 15 per cent more packaging materials without notice, and our Holstebro Dairy needed to step up production and shipments to unprecedented numbers. 2020 was a true example of the fantastic team efforts we have seen all over Arla in this unusual year.

## ARLA® BRAND GREW AND FURTHER STRENGTHENED SUSTAINABILITY TRAIT

Overall, the Arla® brand had a strong year with branded growth of 3.0 per cent, driven by increasing retail sales, which more than offset the drop in foodservice. The continued strong focus on animal welfare earned the Arla® brand 2 out of 3 hearts on Arla 24 milk in the Danish governmental animal welfare label 'Better animal welfare'. As part of Arla's commitment to become carbon net zero by 2050, the Arla® brand launched carbon reduced and recyclable packaging solutions, and introduced carbon compensated milk in Denmark. Furthermore, the Arla® brand continued to build a premium organic position in overseas markets like China and the Middle East, while gaining market shares for affordable nutrition in emerging markets like Nigeria, Senegal, Ghana and Bangladesh.

## CELEBRATING TEN YEAR ANNIVERSARY WITH STARBUCKS™

In 2020, we celebrated 10 years of cooperation with the American coffee brand Starbucks™ where Arla manufactures, distributes and markets Starbucks™ branded premium ready-to-drink coffee beverages in Europe, the Middle East and North Africa. A highly successful journey starting with 7 million units sold in 2010 and ending 2020 with close to 150 million units sold. Despite early concerns that less on-the-go coffee occasions due to Covid-19 would reduce Starbucks™ performance, we have witnessed very strong double-digit growth mainly driven by our core markets in Europe and the UK. We constantly follow the changing consumer trends, and in 2020, we launched two additions to our plant-based range; Starbucks™ Chilled Classics oat and coconut iced coffee.

# BRANDS (CONTINUED)

## PUCK® IMPROVED POSITION IN SAUDI ARABIA

In 2020, with revenue exceeding EUR 400 million in MENA, our strong Middle East brand, Puck® solidified its brand power and brand share. This was a result of the household brand's ability to quickly adjust to the new consumer demand and inspire consumers through online channels. With a special focus on supporting and inspiring mothers to provide for a festive Ramadan despite the challenges caused by the pandemic, Puck® launched the 'Moms CAN' campaign reaching thousands of women.

## KRAFT® GREW REMARKABLY IN THE MENA REGION

In May 2019, the Kraft® portfolio was added to our Arla Middle East and North Africa (MENA) business and delivered strong results during the first year. With our strong market presence in MENA and exceptionally high front line power, combined with an increased digital focus, Kraft® was relaunched in the region with the "Kraft it!" campaign. Consumers welcomed the 'new' Kraft® brand, and sales really started picking up.

## CASTELLO'S 'FEED YOUR SENSES' DIGITAL CAMPAIGN ENGAGED OVER 30 MILLION PEOPLE GLOBALLY

As a response to people increasingly searching the internet for food inspiration during Covid-19, Castello® ramped up the digital 'Feed your senses' campaign and met consumers head on with a bunch of digital content. On top of this, a new global content partnership with the food content platform 'Tastemade' was launched in 6 markets, taking Castello® to a more millennial audience. As a result, Castello® more than tripled the number of people it engaged with compared to last year. Year on year, the digital campaign, supported by strong promotions and in-store activation, has driven solid growth in the pre-packed cheese business, which is now above 6 per cent.





# EUROPE

Our European commercial segment delivered record-high branded growth of 5.9 per cent in a year of extreme Covid-19 volatility in the market. Growth was driven by significantly increased in-home consumption and e-commerce sales with 9.5 per cent strategic branded volume driven revenue growth in retail, which more than compensated the foodservice reduction following lock-downs during the year. Growth was driven in particular by the Arla® brand with 3.4 per cent, Lurpak® with 15.9 per cent and Starbucks™ with 32.4 per cent. The Calcium transformation journey continued to strengthen our competitiveness in Europe.

Revenue, EURm

**6,413**

2019: 6,353

Strategic branded volume driven revenue growth

**5.9%**

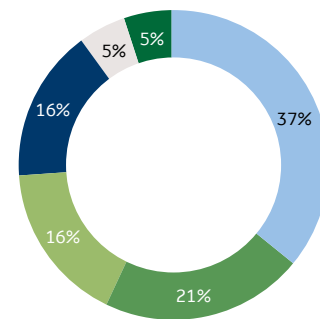
2019: 2.9%

Brand share, EURm

**54.1%**

2019: 53%

Revenue split by country, 2020



**“2020 WAS INDEED A SPECIAL BUT POSITIVE YEAR FOR OUR COMMERCIAL EUROPEAN BUSINESS. COVID-19 HAD A HIGH IMPACT ON THE DAIRY MARKET, AND WE MANAGED THE SIGNIFICANT CHANGES WELL. BASED ON EXCELLENT WORK FROM ALL EMPLOYEES ACROSS FUNCTIONS WE STRENGTHENED OUR BUSINESS WITH RECORD-HIGH BRANDED GROWTH, MARKET SHARE GAINS AND STRONG CUSTOMER SERVICE DURING A VERY VOLATILE YEAR.”**

Peter Giørtz-Carlson,  
Member of the Executive Board,  
and Chief Commercial Officer, Europe

## STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH BY COUNTRY



UK

**13.1%**

2019: 8.8%



Germany

**7.1%**

2019: 2.6%



Denmark

**5.1%**

2019: 0.4%



Sweden

**2.5%**

2019: 0.7%



NL, B, F

**9.8%**

2019: 5.2%



Finland

**-7.3%**

2019: 3.2%

# EUROPE (CONTINUED)

## DENMARK

The branded business continued to grow in 2020, resulting in revenue of EUR 998 million. Covid-19 had a significant impact on our channel mix with higher consumption in retail while our foodservice declined. We strengthened the milk category by launching our 'Animal Welfare' concept with 2 hearts on all Arla24 milk, and we continued our sustainability journey by introducing Climate Checks on all farms, reducing waste, and launching CO<sub>2</sub>e neutral organic milk. During the uncertain Covid-19 times, strong cooperation across the full supply chain supported all our customers by securing products in a safe and timely way.

## SWEDEN

Against a backdrop of Covid-19 and the impacts on our foodservice channel, Arla Sweden delivered very satisfactory results in 2020 with total revenue of EUR 1,361 million. Almost all categories and brands delivered growth, particularly the Arla Köket<sup>®</sup>, Svensk Smör<sup>®</sup> and Starbucks<sup>™</sup> brands. In the context of an exceptional working environment, we succeeded in providing a seamless supply of nutritious dairy products to the Swedish consumers, whilst safeguarding the health and wellbeing of our colleagues. As part of Arla's sustainability agenda, we introduced our Zero Vision for animal welfare initiative and launched animal welfare milk.

## FINLAND

Our sizeable Finish foodservice was significantly impacted by Covid-19 as lockdowns and increased in-home consumption resulted in lower sales. Contrary, we experienced growth across most main brands resulting in total revenue of EUR 314 million. In particular Arla Lempi<sup>®</sup> grew considerably as the naturalness of the products and the sustainable packaging continue to be key differentiators for our consumers. Innovation is a continuous strong focus of the Finnish business and in 2020, a new range of wellbeing yogurts, Arla Got Guts<sup>?</sup>, was launched.

## UK

The UK market had an exceptional year of double digit branded growth driven by strong commercial execution and increased in-home consumption as a result of extended periods of Covid-19-related restricted living. Revenue in the UK was EUR 2,380 million. The Arla<sup>®</sup>, Lurpak<sup>®</sup> and Starbucks<sup>™</sup> brands grew and consolidated their number one positions, while overall the business broke through GBP 1.0 billion branded retail sales value for the first time. In addition, our UK business proudly supported a number of charities providing food for the nation during these uncertain times, at the same time propelling our sustainability agenda with a number of innovative prototype solutions to better recycle farm waste.

## GERMANY

Germany had another year of strong branded growth with initiatives on key Arla sub-brands, in particular Arla Bio<sup>®</sup>, Arla<sup>®</sup> Kaergarden and Arla<sup>®</sup> Skyr. Several of these initiatives contributed to our sustainability agenda, e.g. removal of cup lids and launches of recyclable and carbon reduced packaging. Despite the impacts of Covid-19, we managed to handle increased customer demand well due to tremendous efforts from the entire supply chain. The decline in the foodservice business was compensated by high demand for especially cooking and milk products, both in private label and branded products. Total revenue was EUR 1,024 million.

## NETHERLANDS, BELGIUM AND FRANCE

Despite the challenges impacting 2020, Arla NL/BE/FR continued to deliver significant branded revenue growth of 9.8 per cent, and total revenue was EUR 336 million. Our key brands Arla<sup>®</sup>, including Organic, Lactofree and Skyr, and Melkunie<sup>®</sup>, including Protein and Breaker, all drove exceptional growth, most of them double digit. A strong marketing campaign to build Lurpak<sup>®</sup> as a leading brand was launched in the fourth quarter. Belgium continued delivering on growth with Arla<sup>®</sup> Skyr and Melkunie<sup>®</sup> Protein, while France was able to deliver growth with Arla Pro<sup>®</sup> despite the foodservice challenges caused by Covid-19.



# INTERNATIONAL

In a year influenced by Covid-19 and a weaker oil price, our international segment delivered strong strategic branded volume driven revenue growth of 11.6 per cent. Particularly the MENA region had an extraordinary year growing the branded revenue by 20.1 per cent. The Arla® brand grew modestly by 1.6 per cent, whereas Lurpak®, Puck® and Starbucks™ achieved very high growth rates of 12.2, 11.6 and 20.7 per cent respectively. Also Kraft® got off to a very good start in Arla hands growing 153.4 per cent. Despite the impacts of Covid-19, we continued to increase our focus on front line execution as well as to deliver on Arla’s sustainability agenda, engaging with our customers and partners throughout the business.

Revenue, EURm

**1,975**

2019: 1,802

Strategic branded volume driven revenue growth

**11.6%**

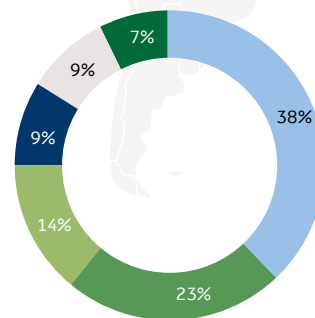
2019: 10.3%

Brand share EURm

**86.3%**

2019: 82.7%

Revenue split by country, 2020



	2020	2019
Middle East and North Africa	38%	36%
Rest of world	23%	21%
North America	14%	17%
Southeast Asia	9%	16%
China	9%	5%
West Africa	7%	5%

**“2020 WAS AN UNPRECEDENTED YEAR. COVID-19 BROUGHT NEW PERSPECTIVES TO THE WAY WE DO BUSINESS, BUT DUE TO OUR FRONT LINE FOCUS AND AN EXTRAORDINARY CONTRIBUTION FROM OUR EMPLOYEES, WE MANAGED TO STRENGTHEN OUR BUSINESS FURTHER THROUGH SOLID BRANDED GROWTH AND INCREASING MARKET SHARES, WHILE KEEPING OUR EMPLOYEES SAFE.”**

Simon Stevens,  
Executive Vice President – International,  
and member of the Executive Management Team

## STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH BY REGION

Middle East and North Africa

**20.1%**

2019: 7.0%

West Africa

**-1.3%**

2019: 22.6%

China

**9.3%**

2019: 61.9%

Southeast Asia

**-3.3%**

2019: 24.2%

North America

**7.6%**

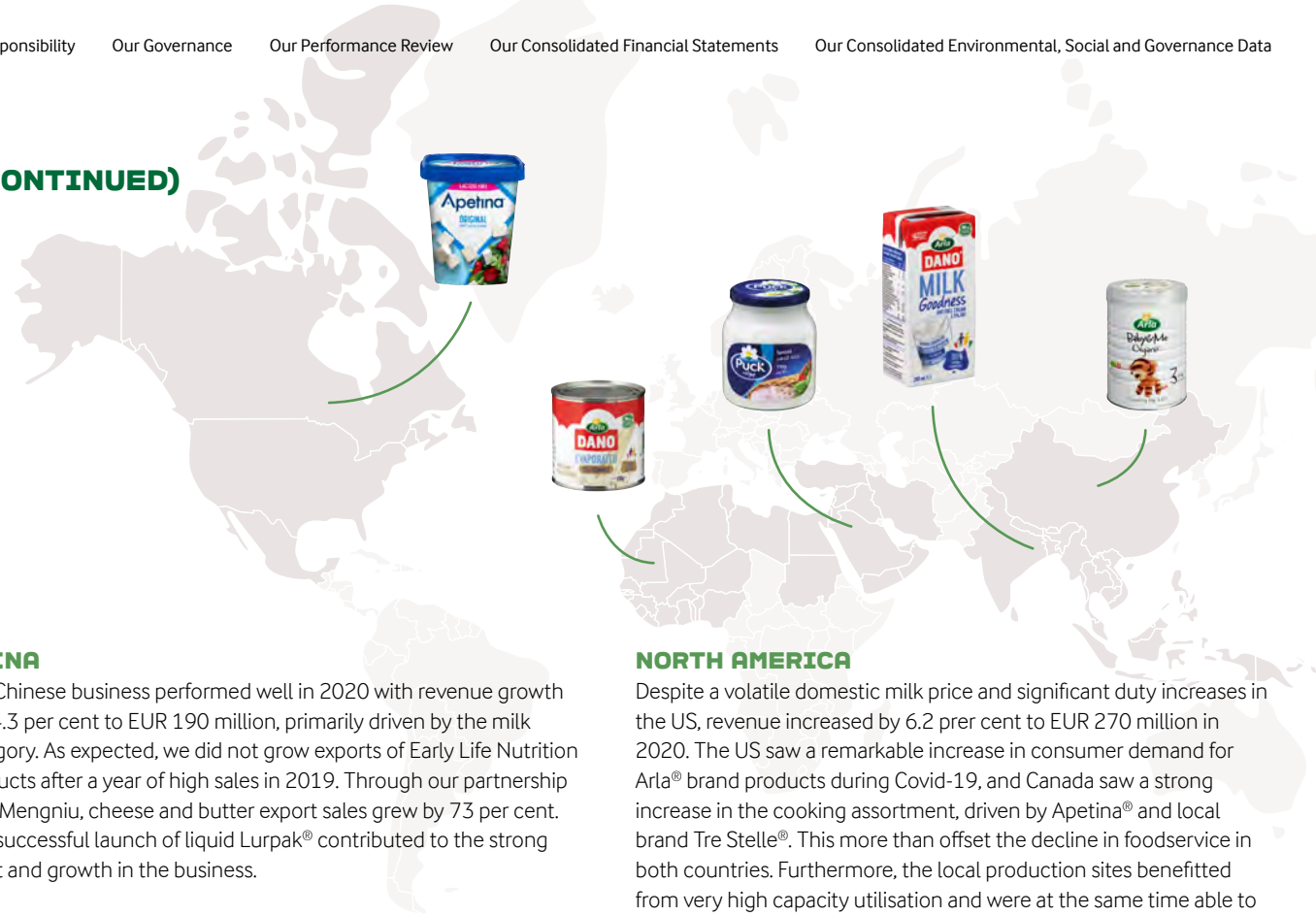
2019: -4.1%

Rest of World

**9.5%**

2019: 6.1%

# INTERNATIONAL (CONTINUED)



## MIDDLE EAST AND NORTH AFRICA

Our strategic agenda in the Middle East and North Africa progressed ahead of expectations in 2020. Revenue grew by 17.5 per cent to record-high revenue of EUR 748 million in the region. The growth was mainly driven by our core brands Puck®, Lurpak® and Kraft®. At the same time, our biggest market Saudi Arabia posted unexpectedly high branded volume driven revenue growth of 26.9 per cent, and we also increased our market shares considerably in UAE and Kuwait in core categories. Keeping especially our front line sales force safe during Covid-19, we managed to operate at almost full capacity at all times, which turned out to be a big competitive advantage.

## WEST AFRICA

Despite a turbulent year with market lockdowns and economic downturn, we grew our strategic brands across West Africa and managed a profit improvement through proactive price management. Revenue for the region grew by 8.6 per cent to EUR 133 million, mainly driven by Ghana and Senegal. The weakened oil price caused reductions in bulk volumes, but consumer products continued to grow. Devaluation of the Nigerian Naira was neutralised by active price management. We successfully entered into the evaporated milk segment in Senegal seeing good opportunities to grow products outside our main powder category across West Africa.

## CHINA

Our Chinese business performed well in 2020 with revenue growth of 24.3 per cent to EUR 190 million, primarily driven by the milk category. As expected, we did not grow exports of Early Life Nutrition products after a year of high sales in 2019. Through our partnership with Mengniu, cheese and butter export sales grew by 73 per cent. The successful launch of liquid Lurpak® contributed to the strong profit and growth in the business.

## SOUTH EAST ASIA

Indonesia was challenged by the impacts of Covid-19 and did not meet our expectations of growth, while other main markets in South East Asia increased revenue. Overall, revenue totalled EUR 171 million, unchanged from last year. In Bangladesh, Danone® became the number one dairy brand in the market for the first time ever. By focusing on affordable ranges and digital ways of working with our foodservice customers we achieved profitable growth of 18 per cent. In Indonesia, our Organic Early Life Nutrition launch was impacted by the challenges of building brand awareness and converting consumers during Covid-19.

## NORTH AMERICA

Despite a volatile domestic milk price and significant duty increases in the US, revenue increased by 6.2 per cent to EUR 270 million in 2020. The US saw a remarkable increase in consumer demand for Arla® brand products during Covid-19, and Canada saw a strong increase in the cooking assortment, driven by Apetina® and local brand Tre Stelle®. This more than offset the decline in foodservice in both countries. Furthermore, the local production sites benefitted from very high capacity utilisation and were at the same time able to limit the organisational impacts of the pandemic to a minimum.

## REST OF WORLD

Rest of world, including Australia, Russia and Latin America, delivered strategic branded volume driven revenue growth of 9.5 per cent and total revenue of EUR 463 million. Covid-19 influenced our foodservice business negatively, whereas retail sales increased. The growth was driven by increased in-home consumption, which especially Lurpak® benefitted from, growing by 16.8 per cent. Also our On-The-Go Starbucks™ Iced Coffee business grew by 23 per cent overall with particularly high growth rates in Poland, Italy and Switzerland.

# ARLA FOODS INGREDIENTS

2020 was a year defined by fluctuating and unprecedented market dynamics due to Covid-19. While Arla Foods Ingredients (AFI) increased the value-add ingredient business driven by growth in our pediatrics and medical nutrition segments, the food segment and child nutrition manufacturing business delivered slightly below 2019 levels.

Revenue, EURm

**716**

2019: 710

Growth of value-add products

**5.3%**

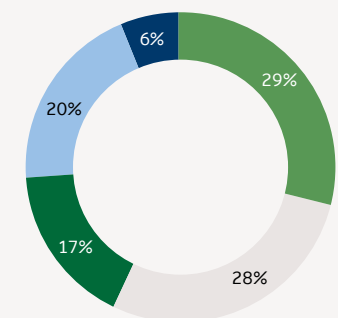
2019: 9.4%

Value-add share

**73.7%**

2019: 68.5%

Revenue split by segments



	2020	2019
Food	29%	30%
Pediatric Nutrition	28%	25%
Health and performance	17%	17%
Child Nutrition manufacturing	20%	22%
Other	6%	6%

### AFI's performance in light of the pandemic

In spite of the Covid-19 pandemic, we managed to increase our value-add ingredient business compared to 2019, especially driven by growth within our Pediatrics and Medical Nutrition segments.

Contrary, our ingredient sales in sports nutrition were affected in the short term by lockdown of gyms in major markets leading to reduced demand for high-protein products like bars and ready-to-drinks. Our food business has been impacted by changing market conditions related to Covid-19. The child nutrition manufacturing business delivered slightly below 2019 levels, largely caused by delay in customer's new product launches.

Looking ahead, the pandemic has intensified a global focus on health, and with the specialised nutritional solutions offered by AFI, we see strong indications of further growth.

### Product differentiation is key

Protein will continue to be a strong trend within the global food and nutrition industry, supported by a widespread understanding of protein's distinctive role in health. High-quality proteins such as whey will remain key to a healthy future, and AFI will continue to deliver strong solutions to the market.

### AFI highlights in 2020

- New protein tower capacity came online at the Danmark Protein production plant, significantly increasing our protein capacity.
- Construction of our new Innovation Centre in Nr. Virum ran according to plan. The Innovation Centre will create the foundation for AFI's development of new generations of products and technologies. It will operate in close cooperation with our key production site, Danmark Protein, and the customer-centric functions in AFI. The Innovation Centre will open in September 2021.
- Strong momentum within hydrolysates for the medical nutrition and infant formula market with exciting ongoing customer projects and a strong NPD pipeline. To continue the growth journey, we are investigating new potential investments within this area.
- China is, and will continue to be, a very important market both for our ingredient and Child Nutrition Manufacturing businesses. In 2020, we decided to strengthen our local presence in China to be closer to our customers and relevant decision-making bodies.
- We have made very good progress on several important projects to increase our raw material supply and some of these are coming on stream in 2021.

### Focus on sustainable development

Arla has a strong sustainability agenda, and AFI aims to deliver on this through several focus areas, i.e. energy and water reduction.

**“THE COVID-19 PANDEMIC HAS INTENSIFIED THE GLOBAL FOCUS ON HEALTH, AND DESPITE THE SHORT-TERM NEGATIVE IMPACTS ON OUR BUSINESS, WE HAVE A STRONG INNOVATION PIPELINE WHICH WILL DRIVE FUTURE GROWTH OF OUR BROAD RANGE OF SPECIALISED NUTRITIONAL PRODUCTS.”**

Henrik Andersen  
CEO, Arla Foods Ingredients

# GLOBAL INDUSTRY SALES

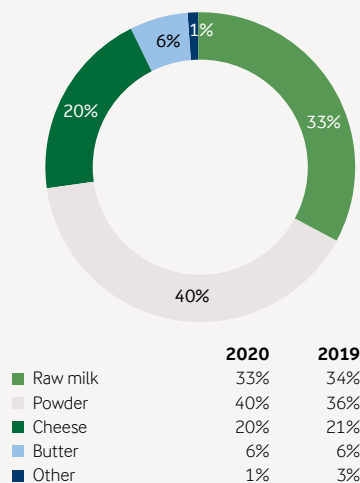
The flexibility of our Global Industry Sales business model enabled us to quickly shift milk volumes from Global Industry Sales into retail to meet increasing retail demand caused by Covid-19 and ensure delivery of food supplies. As a consequence, the share of milk solids sold by Global Industry Sales decreased by 2.3 percentage points compared to last year, but this was compensated by the higher volumes sold in our retail business. During 2020, we also succeeded in increasing the proportion of higher-value commodity products sold.

**Revenue, EURm**  
**1,541**  
2019: 1,662

**Total volume of bulk products (tonnes)**  
**362**  
2019: 385

**Global industry share**  
**22.7%**  
2019: 25.0%

### Revenue split by segments



In addition to our main sales channels, Arla conducts business-to-business sales to other companies for use in their production, as well as industry sales of cheese, milk powder and butter. We refer to these activities as Global Industry Sales (formerly referred to as 'Trading').

### Flexible business model proved valuable

Our Global Industry Sales business model allows us to manage seasonal and regional variability in owner milk production and balance our milk throughout the year, while it provides the capacity and capability for our farmer members to grow.

When the initial Covid-19 lockdowns caused significant uplifts in retail demand across all countries, the flexibility of our business model enabled us to ensure that we had enough milk to produce the branded and retail products needed to meet the increased and very volatile demand.

### Reduced revenue due to changing market conditions

As a result of the increased demand from the retail business the overall share of milk solids sold by our Global Industry Sales fell from 25.0 per cent last year to 22.7 per cent in 2020, equivalent to approximately 360,000 tonnes of product. As a result of this volume reduction as well as the general market conditions caused by the pandemic, revenue declined to EUR 1,541 million from EUR 1,662 million, and now represents 14.2 per cent of Arla's total revenue. Despite these declines, our programme

of strategic investments in support of Global Industry Sales has meant that the proportion of higher-value commodity products sold has started to increase. In 2020, mozzarella, the first of our strategic investments to come on stream, represented approximately 18.5 per cent of volume (12.5 per cent of sales), up by 5.3 percentage points on last year.

### Unstable commodity markets

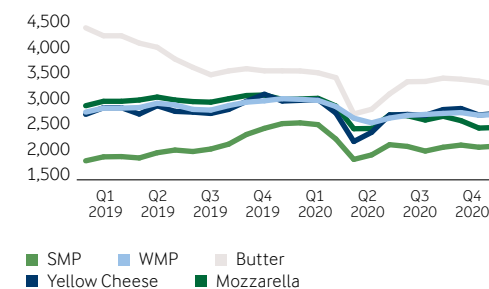
Highly affected by the pandemic, the global commodity markets were volatile in 2020. The start of the year showed strong global demand and rising prices across all categories, but this came to a halt in March when first export-related logistics issues followed by lockdowns resulted in short-term disruption in supply chains. This caused a sharp price collapse, but in the third quarter of 2020, prices recovered to slightly below 2019 levels and remained stable until the last quarter of the year.

Towards the end of 2020, the second round of lockdowns caused understandable hesitation in the market and prices started to weaken again, particularly in the mozzarella category, which is especially impacted by foodservice restrictions.

**“THE GLOBAL PANDEMIC HAS DEMONSTRATED THE IMPORTANCE AND AGILITY OF GLOBAL INDUSTRY SALES AS WE WERE ABLE TO MANAGE THE MILK BALANCE TO HANDLE THE EXTREMELY VOLATILE CONSUMER DEMAND WHILST ENSURING THAT WE CONTINUED TO ADD VALUE TO ALL MEMBER MILK DELIVERED TO THE COOPERATIVE.”**

Thomas Carstensen  
Senior Vice President, Milk & Trading

### European commodity prices 2019-2020 (EURm)





**OUR  
RESPONSIBILITY**

# SUSTAINABILITY STRATEGY

The global population in need of nutritious food is growing and the Earth's ecosystems are already under pressure. We take responsibility for moving dairy production and consumption in a more sustainable direction now and for future generations.

Our new sustainability strategy, launched in 2019, focuses on improving the environment for future generations, and increasing access to healthy dairy nutrition and inspiring good food habits. The strategy is founded on our commitments to respect human rights and ensure responsible business practices across our markets.

Arla contributes to the realisation of the UN's Sustainable Development Goals (SDGs). The SDGs are closely linked and we know that we have an influence on all of them through our general business practices and commitments, as defined in our Code of Conduct. Our prioritised focus is on the SDGs relating to food, environment and climate. They are linked directly to our value chain, as this is where we could have the biggest positive impact and carefully address the potential negative impact.

In this report we provide our Consolidated Environmental, Social and Governance data on selected KPIs. Moreover, we elaborate on some of our major Stronger Planet - Stronger People achievements in 2020, including Climate Checks on farms, strengthened animal welfare schemes as well as our commitment to support dairy production in emerging markets.

For the statutory reporting on §99a, we refer to our Corporate Responsibility Report 2020.

### STRONGER PLANET

**Improving the environment for future generations**

### STRONGER PEOPLE

**Increasing access to healthy dairy nutrition and inspiring good food habits**

### CODE OF CONDUCT

**Supporting the realisation of the Sustainable Development Goals (SDGs)**



# ENVIRONMENTAL AMBITION

Together with our 9,406 farmer owners we launched our ambitious climate targets in March 2019. The ambition is to become carbon net zero by 2050 and to reach our Science Based Targets by 2030, reducing scope 1 and 2 emissions by 30 per cent in absolute terms, and scope 3 emissions by 30 per cent per kilo milk. The Science Based Targets are aligned with climate science and define a clear path to further improve Arla's climate performance.

## OUR AMBITION COVERS THREE THEMES

### Better climate



### Clean air & water



Nitrogen and phosphorus cycles in balance

### More nature



Increased biodiversity and access to nature

## TO REACH OUR GOALS WE WILL FOCUS ON THREE AREAS

### Farms



- Optimised feed for cows
- Optimised use of manure and fertilizer
- Boosted carbon capture in the soil on farms

### Production



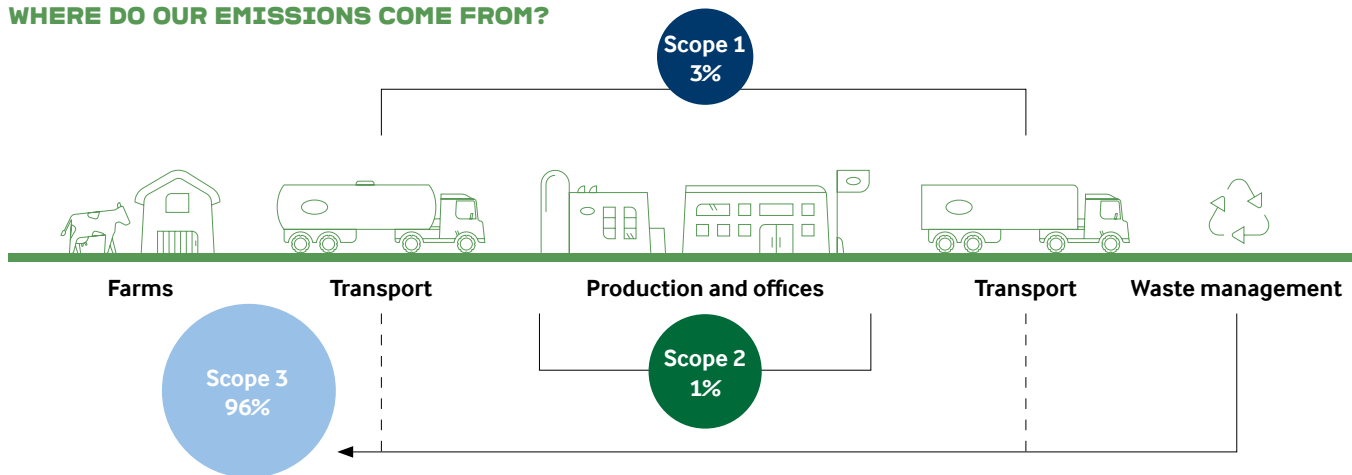
- Improve efficiency in energy and fuel use
- Increase share of renewable energy and fuels
- New technologies

### Packaging and food waste



- Improve packaging recyclability
- Increase use of recycled materials and reduce use of virgin plastics
- Reduce food waste

## WHERE DO OUR EMISSIONS COME FROM?



**Scope 1** emissions relate to the activities under our direct control. They include transport using Arla's vehicles, and emissions from Arla's production facilities.

**Scope 2** emissions are the indirect emissions caused by the energy that Arla purchases, i.e. electricity, steam, heating or cooling.

**Scope 3** emissions are the indirect emissions from purchased goods and services (e.g raw milk from our owners, packaging and external transport), but also from waste handling (eg. recycling) at our sites.

Read more about our efforts to reduce our carbon footprint on page 34.

# CLIMATE CHECKS ON FARMS

In Arla, we acknowledge our responsibility to reduce our environmental footprint as much as possible, and together with our farmer owners we have set ambitious reduction targets accepted by Science Based Targets for 2030 and a carbon net zero ambition for 2050. In 2020, we implemented our global Climate Check tool on 93 per cent of our owners' farms, enabling us to build one of the world's largest sets of externally verified dairy farming climate data.

Our farmer owners produce milk with a climate impact per kilo milk of about half the world average<sup>1)</sup>. However, we continuously work together with our owners to reduce farm level emissions even further to reach our 2030 and 2050 climate targets.

In 2019, we introduced our new global Climate Check tool, which we continued to roll out in 2020. It has now been implemented by 93 per cent of our active farmer owners covering 96 per cent of our owner milk volume. The tool helps farmers to identify emissions on the farm, providing a clear picture of the actions they can take to reduce emissions further. To reach our 2030 target, farmer owners must reduce emissions by an average of 3 per cent annually.

All our farmer owners provide information covering aspects like herd size, housing, milk volumes, feed usage and feed production, energy and fuel usage and renewable energy production. The data is audited by an external advisor who visits the farm to also point out areas where the farmer is doing well, and to give detailed advice on action plans to

improve efficiency and reduce emissions and the environmental impact.

With this externally verified dairy farming climate data set, Arla is also building a solid foundation for benchmarking and knowledge sharing across the dairy industry. During 2020, we were in close dialogue with our farmer owners and key stakeholders, such as farm advisory experts, to collect feedback and advice on how to improve and strengthen the assessments even further.

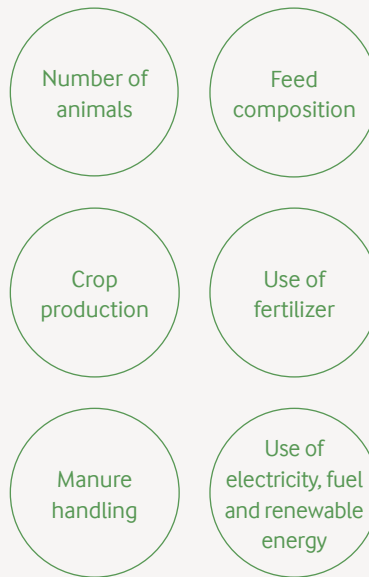
Farmer owners who signed up for the Climate Check programme in 2020 were paid a financial incentive of EUR-cent 1.0 per kilo of milk. Covid-19 caused a delay in conducting the Climate Checks, but by the end of March 2021, all Arla farmers who signed up for the Climate Check programme are estimated to have completed a Climate Check.

Go to page 124 to read more about our CO<sub>2</sub>e emissions. Visit our Responsibility Report to read more about Climate Checks.



## CLIMATE CHECKS

Areas measured in the Climate Checks:



Arla is involved in developing an international standard for carbon sequestration (capturing and storing carbon in the soil), which will be piloted on Arla farms in 2021.

# FACILITATING BETTER ANIMAL WELFARE

In Arla, we strongly believe that all animals should be treated well. Animal welfare and sustainable milk production are two sides of the same coin: Healthy cows that are well cared for produce more milk in a more sustainable way. That makes it a key focus for Arla and our farmer owners to thoroughly monitor and constantly improve the health and welfare of our cows.

Our efforts towards better animal welfare are coordinated through our Arlagården® platform. Arlagården® initially focused mainly on milk quality and food safety, but it has been expanded to include more and clearer standards, also for animal welfare, the environment and people on the farm, to reflect our priorities as well as the ones of our customers and consumers. We have developed a comprehensive digital tool to more efficiently and transparently conduct and align assessments, reporting and data utilisation across all seven owner countries. It is now mandatory for Arla's cooperative farmers to assess their herds and facilities every three months and report the data in the new digital tool.

Among the 120 questions that all of our 9,406 farmers in 2020 submitted data on, were questions covering housing, feeding, grazing and the general wellbeing of the cows. To have an even clearer picture of animal welfare on farms, Arla also gathers data from the National Herd Databases of our owner countries to obtain information concerning the average lifespan, mortality and the average age of the cows at first calving.

Farmers complete the animal welfare questionnaires based on their self-assessment and receive regular visits from auditors to validate all data submitted, including animal welfare questions. In 2020, the audit process was upgraded and harmonised across all owner countries to ensure that auditors follow the same procedure and standards everywhere. Each year, 30 per cent of all farms are audited. In 2020, we disclosed the percentage of farmer owners reporting on animal welfare, audited farms, and somatic cell count. Read more in the ESG note 1.4. From 2021, we will report the results of the animal welfare questionnaires from audited farms, focusing on the measures we find the most important to work with to improve animal welfare. We will also disclose the ratio of audited farmers complying with our animal welfare standards.

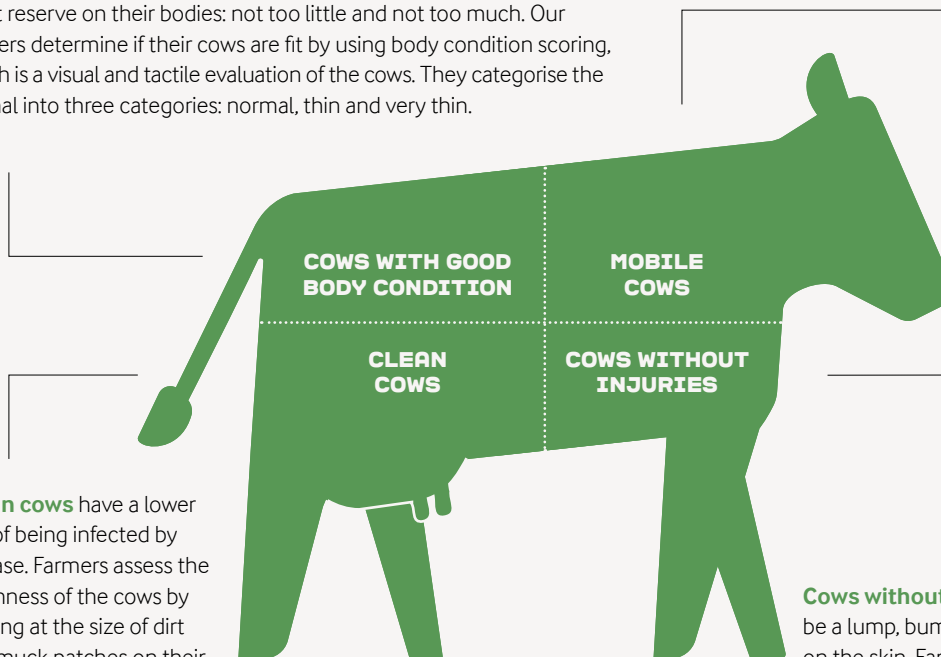
**We measure the general wellbeing of the cows using four indicators developed based on scientific research into the most common dairy cattle issues.**

**Cows with good body condition** Fit cows have the perfect amount of fat reserve on their bodies: not too little and not too much. Our farmers determine if their cows are fit by using body condition scoring, which is a visual and tactile evaluation of the cows. They categorise the animal into three categories: normal, thin and very thin.

**Mobile cows** walk without any problems, and have no pain in their legs and feet. If mobility is impaired, cows limp, which can be caused by a range of conditions, like disease, poor management and environmental factors. Farmers categorise the cows into three categories: normal, slightly lame, and obviously lame.

**Clean cows** have a lower risk of being infected by disease. Farmers assess the cleanness of the cows by looking at the size of dirt and muck patches on their bodies and categorise the cows into three categories: normal (clean), slightly dirty and dirty.

**Cows without injuries** An injury on a cow can be a lump, bump, ulcer, sore or coloured area on the skin. Farmers categorise the cows into three categories: normal (without injuries), with small injuries, and with bigger injuries.



# INTERNATIONAL DAIRY DEVELOPMENT

Contributing to the development of a sustainable and commercially viable dairy sector, improving farmer capacity and providing nutritious food to a growing population in selected emerging markets is a key priority to Arla. Despite delays caused by Covid-19, we continued to strengthen our partnerships in 2020, and we have now enrolled 1,000 farmers in our programmes.

As part of our 'Stronger Planet – Stronger People' sustainability strategy, we engage in partnerships to support national dairy sector development in emerging markets. Through these strategic cross-sectorial partnerships we work to promote sustainable dairy production, enhance food safety and quality, improve food security and provide access to affordable nutrition for low-income consumers. Despite delays in the implementation of our programmes across all countries, we managed to reach our 2020 target of having enrolled 1,000 farmers in our programmes.

## ADVANCING LOCAL DAIRY DEVELOPMENT IN NIGERIA

By 2050, Nigeria's population will be twice as big as it is today reaching nearly 400 million people, which means that the demand for nutritious food is increasing rapidly. Since 2015, Arla has been the lead commercial partner in the cross-sectorial "Milky Way Partnership in Nigeria" with among others the Danish Agricultural and Food Council/SEGES, CARE Denmark and Nigerian based NGOs, supported by the Danish Ministry of Foreign Affairs.

The Milky Way Partnership has reached more than 400 farmers, but one of the most challenging parts of the project is to reach a sufficient volume of milk intake. During 2020, focus was on capacity building

of local farmers as well as adjusted off-take arrangements and new partnerships to increase the number of farmers enrolled. Among others, the Milky Way Partnership programme was scaled up through its participation in the public private DAMAU Household Milk Farm Project with Kaduna State Government with the aim of settling 1,000 farm households in a 9,000 hectare area by providing infrastructure and three imported cows for each farmer. Arla also signed an agreement with SAHEL Consulting under the Melinda and Bill Gates Foundation to enrol additional 600 households from surrounding farm clusters in Kaduna State.

## SUPPORTING THE LOCAL DAIRY SECTOR IN INDONESIA

One of the largest challenges in the Indonesian dairy sector is the dairy milk production shortage in terms of quality and quantity, to meet the increasing consumer demand. Since 2018, Arla has worked together with our Joint Venture partner, Indolakto, and one of the largest local dairy cooperatives in Indonesia, KPSP Setia Kawan, setting up a calf rearing centre in East Java. The rearing centre rears calves into high quality cows through good rearing practice and sells them at a fair price to local farmers, who also receive training in good dairy farming practices. This way, local farmers can have access to high quality cows,



which are guaranteed to produce a high quantity of milk and provide more income for a living.

Today, the rearing centre is a separate business unit of the cooperative, which aims to provide sustainable income from selling cows. During 2020, it provided more than 60 high quality cows to local farmers, 15 per cent cheaper compared to the usual market

price, while still creating a commercially sustainable social enterprise independent of external funding. This was despite the reduced purchasing power during the first half of 2020 due to the impacts of Covid-19.

📖 Read more about our international dairy projects in emerging markets in our Responsibility Report 2020.

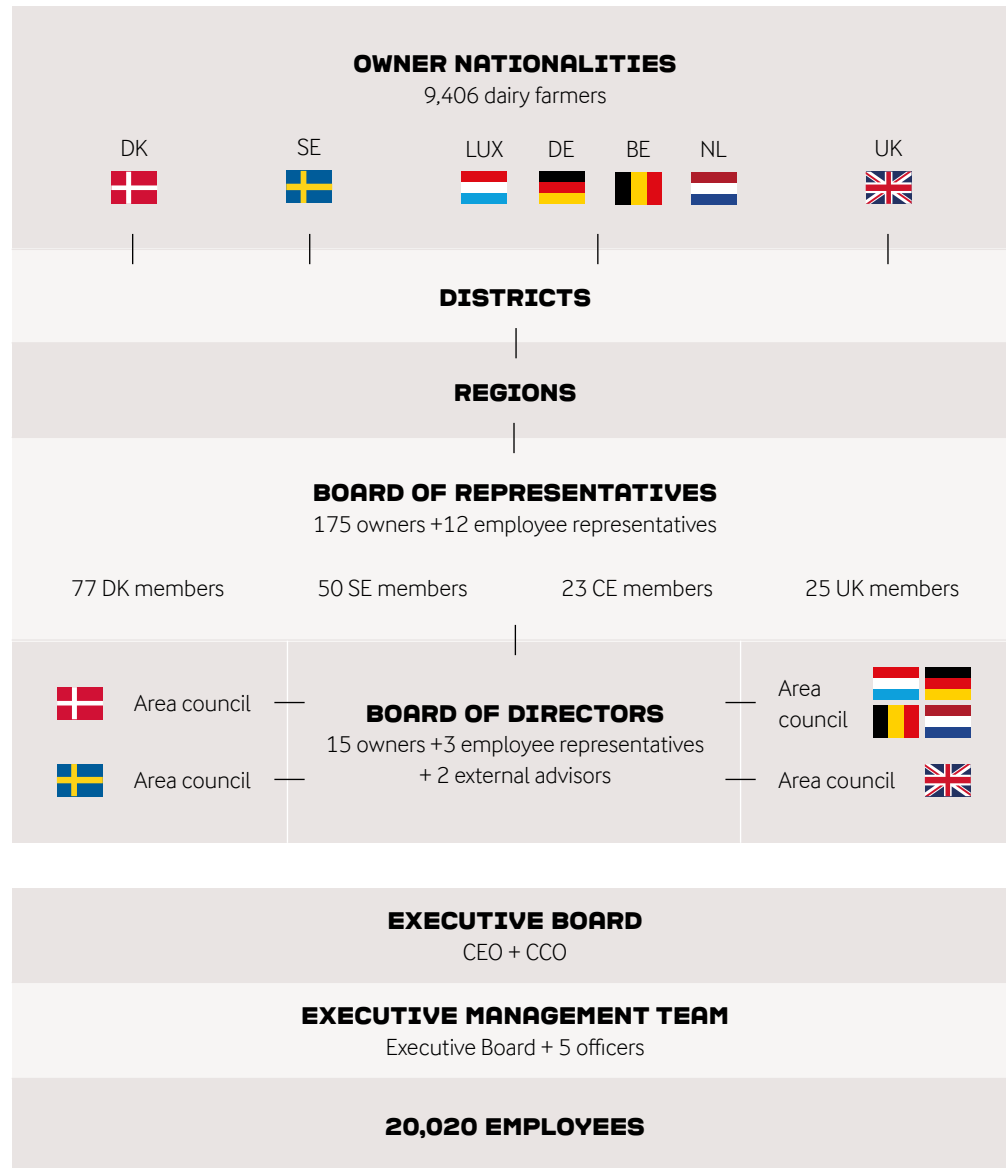


# OUR GOVERNANCE

# GOVERNANCE FRAMEWORK

Arla is a cooperative owned by 9,406 dairy farmers in seven countries. Ensuring that all of our owners are able to raise their voice and seek consensus and representation for their opinions is essential in a trustworthy and successful cooperative. Our owners elect members to the Board of Representatives, which in turn elects the Board of Directors. The company's governance is shared between these elected bodies and the Executive Management Team.

Members of the Board of Representatives are elected for a period of two years. The democratic process leading up to elections is challenged in the online format, thus the BoR has decided to postpone the 2021 elections to 2022.



# GOVERNANCE FRAMEWORK (CONTINUED)

## COOPERATIVE GOVERNANCE

Arla's democratic structure gives decision-making authority to the Board of Directors (BoD) and to the Board of Representatives (BoR). Their primary tasks are to develop the ownership base, safeguard the cooperative democracy, embed decisions and develop leadership competencies amongst farmer owners, and set the overall strategic direction for Arla.

### Owners

In 2020, 9,406 milk producers in Sweden, Denmark, Germany, the UK, Belgium, Netherlands and Luxembourg were the joint owners of Arla. Last year, the cooperative had 9,759 joint owners. The decline in the number of farmers is partly due to farmers who stopped producing milk, or sold their business to another member, and to a lesser extent due to farmers resigning to supply another dairy company.

This decline is in line with the trend seen in the whole dairy sector over a number of years. All cooperative owners have the opportunity to influence significant decisions.

### District councils

Each year, cooperative owners convene for a local annual assembly in their respective countries to ensure the democratic influence of the cooperative owners in the owner countries. The members in the district elect members to represent their district on the BoR.

### Board of Representatives

The BoR is the supreme decision-making body comprising 187 members, of whom 175 are cooperative owners, and 12 are employee representatives. Owner representatives are elected every other year in odd years. The democratic process leading up to elections is challenged in the online format, thus

the BoR has decided to postpone the 2021 elections to 2022. The BoR makes decisions including appropriation of profit for the year and elects the BoD. The BoR meets at least twice a year.

### Board of Directors

Appointed by the BoR, the BoD is responsible for strategic direction setting, monitoring the company's activities and asset management, maintaining the accounts satisfactorily and appointing the Executive Board. The BoD is also responsible for ensuring that Arla is managed in the best interest of the farmer owners and making decisions concerning the ownership structure. They also take care of other stakeholders' interests in the company: lenders, investors in bond instruments and employees, among others.

The BoD consists of 15 elected farmer owners, three employee representatives and two external advisors. In the 2019 election cycle, four new elected members joined the BoD, and two external members were also appointed to ensure that the BoD's skill set covers all important areas for leading an international business. The composition of the elected members of the BoD reflects Arla's ownership structure across the countries.

### Area councils

Arla has four area councils that are sub-committees of the BoD and consist of members of the BoD, as well as members of the BoR. The area councils are established in the four democratic areas: Sweden, Denmark, Central Europe and the UK to take care of matters of special interest to the farmer owners in each geographic area.

## CORPORATE GOVERNANCE

Corporate governance in Arla is shared between the Executive Board and the Board of Directors (BoD). Together they define and ensure adherence to the company's strategic direction, organise and manage the company, supervise management and ensure compliance.

### Executive Board

The Executive Board, appointed by the Board of Directors, is responsible for managing the company,

ensuring the proper long-term growth of the company from a global perspective, driving the strategic direction, following up on targets for the year and defining company policies, while striving for a sustainable increase in company value. Furthermore, the Executive Board ensures appropriate risk management and risk controlling, as well as compliance with statutory regulations and internal guidelines. The Executive Board is usually comprised of the CEO and another member of the Executive Management Team. From 1 February 2019, Chief Commercial Officer for Europe, Peter Giørtz-Carlson was appointed to the Executive Board.

### Executive Management Team

The Executive Management Team (EMT) is appointed by the Executive Board. The EMT is responsible for Arla's day-to-day business operations, preparing strategies and planning the future operating structure. The EMT consists of the Executive Board plus four functional experts and one commercial leader. The functional experts cover the management areas of Finance, IT and Legal (CFO), Marketing and Innovation (CMO), Human Resources (CHRO), and Supply Chain (CSO); while the commercial leader is responsible for our international commercial

segment. The members of the EMT keep each other informed on all significant developments in their business area and align on all cross-functional measures.

### Employees

Arla has 20,020 full-time equivalents (FTE) globally, compared to 19,174 last year. Our employees are represented by three members in the BoD and 12 members in the BoR.

# DIVERSITY AND INCLUSION

In Arla, we believe that diversity and inclusion are imperative to the success of our business as we know that a diverse and inclusive workforce generates innovation and stronger results. Our definition is broad as we look at both gender, nationality, age but also diversity of thought and values.

## Our strategic principles

To secure a stronger leadership pipeline and improve opportunities for all to advance, we aim for no more than 70 per cent of the same gender, nationality and age respectively in any given team. We welcome multiple generations in our workforce with attractive working conditions, but recognise that within some lines of work, especially our blue collar workforce, we often face a less diverse supply of labour, which makes it difficult to reach our aim. Our strategic principles are embedded and unfolded in all our processes and priorities, enabling us to recognise and harvest the benefits of diversity and inclusion.

## Competency development

We offer training to our people managers and talent acquisition partners regarding unconscious bias awareness, to promote unbiased selection and people assessment.

## Recruitment

Hiring managers and talent acquisition partners must adhere to the systems, structures and processes defined in our Global Recruitment Policy to select the best candidate based on merit. We require all executives to be recruited from a pool of candidates which includes both genders and more than one nationality. To support a fair and unbiased hiring process, the talent acquisition partners are there to ensure compliance with the recruitment process and policy.

## Fair pay

We strive to offer fair and competitive remuneration at market level and in line with local legislation, and have a structured approach to remuneration, ensuring that salaries are unbiased towards gender, age, seniority, tenure or nationality.

## Talent programmes

Our talents are identified, deployed and developed based on clear and inclusive definitions. We actively seek to ensure a healthy diversity in our talent identification when selecting candidates to create a diverse talent pipeline for the long term performance of Arla.

## Building and sustaining an internal community

In 2017, we established an international community called 'The Diversity and Inclusion Network' which is endorsed and supported by top management. This community offers a broad range of activities, including discussion panels with external speakers, establishment of an internal discussion forum and interviews with internal role models.

## Monitoring

We are committed to report on our progress towards our long-term diversity and inclusion goals to our Executive Management Team and externally on a regular basis.

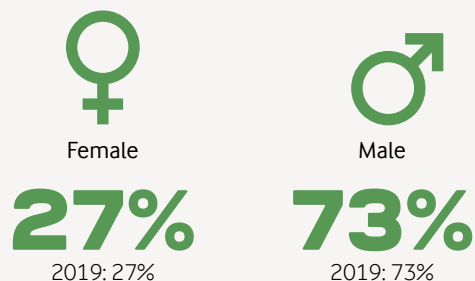




# DIVERSITY AND INCLUSION (CONTINUED)

As part of our commitment to accelerating diversity and inclusion, we publish the demographics of our workforce by gender, age and nationality on an annual basis. Transparency is critical to achieving our goal of becoming an inclusive and diverse company. While we have made good progress in this direction, we know there is more work to do.

## Gender distribution\*



\* This is the gender ratio in the total workforce. Gender ratio in blue collar workforce: female: 18%; male: 82%; and in white collar workforce: female: 42%; male: 58%.

## Gender distribution in management

	Female		Male	
	2020	2019	2020	2019
EMT	14%	29%	86%	71%
BoD**	20%	20%	80%	80%
BoR	16%	16%	84%	84%
Director+ level	26%	26%	74%	74%

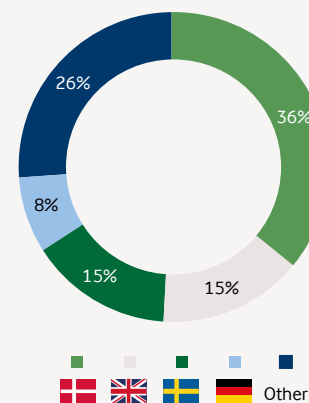
\*\* The presented ratio pertains to all the members of the BoD (20), including employee representatives and external advisors. Gender ratio among members elected by the general assembly is 13 per cent female, 87 per cent male.

## Total number of nationalities

115



## Split by nationalities



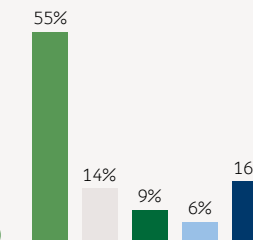
## Nationalities in the EMT



## Nationality distribution at director+ level

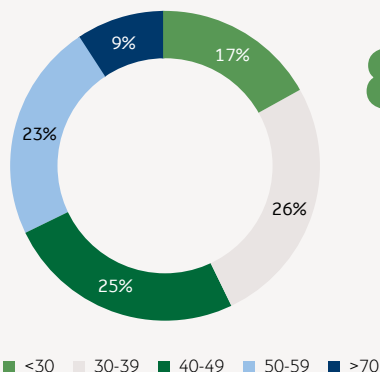
## Diversity in teams, nationality\*

33%



\* Percentage of teams that have members of at least two nationalities.

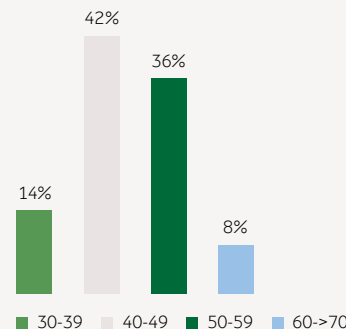
## Age distribution



## Diversity in teams, age\*

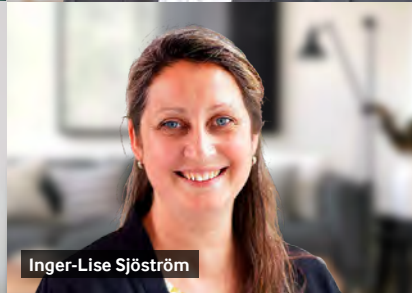
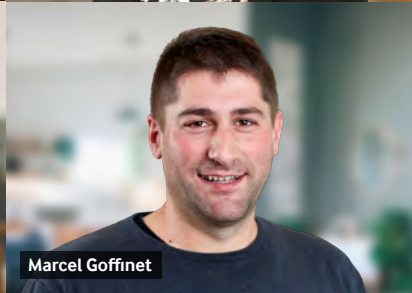
86%

## Age distribution on the director+ level



\* Percentage of teams that have members from at least two age categories.

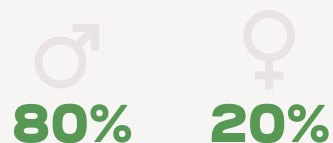
# BOARD OF DIRECTORS



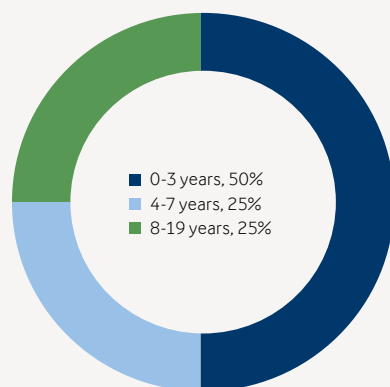
# BOARD OF DIRECTORS (CONTINUED)

Our Board of Directors (BoD) consists of 15 elected farmer owners, three employee representatives and two external advisors, who complement each other with different skills and expertise to conduct good global governance.

## Diversity in the BoD\*



## Tenure



\*The ratio pertains to all members of the BoD (including employee representatives and external advisors). Gender ratio within the elected members is 13 per cent female, 87 per cent male. In accordance with section 99b of the Danish Financial Statements Act, in 2019 Arla set a 4-year target to achieve a female representation in the general assembly members of the Board of Directors of at least 13 per cent, reflecting the gender ratio of our Board of Representatives.

### JAN TOFT NØRGAARD (1960)

**Member since:** 1998

**Nationality:** Danish

**Profession:** Dairy farmer

**Internal positions:** Chairman of the Board, Learning and Development Committee, Remuneration Committee

**External positions:** Comp. Board of the Danish Agriculture and Food Council 2009 -

### HELÉNE GUNNARSON (1969)

**Member since:** 2008

**Nationality:** Swedish

**Profession:** Dairy farmer

**Internal positions:** Vice chairman of the Board Global Training Committee, Learning and Development Committee, Remuneration Committee

**External positions:** Member of the Swedish Dairy Association 2014 -, Member of the Board of Varbergs Sparbank

### NANA BULE (1978)

**Member since:** 2019

**Nationality:** Danish

**Profession:** CEO of Microsoft Denmark & Iceland

**External positions:** Member of the Board of Energinet 2018 -, Member of the Board of Confederation of the Danish Industry 2019 -

### JONAS CARLGREN (1968)

**Member since:** 2011

**Nationality:** Swedish

**Profession:** Dairy farmer

**Internal positions:** Global Appeals Committee, Remuneration Committee

**External positions:** Chairman of the Board of the Swedish Dairy Association 2019 -, Member of the Board of the Swedish Farmers' Foundation for Agricultural Research 2016 -, Dairy Ambassador for UN High Level Political Forum

### ARTHUR FEARNALL (1963)

**Member since:** 2018

**Nationality:** British

**Profession:** Dairy farmer

**Internal positions:** Chairman of the Arla UK Area Council, Global Appeals Committee

### HÅKAN GILLSTRÖM (1953)

**Member since:** 2015

**Nationality:** Swedish

**Profession:** Dairy worker

**External positions:** Member of the Swedish workers' union

### MARCEL GOFFINET (1988)

**Member since:** 2019

**Nationality:** Belgian

**Profession:** Dairy farmer

**Internal positions:** Member of the Global Appeals Committee

**External positions:** Chairman of the Board of Agra Ost Agriculture Research, member of the municipal government of St.Vith

### MANFRED GRAFF (1959)

**Member since:** 2012

**Nationality:** German

**Profession:** Dairy farmer

**Internal positions:** Chairman of the Arla Central Europe Area Council, Learning and Development Committee, Remuneration Committee

**External positions:** Member of Board of the German Milch NRW 2007 -, Member of Board of the German Federation of Cooperatives 2015 -

### RENÉ LUND HANSEN (1967)

**Member since:** 2019

**Nationality:** Danish

**Profession:** Dairy farmer

**External positions:** Member of the cattle section and the Comp. Board of the Danish Agriculture and Food Council 2019 -, Member of the Board of Agri Nord 2012 -

# BOARD OF DIRECTORS (CONTINUED)

## JAN ERIK (JANNE) HANSSON (1963)

**Member since:** 2018

**Nationality:** Swedish

**Profession:** Dairy farmer

**Internal positions:** Chairman of the Global Organic Committee

**External positions:** Member of the Board of the Swedish Dairy Association

## HARRY SHAW (1952)

**Member since:** 2013

**Nationality:** British

**Profession:** Despatch operator

**External positions:** Member of the British workers' union

## SIMON SIMONSEN (1970)

**Member since:** 2017

**Nationality:** Danish

**Profession:** Dairy farmer

**Internal positions:** Remuneration Committee

**External positions:** Dairy Ambassador for UN High Level Political Forum

## INGER-LISE SJÖSTRÖM (1973)

**Member since:** 2017

**Nationality:** Swedish

**Profession:** Dairy farmer

**Internal positions:** Chairman of the Arla Swedish Area Council, Learning and Development Committee

**External positions:** Member of the Board of the Swedish Dairy Association 2017 -

## BJØRN JEPSEN (1963)

**Member since:** 2011

**Nationality:** Danish

**Profession:** Dairy farmer

**Internal positions:** Global Organic Committee

**External positions:** Member of the cattle section of the Danish Agriculture and Food Council 2009 -, Member of the Board of the Danish Cattle Levy Fund 2009 -, Member of the Board of the Danish Milk Levy Fund 2019 -, Vice Chairman of Skjern Bank 2012 -, Vice Chairman of the Danish Dairy Board 2019 -

## WALTER LAUSEN (1959)

**Member since:** 2019

**Nationality:** German

**Profession:** Dairy farmer

**Internal positions:** Global Organic Committee

## JØRN KJÆR MADSEN (1967)

**Member since:** 2019

**Nationality:** Danish

**Profession:** Dairy farmer

**Internal positions:** Global Appeals Committee

**External positions:** Member of the Board of Andelssmør A.M.B.A 2020 -, Member of the Board of GLS-a 2018 -

## IB BJERGLUND NIELSEN (1960)

**Member since:** 2013

**Nationality:** Danish

**Profession:** Dairy production worker

**External positions of trust:** Member of the Danish worker's union

## STEEN NØRGAARD MADSEN (1956)

**Member since:** 2005

**Nationality:** Danish

**Profession:** Dairy farmer

**Internal positions:** Arla Denmark Area Council Chairman, Learning and Development Committee

**External positions:** Deputy Chairman of the Comp. Board of the Danish Agriculture and Food Council 2014 -, Chairman of the Agro Food Park steering committee 2016 -, Chairman of the Danish Milk Levy Fund 2012 -, Chairman of the Danish Dairy Board 2012 -

## FLORENCE ROLLET (1966)

**Member since:** 2019

**Nationality:** French

**Profession:** Senior advisor to Luxury Tech Funds

**External positions:** Member of the Global Advisory Board of the EMLyon Business School 2018 -

## JOHNNIE RUSSELL (1950)

**Member since:** 2012

**Nationality:** British

**Profession:** Dairy farmer, chartered accountant

**Internal positions:** Learning and Development Committee, Remuneration Committee

**External positions:** Chairman of the ING Bank UK Pension Fund and two other entities

# EXECUTIVE MANAGEMENT TEAM



From left to right: David Boulanger, Simon Stevens, Torben Dahl Nyholm, Peder Tuborgh, Peter Giørtz-Carlsen, Ola Arvidsson, Hanne Søndergaard.

# EXECUTIVE MANAGEMENT TEAM (CONTINUED)

Our Executive Management Team consists of the CEO, four functional experts, and one commercial leader for the European and international commercial segments respectively. The Executive Management Team is responsible for Arla's day-to-day business operations and for developing Group strategies. In 2020, we welcomed three new members: Torben Dahl Nyholm, David Boulanger and Simon Stevens.

## DAVID BOULANGER (1970)

CSO, Executive Vice President, Supply Chain

**Nationality:** French

David joined Arla Foods in October 2020. He has 26 years of experience in Supply Chain & Operations and held several senior leadership positions in the food industry within Mars, Mondelez & Danone in various geographies. Most recently, before joining Arla as Chief Supply Chain Officer, he was Senior Vice President Operations for Danone Specialized Nutrition Division, operating globally in the Early Life & Medical Nutrition fields. David holds an Engineering Degree from the Ecole Civil des Mines de Paris in France and a master's degree in mathematics

## SIMON STEVENS (1965)

Executive Vice President, International

**Nationality:** British

Simon joined Arla in 2002 as UK Sales Director before becoming Senior Vice President for Sales and Marketing, where he played a major role in the significant transformation of the UK business. In 2016, Simon moved to the newly set up Europe Zone as Senior Vice President for Commercial Operations and in 2020, he moved to Dubai to lead the MENA business. Prior to Arla, Simon worked 14 years for Unilever in various Sales and Marketing Director roles in UK, Netherlands and Italy. Simon holds a 1<sup>ST</sup> class Bsc Hons degree in Management Sciences from Loughborough University.

## TORBEN DAHL NYHOLM (1981)

CFO and Executive Vice President, Finance, Legal and IT

**Nationality:** Danish

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, latest as Head of Performance Management. Torben holds a M.Sc. in Finance and International Business from Aarhus University.

## PEDER TUBORGH (1963)

CEO, member of the Executive Board, Head of Milk, Members and Trading, Chairman of Arla Foods Ingredients

**Nationality:** Danish

Peder has been with Arla for 32 years, 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 with Arla. Peder holds a master's degree in economics and business administration from the University of Odense.

**Peder is also:**

- Member of the Global Dairy Platform

## PETER GIØRTZ-CARLSEN (1973)

CCO, Executive Vice President for Europe, member of the Executive Board

**Nationality:** Danish

Peter joined Arla in 2003 as Vice President of Corporate Strategy and has held various senior positions in Arla, including Executive Vice President of Consumer DK and UK, before he became Executive Vice President of Europe in 2016. Prior to joining Arla, Peter was Vice CEO at Bestseller Fashion Group China. He holds a master's degree in business administration, organisation and management from Aarhus University's School of Business.

**Peter is also:**

- Vice Chairman of AIM, the European Brands Association  
- Sits on the Policy and Issues Council (PIC) of the UK's Institute of Grocery Distribution (IGD)  
- Vice Chairman of the Board of the European Dairy Association (EDA)

## OLA ARVIDSSON (1968)

CHRO, Executive Vice President, HR and Corporate Affairs

**Nationality:** Swedish

Ola joined Arla in 2006 as Corporate HR director, and has been the 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

in HR. Prior to Unilever, Ola served as an Officer in the Royal Combat Engineering Corps in the Swedish Army. He holds a master's degree in HR management from Lund University.

**Ola is also:**

- Member of the Board of AP Pension,  
- Central Board Member of the Danish Industry

## HANNE SØNDERGAARD (1965)

CMO, Executive Vice President, Marketing, Innovation, Communications and Sustainability

**Nationality:** Danish

Hanne has been with Arla for 30 years, 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 the Vice CEO for Arla UK before moving back to Denmark in 2010. With a natural ability for marketing, Hanne was responsible for various brands and categories before taking on her current role. She holds business degrees from Aarhus University's School of Business and Harvard Business School.

**Hanne is also:**

- Member of the Board of Arla Fonden and of Danish Technical University

# MANAGEMENT REMUNERATION

Arla's executive remuneration policy is designed to encourage high performance and support value creation. The policy ensures 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 policy set by the Board of Directors (BoD) and reviewed every four years. The BoD is guided by external advisors using market data sources and benchmarks from comparable industries and companies. On an annual basis, the BoD assesses the remuneration paid to the Executive Board as well as variable pay programmes to other executives and senior management. The Remuneration Committee, consisting of six Board members including the chairmanship, meets as a minimum twice a year. The Committee monitors that the remuneration policy is followed and provides recommendations to the BoD.

The Board of Representatives (BoR) is updated regularly on remuneration of the BoD and the development in variable pay for executives.

## Our remuneration practices

Remuneration packages are constructed to ensure attraction, engagement and retention of the best senior managers, and at the same time should drive strong performance in both short- and long-term business results. In line with Scandinavian practice, the majority of the remuneration is fixed. However, in recent years the variable part of the remuneration has increased to ensure that total remuneration is also dependent on achievement of Arla's short- and long-term financial targets. All

executives and members of senior management are employed on terms according to international standards, including adequate non-compete restrictions, as well as confidentiality and loyalty restrictions.

## Our performance measures

### Board of Directors (BoD)

The remuneration of the BoD comprises a fixed fee and is not incentive-based. We believe this ensures that the Board is primarily focused on the cooperative's long-term interests. Beyond a minimal travel per diem, no additional compensation is paid for meeting attendance or committee service. The BoD's remuneration is assessed and adjusted on a bi-annual basis and approved by the BoR. The most recent adjustment made was in 2019. For more details on specific amounts please refer to page 114.

### Executive Board and Executive Management Team

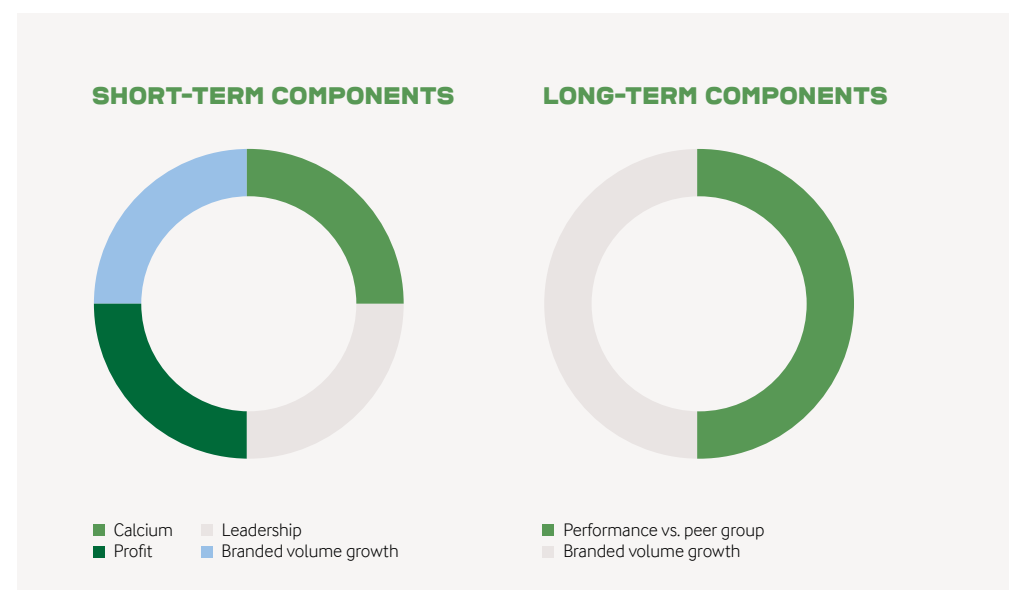
The compensation elements and approach for the Executive Board and the Executive Management Team (together: executives) are identical. Remuneration paid to the Executive Board is assessed annually by the BoD based on recommendations from the Remuneration Committee. For more details on specific amount go to page 114.

The remuneration package for the executives is based on external benchmarks against European

and international FMCG companies, providing a competitive and sustainable mix of fixed and variable pay. Pension contributions and non-monetary benefits such as company car, telephone etc. are also part of the package.

Levels of fixed remuneration are set based on individual experience, contribution and function, while variable pay reflects performance against annual business targets. The variable pay component

consists of an annual short term incentive (STI) plan, and a long-term (three-year) incentive (LTI) plan. The STI is composed of the same elements for the executives. The main components of the LTI are branded volume growth and the group's performance versus a peer group index (see graphs). The LTI programme started in 2018 also included a component related to our transformation and efficiency programme, Calcium.



# RESPONSIBLE AND TRANSPARENT TAX PRACTICES

In Arla, we acknowledge that tax is vital for the economic and social development. Conforming with our Code of Conduct and Good Growth identity, we are strongly committed to paying our taxes legally due and reporting transparently on our tax practices.

Taking a responsible and transparent approach to tax matters supports the strategy of growing our company on a solid foundation and is in line with our commitment to the UN Sustainable Development Goals (SDGs). Our tax payments contribute directly and indirectly to the majority of the SDGs, but in particular to SDG #16.6 – development of effective, accountable and transparent institutions.

We are committed to paying taxes in the countries where we operate and generate value as well as ensuring that requirements on tax reporting and tax transparency are met. We strive for an open dialogue with tax authorities around the world regarding our business and our tax affairs.

## Our key tax principles

Our approach to tax matters conforms with Arla’s global Code of Conduct and is founded on a set of key tax principles approved by our Board of Directors:

- Arla aims to report the right and proper amount of tax according to where value is created
- Arla is committed to pay taxes legally due and to ensure compliance with legislative requirements in all jurisdictions in which the business operates
- Arla does not use tax havens to reduce the group’s tax liabilities

- Arla will not set up tax structures intended for tax avoidance which have no commercial substance and do not meet the spirit of the law
- Arla is transparent about our approach to tax and our tax position. Disclosures are made in accordance with relevant regulations and applicable reporting standards such as International Financial Reporting Standards (IFRS)
- Arla builds on good relations with tax authorities and trusts that transparency, collaboration and proactiveness minimise the extent of disputes

In order to always adhere to our key tax principles, our global tax function is organised to ensure that we have the right policies, people and procedures in place to promote strong tax governance.

## Cooperative and corporate tax

As a cooperative, Arla’s farmer owners are also our suppliers, and earnings are not accumulated in the company but paid to the farmers in the form of the highest possible milk price. Based in Denmark, Arla Foods amba is governed by the Danish tax rules for cooperatives paying income tax in Denmark based on the value of its equity.

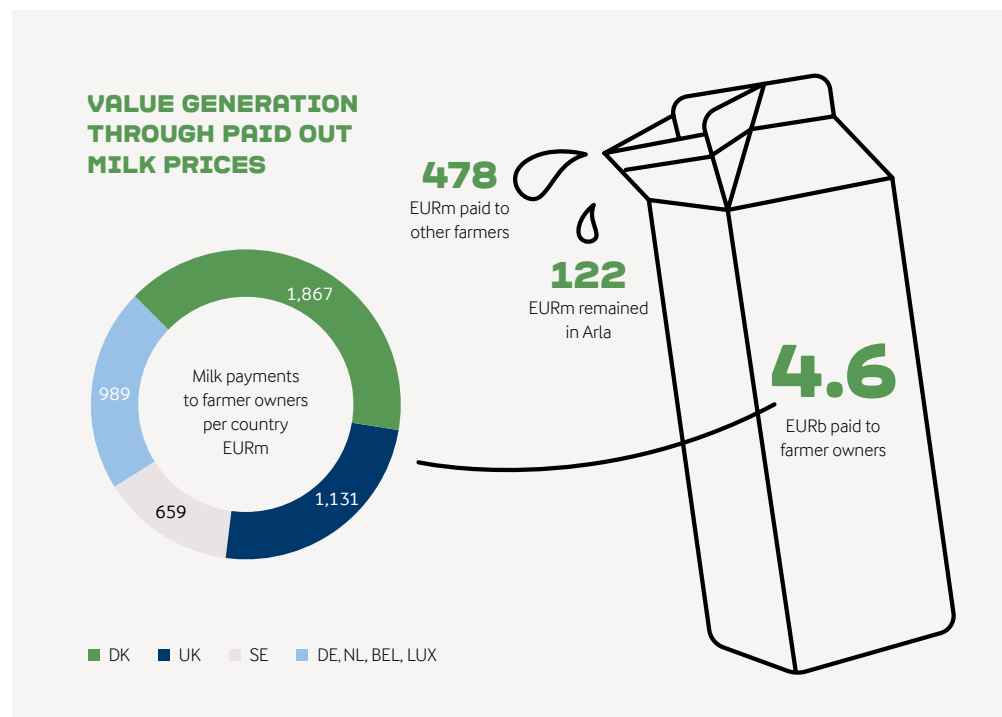
Arla operates several subsidiaries globally. Our subsidiaries are primarily limited liability and private limited companies subject to regular corporate taxation.

## Value generation through milk payments

In 2020, Arla generated a total value of approximately EUR 5.2 billion\* from the milk supplied. Milk from our farmer owners generated EUR 4.6 billion in milk payments, while other farmers received milk payments of EUR 478 million

leaving EUR 122 million in Arla. As a result, the majority of the taxes are paid at farm level subject to local tax rules.

*\*On account milk price for the year plus an estimated supplementary price of 1.75 EUR-cent/kg owner milk*





# RISK AND COMPLIANCE MANAGEMENT

As a cooperative with cross-country ownership and global activities Arla faces multiple risks and uncertainties that may threaten our business and our ability to pay a competitive milk price to our owners. Steering through 2020 with the impacts of Covid-19 and the threat of a hard Brexit exemplifies why strong risk and compliance management is important.

Arla’s risk and compliance management aims to reduce uncertainties, mitigate adverse internal and external impacts, capture business opportunities to maximise value creation, and to ensure a compliant business conduct. We take measures to identify, understand, assess and deal with risks effectively. Our focus is on risks that may threaten the realisation of our strategy, and we also address risks inherent in the business processes of the company.

## Risk management

The Board of Directors has the overall responsibility for overseeing risk and for maintaining robust risk and compliance management as well as an internal control system. The Board of Directors recognises the importance of identifying and actively monitoring the most persistent risks, as well as long-term threats, trends, or challenges facing the Group. The most significant risks are regularly reviewed and assessed by the Executive Management Team and the Board of Directors, who are also responsible for reviewing the effectiveness of the risk and compliance management and internal control processes throughout the year. Generally, our risk and compliance activities are monitored and discussed quarterly by the Executive Management Team and annually by the Board of Directors.

In 2020, the Board of Directors monitored and discussed the impacts of Covid-19 on a frequent basis, focusing on business continuity and the health and safety of our employees. The continued risk of a hard Brexit and the effect of Brexit-related friction costs were monitored closely by the Board of Directors, and relevant members of the Board were also engaged in dialogue with representatives from both the EU and the UK government. Internally, a dedicated task force team consisting of specialists from relevant parts of Arla worked intensively managing the Covid-19 situation and preparing for Brexit.

## Risk identification

We identify compliance risks using several methods, including monitoring of regulatory developments, investigations upon alleged misconduct reports, compliance training, internal compliance reviews and process risk mapping, as well as CSR due diligence.

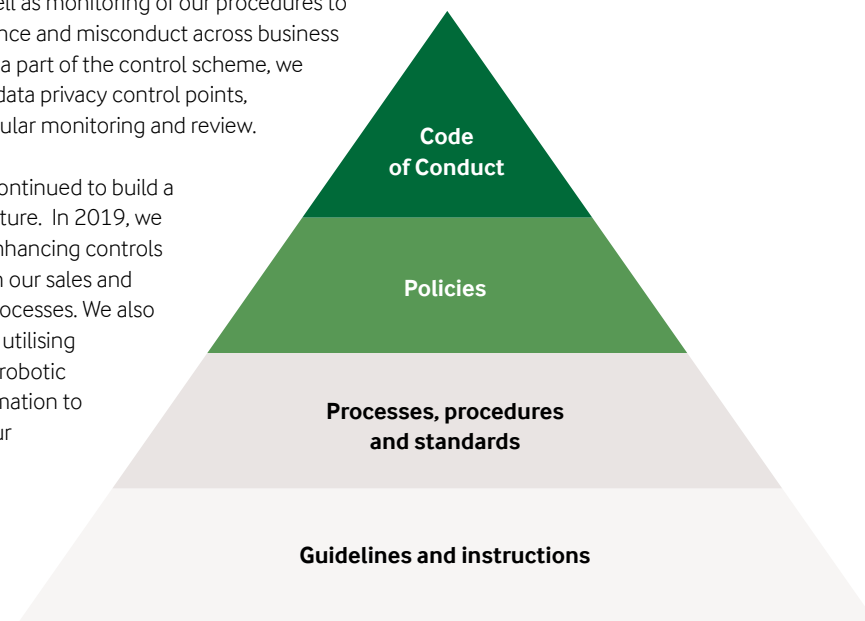
## Policy framework

We continuously work on improving our corporate policies to reflect our values and commitments as stated in our Code of Conduct. Our policies govern general employee behaviour in key areas of good business conduct, guide us to act responsibly and with integrity, and govern our ways of working as ONE aligned and efficient Arla.

## Controls

We have zero tolerance towards violation of principles set by our policies and secure this through a coherent system of internal controls, which are regularly assessed for effectiveness and adequacy. We continue to develop our internal control environment with system-embedded controls as well as monitoring of our procedures to avoid negligence and misconduct across business processes. As a part of the control scheme, we also develop data privacy control points, subject to regular monitoring and review.

In 2020, we continued to build a compliant culture. In 2019, we focused on enhancing controls and policies in our sales and purchasing processes. We also progressed in utilising analytics and robotic process automation to strengthen our compliance.



*Our governance framework*

# RISK AND COMPLIANCE MANAGEMENT (CONTINUED)



## Education and awareness

Our Code of Conduct and internal policies are communicated to all employees supported by a range of activities combining mandatory training programmes and awareness campaigns. All internal principles for business conduct are available to our employees in a central Policy Portal on Arla's intranet, which is also accessible on mobile devices. We offer a combined scheme of training, including e-learning on major compliance matters (e.g. competition law and information security) and classroom training as appropriate. In 2020, we saw a significant improvement in identification of potentially fraudulent e-mails after conducting cyber threat tests and subsequently assigning targeted training to employees who failed to recognise the risk.

## Investigations

Openness and trust are among our core values and incorporated into our Code of Conduct. If employees believe that the Code of Conduct has been violated, we encourage them to report these violations. Concerns can be raised by reporting to relevant management, HR or our Risk Controls and Compliance department. We also offer anonymous reporting through our whistle-blower system, applying strict principles of confidentiality and ensuring that no retaliatory action will be taken against the person who reports the violation. In 2020, we decreased the number of reported fraud allegations compared

to 2019. None of these investigations resulted in material financial losses to the group, but they provided us with valuable knowledge about the state of our control environment, which has proven to be strong.

## Reporting

We report on our compliance at various organisational levels throughout the year. Compliance scores are reported quarterly to the Executive Management Team, country-specific risks are reported to middle management on a frequent basis, and compliance concerns are reported annually to the Board of Directors. Final observations from all compliance activities and investigations in the year are reported in the Annual Compliance Report to the Board of Directors. In 2020, we improved our internal controls and compliance processes, driven by the power of compliance KPIs reporting and regular dialogue within the business.

Go to our corporate webpage to read our Code of Conduct.

## Key changes in Arla's risk position in 2020

- The impacts of Covid-19 caused confusion, concern and uncertainty for people and economies across the world, which was also reflected in Arla's risk position. We continuously address the adverse consequences, while trying to capture the opportunities and continue with our operations.
- During Covid-19, we experienced a disruptive pace of change as more consumers turned to e-commerce and changed their shopping habits. Due to our diverse and resilient business we quickly adapted to the new demand and continuously work to strengthen our online presence.
- The societal push for sustainable production with low climate impact increases at a steady pace. Sustainability continues to be a key priority for Arla, and we have set ambitious targets for reducing our environmental impacts and implementing tools enabling us to collect one of the world's largest sets of externally verified climate data from dairy farming.

# RISK AND COMPLIANCE MANAGEMENT (CONTINUED)

Risk Owner

Mitigation

## TYPES OF RISK

**STRATEGIC:** risks arising from external or internal trends or events that may have material impact on the realisation of our strategic objectives

**OPERATIONAL:** risks that may compromise the execution of business functions

**FINANCIAL:** risks that may cause unexpected volatility in milk price, net sales, margins or market shares

**LEGAL AND REGULATORY:** risks related to legal or regulatory developments that may have material impact on our realisation of business objectives

## IMPACT

We differentiate risks within each major category by their potential impact. Impact indicates the level of monetary and/or reputational loss. In this report, we focus on critical and major risks, but in our internal risk management we also track and mitigate risks below these materiality levels.

**Major:** Long term impairment of market position and/or national media coverage resulting in damage to brands/image and/or monetary loss 10-50 EURm.

**Critical:** Permanent reduction of brand value and/or extensive international media coverage damaging the image of Arla and/or monetary loss in excess of 50 EURm.

**Likelihood:** When we talk about the movement of risk, we refer to change in the likelihood of the risk materialising, considering the mitigation activities and controls lowering that likelihood.

## Strategic risks

### Negative consequence of Brexit

The UK is a significant market for Arla, accounting for 26 per cent of sales. The Free Trade Agreement between the UK and the EU was welcomed, however, the non-tariff barriers within the deal will create friction resulting in additional complexity and cost.

: *Peter Giørtz-Carlsen, Chief Commercial Officer*

: Since the Brexit vote in 2016, we have developed detailed scenario and mitigation action plans, and we have continuously been mapping potential impacts of various outcomes of the Brexit negotiations. Looking into 2021, despite the Free Trade Agreement, Brexit is placed as a mission critical project on our business plan, and we are well prepared to handle the impacts of Brexit on our UK business. To read more go to page 20.

**Impact:** **2020 movement:**

### Political instability and economic turmoil (Covid-19 impact)

Political instability across the countries where Arla operates is a major risk with potential of significantly affecting our sales and profitability. Political uncertainty impacts exchange rates, interest rates, international trade relationships, the 'free' movement of goods and services, production, etc.

: *Peder Tuborgh, Chief Executive Officer*

: During 2020, political uncertainty impacted our business in multiple places from Lebanon in the Middle East, over Sub-Saharan Africa to South East Asia and most recently Brexit in Europe. With our broad international footprint and agile supply

chain, our organisation is set up to deal with uncertainty, and we can use our resilience and agility to face the challenges. On a global scale, Covid-19 has also increased the uncertainty with regard to the economic outlook, but as a global company we have plans in place to act in various scenarios.

**Impact:** **2020 movement:** New

### Transformation of consumer preferences (Covid-19 impact)

An example of the changing consumer preferences is the increased demand for more sustainable products. Recent studies show that 35 per cent of global consumers are willing to trade up for a more sustainable product. This is a great opportunity, but also a great risk due to today's significant GHG emissions in dairy production, which potentially could lead consumers towards dairy alternatives.

: *Hanne Søndergaard, Chief Marketing Officer*

: As part of our 'Stronger Planet - Stronger People' sustainability strategy, we continuously work to develop more sustainable packaging and products. In 2021, we plan to step up our health and sustainability proposition through big plays for the Arla Brand while accelerating our communication to consumers regarding the many steps that we take on our sustainability journey. We will also continue to develop products that fit consumers' demand for value offering. Read more in our Responsibility Report.

**Impact:** **2020 movement:** Stable


# RISK AND COMPLIANCE MANAGEMENT (CONTINUED)

 Risk Owner

 Mitigation

## Insufficient response to sustainable production and/or non-compliance with climate regulations

The EU's climate ambitions cause a potential risk for Arla as they could lead to restrictions that we are unable to comply with, thus forcing us to reduce dairy production or impose significant cost on Arla or our farmer owners.

 : *Hanne Søndergaard, Chief Marketing Officer*


 : As part of our sustainability strategy we introduced environmental targets approved by the Science Based Targets Initiative, and we are working hard to reduce our carbon footprint. Our farmers perform Climate Checks that provide data for impact analysis and in 2021, we will continue rolling out the Climate Checks to our farmers and launch a review of carbon sequestration to monitor carbon footprint. We will also watch Farm to Fork strategy development to secure a prompt reaction to any further regulations. To read more go to page 34.

**Impact:** ■ **2020 movement:** Stable

## Disruptive pace of channel shift due to new consumer shopping habits (Covid-19 impact)

As more consumers turned to e-commerce grocery deliveries during Covid-19, the e-commerce space developed at a pace that would normally be seen over a 5-year period. We saw bricks and clicks players increase their e-commerce participation and pure players attracting new customers as the convenience of having groceries delivered was maximised during a period of huge change. The digital commerce sector has seen a period of rapid innovation as food boxes from retailers and food aggregator partnerships all

look to respond to the consumer demand of delivered groceries.

 : *Peter Giørtz-Carlsen, Chief Commercial Officer*

 : In 2020, we continued to build on our partnerships across the grocery channel to invest in people and technology, take advantage of the change in shopping behaviour, and to capitalise on this growing channel. In 2021, we will continue adjusting according to the changing consumer behaviour and look for new growth opportunities across the e-commerce channel in order to maintain our leading position within dairy and secure our position on the digital shelf. This includes investments in technology across e-commerce sales and digital marketing as well as building capabilities across the organisation to harness the local market strengths. As Covid-19 impacts on the economies of European countries start to take effect, we see consumers looking for both value and convenience and the grocery channel becoming more competitive as retailers enhance their value proposition for consumers.


**Impact:** ■ **2020 movement:** ▲

## Operational risks

### Health and Safety risk of business continuity due to Covid-19

We acknowledge the risk of spreading the virus among our employees, which besides posing a health and safety risk for our employees, could impact Arla's brand reputation as well as business continuity due to high absence rates.


 : *Ola Arvidsson, Chief Human Resources Officer*


 : During 2020, we conducted risk assessments at all locations and applied adequate measures, including social distancing, cleaning, working from home, limitation on travel, etc. to avoid spreading the virus. In 2021, we will continue with these measures as required.

**Impact:** ■ **2020 movement:** New

### Milk price and volume volatility (Covid-19 impact)

Milk markets are significantly price volatile, which European dairy companies and milk farmers have had to cope with since the liberalisation of the European milk markets in 2007. Commodity milk prices quickly reflect global and European demand and supply balances, and hence small changes in consumer demand or farmer supply tend to drive significant price adjustments. Covid-19 has impacted dairy consumption and caused some price volatility during 2020.

 : *Peder Tuborgh, Chief Executive Officer*


 : In Arla, we constantly monitor commodity price developments and adjust our business accordingly. But most importantly we keep front line focus on our retail and brand portfolio where we at all times generate the highest value for our farmers' milk and ensure stable value creation across the commodity price cycles. Also, in 2020, we succeeded in growing our branded share of business. To read more go to page 54-62.

**Impact:** ■ **2020 movement:** ▲

## Information security and cyber-attack (Covid-19 impact)

Increasing significance of e-commerce and a shift in working patterns caused by Covid-19 elevate the risk of major cyber-attacks even further, potentially resulting in inability to manufacture, sell or ship products when integrated finance, logistics or office support systems are disrupted.

 : *Torben Dahl Nyholm, Chief Financial Officer*

 : In 2020, we ran a broad project to enable periodic security vulnerability scanning. The core network perimeter was strengthened with firewalls, the latest threat prevention and security technologies. We implemented a security education platform to educate users on cyber-risk, as well as to test and build their awareness through simulated phishing campaigns. In 2021, we will continue to remediate security vulnerabilities identified during scans in 2020. We will further improve our threat detection and prevention capabilities, including cloud, network, e-mail and endpoint protection technologies. In addition, enhanced education curriculum targeted to high-risk functions will be applied.

**Impact:** ■ **2020 movement:** Stable

## Financial risks


### Currency fluctuation


As 58 per cent of Arla's revenue is generated in currencies other than EUR or DKK, our key financial risk relates to the fluctuation of currencies in our global markets.

# RISK AND COMPLIANCE MANAGEMENT (CONTINUED)

 Risk Owner

 Mitigation

 : *Torben Dahl Nyholm, Chief Financial Officer*

 : We have centralised foreign currency exposure management in place, and we reduce our short-term transactional exposure through hedging activities in our main currencies.


**Impact:** ■ **2020 movement:** Stable

## Legal and regulatory risks

### Major product quality and/or safety issues resulting in product recall

Food safety and compliance with health and safety regulations is a top priority across our supply chain and commercial business. It is also part of our social responsibility commitments stated in our Code of Conduct. Major product quality and/or food safety deviation may lead to a brand reputation risk and lack of trust in our products from Arla customers and consumers. Furthermore, downgrade of products may lead to financial losses.

 : *David Boulanger, Chief Supply Chain Officer*


 : We constantly improve and extend our quality assurance programme. We have quality and food safety management programmes in place driven from a central QEHS department, and we monitor our core production performance indicators monthly. In 2021, we will focus on further implementation of Arla QEHS Manual and Arla Food Safety Mandatory standards, as well as obtaining food safety certification from a third party certifying body and further auditing against customer requirements.

**Impact:** ■ **2020 movement:** Stable

### Legal non-compliance, corruption, fraud and unethical business conduct

Any instance of corruption or unethical business conduct raises risk of reputational damage, fines and criminal prosecution. Across all core business processes an inherent risk of misconduct exists and needs mitigation. For example, we need to ensure competition law compliance in all areas, markets and functions. This requires that we act in accordance with the legislation when entering into agreements with suppliers and customers. Competition law infringements are subject to significant regulatory fines but also entails a risk of material damage to our reputation. We must also secure the privacy of our employees', customers' and other business partners' personal data in line with GDPR. Actual or perceived violations of GDPR or other data privacy and system security regulations could raise a risk of significant regulatory fines and reputation damage.

 : *Torben Dahl Nyholm, Chief Financial Officer*

 : We have zero tolerance for misconduct which may compromise our reputation or corporate integrity. We constantly educate our employees on the principles of our Code of Conduct and internal policies, e.g. anti-harassment, anti-bribery, fraud, and third party entertainment policy. We monitor any misconduct through a system of internal controls in all business processes, and we identify irregularities through reporting structures, including a group-wide whistle-blower programme. We have taken significant steps to ensure competition law compliance. The messaging from top management is unambiguous, and it is

communicated on a regular basis to relevant employees in markets where we are present. Most of these sessions are carried out as mandatory face-to-face training sessions. Additionally, we have an extensive written compliance programme as well as a regularly updated competition law policy. E-learning is also available to all colleagues worldwide. We review our business processes and IT systems and strengthen our internal policies and procedures annually. We implemented a control framework, which is supported by continuous education of employees and audits of relevant business partners. We have also improved our HR processes, policies and procedures to ensure data privacy of employees. To read more go to page 49-50.

**Impact:** ■ **2020 movement:** Stable



**Arla**  
Closer to Nature™  
One for All and All for One.  
This vehicle collects 32,570 pints of milk from our farmers and delivers our finished products to you. Sustainable because that means our carbon footprint.

# OUR PERFORMANCE REVIEW

In a year like no other, defined by the Covid-19 pandemic, Arla managed sales and operations in a robust way and delivered solid results on our Key Performance Indicators (KPIs). Despite the challenging market environment and volatility in market prices and currencies, Arla managed to improve the performance price to **36.9 EUR-cent/kg** in 2020, up from 36.6 EUR-cent/kg in 2019. In a rapidly changing and volatile retail and foodservice environment, Arla delivered strong branded volume driven revenue growth of **7.7 per cent** and a net profit of **3.2 per cent**. At the same time, our Calcium transformation and efficiency programme contributed **EUR 130 million** in savings, and our financial leverage closed the year at a firm **2.7 level**.



**Torben Dahl Nyholm**  
Chief Financial Officer




# MARKET OVERVIEW

In 2020, the global macroeconomic environment was characterised by the uncertainty caused by Covid-19, expected recessions looming across most markets, as well as continued uncertainties in global political and trade relations, most notably exemplified by the Brexit preparations. During the year, lockdowns, curfews and other restrictive measures impacted all parts of the global dairy supply chain from farmer to consumer, and the turmoil caused instability in market milk prices during the first half of the year.

## UNCERTAINTY IN THE MACROECONOMIC ENVIRONMENT

When the pandemic hit the Western world in early spring 2020, an economic slowdown had already been forecasted by analysts, and the latest IMF forecasts predict a Euro area GDP growth of -7.2 per cent in 2020. With the Covid-19 crisis hitting many nations' economies hard, the depth of the crisis and the speed of the recovery is still largely uncertain, partly because government support packages mitigate the impact in most countries. The macroeconomic environment was furthermore impacted by the uncertainty caused by the ongoing Brexit negotiations.

### Average exchange rates, 2019-2020

Currency	2019	2020	Change vs. 2019
EUR/USD 	1.119	1.140	-1.8%
EUR/GBP 	0.877	0.889	-1.3%
EUR/SEK 	10.587	10.483	1.0%

The disruption following the pandemic caused volatility in exchange rates across Arla's core markets. The GBP, which was also affected by the uncertainty caused by Brexit, declined and fluctuated below pre-Covid-19 levels with an average 1.3 per cent lower EUR/GBP exchange rate in 2020 than in 2019. The USD declined modestly during 2020 and was down by 1.8 per cent compared to 2019. The SEK increased by 1.0 per cent against the EUR during 2020 compared to 2019. Lastly, USD shortage resulted in the devaluation of local currencies in some emerging markets.

## CHANGING CUSTOMER AND CONSUMER BEHAVIOUR DRIVEN BY COVID-19

During 2020, customer and consumer behaviour changed significantly, causing volatility in retail and food service demand for dairy products. As restaurants, cafes and canteens closed during lockdowns, consumers increased in-home consumption and made fewer trips to grocery stores, resulting in larger baskets at single shopping trips and increased reliance on online grocery shopping. Especially during the first lockdowns in spring, uncertainty and anxiety drove unprecedented growth in e-commerce and retail dairy consumption. The foodservice sector was, on the other hand, negatively affected by lockdowns

and curfews. In the UK, 14 per cent of sales in the dairy category are now online, and the dairy category is ahead of the total online grocery development. Over a 12-week period in autumn 2020, online dairy sales grew by +89 per cent with retailers seeing strong double-digit growth.

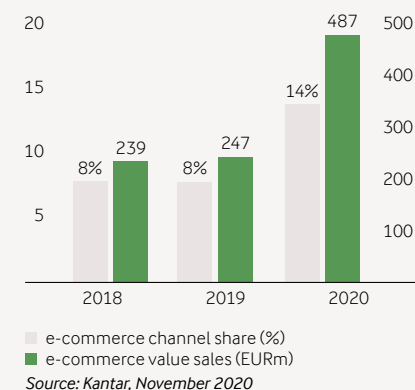
## STABLE EUROPEAN MILK SUPPLY FROM DAIRY FARMERS

European milk production and intake remained stable despite the turmoil in markets and volatility in demand caused by the Covid-19 pandemic. European milk volumes grew by 1.7 per cent. Milk farmers across Europe were able to keep supply largely undisrupted and thereby played a vital role in ensuring critical food supplies during the pandemic.

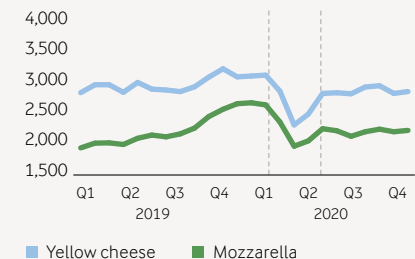
## VOLATILITY IN MARKET MILK PRICES

2020 was characterised by market imbalances caused by sudden fluctuations in demand, which led to volatility and low predictability in European market milk prices. In the second quarter, milk prices dropped by 20-25 per cent across all industry dairy products, but stabilised again in the third quarter. However, the second round of lockdowns in the last quarter caused hesitancy in the market, and prices weakened again, particularly in the mozzarella category.

### Online development in the UK\* (per cent/EURm)



### European commodity prices in 2020 (EURm)





# PERFORMANCE REVIEW

Our ability to keep operations running during the Covid-19 pandemic and quickly react to changes in market trends and demands was a defining factor in 2020. In this environment, we grew our strategic branded volume driven revenue by 7.7 per cent across our brands and commercial segments, while strengthening our business execution through our transformation and efficiency programme Calcium with EUR 130 million in additional savings. With this result, we are on course to reach our 2021 target of EUR 400 million in savings. We also continued delivering on our sustainability strategy and further reduced our scope 1 and 2 CO<sub>2</sub>e emissions, reaching a total reduction of 24 per cent compared to the 2015 baseline.

## STABLE AND COMPETITIVE PREPAID MILK PRICE

Arla targets an annual net profit share in the range of 2.8 to 3.2 per cent of revenue, allowing us to actively balance the retained capital for future investments and provide a competitive supplementary payment to our farmer owners. This also enabled us to pay out the largest possible share of our profit via the pre-paid milk price to our farmer

owners during the year. In 2020, we achieved a net profit within the target range of EUR 345 million equalling 3.2 per cent of revenue and 0.2 percentage points higher than in 2019, which is a strong result for our cooperative. The average pre-paid milk price was 34.1 EUR-cent/kg which was unchanged compared to last year. The performance price for 2020 was 36.9 EUR-cent/kg, compared to 36.6 EUR-cent/kg in 2019 (an increase of 0.8 per cent).

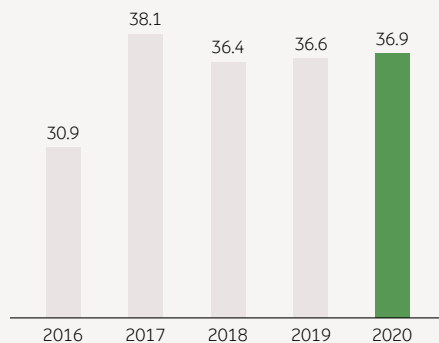
## MODEST GROWTH IN MILK INTAKE FROM FARMER OWNERS

Despite the turmoil caused by the Covid-19 pandemic, Arla maintained a stable average pre-paid milk price in 2020. However, as global commodity prices dropped as a consequence of the uncertainty in the market, Arla's pre-paid milk price decreased in May, but increased again in October and November as the 2020 year-end outlook improved.

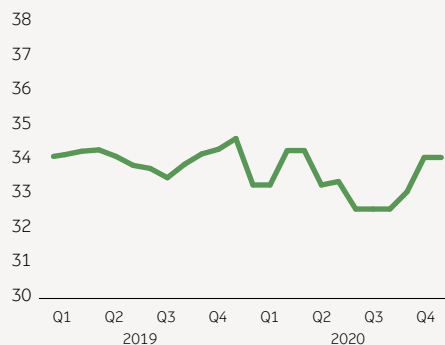
In 2020, we saw a modest increase in the milk intake from our owners of 1.1 per cent compared to 2019. The growth was seen across our main owner countries with the highest increase in volumes from our UK and Swedish farmer owners.

In Sweden, the milk intake increased by 2.1 per cent and showed growth for the first time in more than 5 years. This was partly due to good farming conditions in 2020 after two years of draught, as well as increasing milk volumes at farms offsetting the loss from farms that reduced their volumes or stopped producing for Arla.

**Performance price**  
(EUR-cent/kg)



**Standard prepaid milk price 2019-2020**  
(EUR-cent/kg)



**“ARLA'S MISSION IS TO SECURE THE HIGHEST VALUE FOR OUR FARMERS' MILK WHILE CREATING OPPORTUNITIES FOR THEIR GROWTH.”**

# PERFORMANCE REVIEW (CONTINUED)

## REVENUE INCREASE DRIVEN BY BRANDED GROWTH

Reaching the midpoint of our 2020 guidance, our total revenue amounted to EUR 10.6 billion compared to EUR 10.5 billion in 2019, an increase of EUR 0.1 billion or 1.1 per cent compared to 2019. The development in revenue can be explained by changes in volume and product mix, sales prices, exchange rates as well as M&As. In 2020, we saw a revenue increase from volume and product mix of EUR 270 million driven by the success of our brands, also in meeting the changing consumer behaviour following Covid-19. See note 1.1 for further information. Sales prices declined modestly with an impact of EUR 133 million, and exchange rates had a negative impact of EUR 85 million. Lastly, there was an effect of EUR 65 million from M&As, mainly driven by the full-year impact of the licence agreement to manufacture, market and distribute the Kraft® cheese brand in MENA.

## BRAND GROWTH DRIVEN BY IN-HOME CONSUMPTION AND STRONG COMMERCIAL EXECUTION

Good Growth 2020 set an ambitious goal of improving the overall quality and value of our revenue by shifting volumes from private label and industry sales into our high-value-adding branded product portfolio. In 2020, we delivered strategic branded volume driven revenue growth of 7.7 per cent compared to 5.1 per cent in 2019. This is an all-time high brand growth, partly due to our fast adaptation to Covid-19 consumer and consumption trends.

The main driver of the branded volume driven revenue growth was our global butter and spreads brand Lurpak®, growing by 14.6 per cent. The Arla® brand, Puck® and Starbucks™ also delivered growth above expectations of 3.0, 11.7 and 27.9 per cent,

respectively. Kraft® performed very well during its first year on Arla hands, growing by 153 per cent due to the full-year effect and strong commercial execution in MENA. The overall branded growth was driven by increased in-home lunching, cooking and baking due to Covid-19 curfews combined with strong commercial execution. On the contrary, our foodservice business saw a decline due to lockdowns.

[Read more about our brands on page 23-24.](#)

## STRONG PERFORMANCE ACROSS COMMERCIAL SEGMENTS

Our International segment delivered strong strategic branded volume driven revenue growth of 11.6 per cent across most countries. The growth was particularly driven by the MENA region where branded revenue grew by 20.1 per cent as well as the Rest of World distributed sales. The Arla® brand grew modestly by 1.6 per cent, whereas Lurpak®, Puck® and Starbucks™ achieved very high growth rates of 12.2, 11.6 and 20.7 per cent, respectively. Kraft® also got off to a very good start on Arla hands growing by 153 per cent.

[Read more about our International segment on page 27-28.](#)

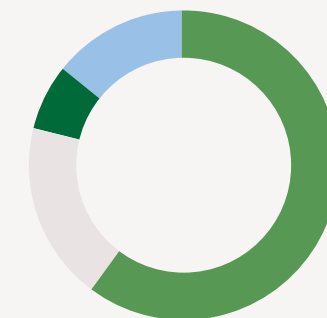
Our European commercial segment, representing 60 per cent of Arla's revenue, delivered strong branded growth of 5.9 per cent despite the volatility in the market. Growth was driven by increased home consumption and e-commerce sales. This more than compensated for the decline in foodservice sales following lockdowns during the year. Growth was driven by the Arla® brand at 3.4 per cent, Lurpak® at 15.9 per cent and Starbucks™ at 32.4 per cent.

[Read more about our European segment on page 25-26.](#)

Arla Foods Ingredients (AFI) increased the value-add ingredient business to 73.7 per cent in 2020, driven by growth in the pediatric and medical nutrition segments, but the food segment and child nutrition manufacturing business were negatively impacted by lockdowns and delays in customers' new product launches.

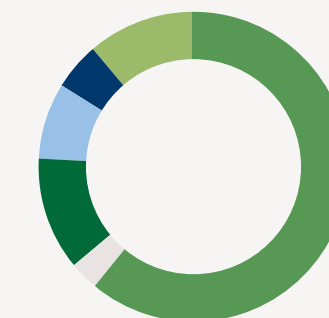
The share of milk sold by our Global Industry Sales decreased by 2.3 percentage points compared to last year as large volumes of milk were shifted into retail to meet the increasing demand during the pandemic. This truly demonstrated the flexibility of our Global Industry Sales business.

Revenue split by commercial segment



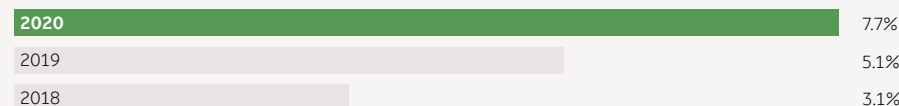
- Europe 60%
- International 19%
- Global Industry Sales and other 14%
- Arla Foods Ingredients 7%

Branded revenue, split by brands



- Arla® 61%
- Lurpak® 12%
- Puck® 8%
- Other supported brands 11%
- Milk-based beverages 5%
- Castello® 3%

Branded volume driven revenue growth



# PERFORMANCE REVIEW (CONTINUED)

## THIRD YEAR OF STRONG CALCIUM DELIVERY

Our transformation and efficiency programme, Calcium, was initiated as part of the strategy to increase efficiencies and operational execution across the business and strengthen Arla for the future. 2020 was the third year of the Calcium programme, and again the programme delivered strong results with savings of EUR 130 million, significantly ahead of our target range of EUR 75-100 million for the year. The accumulated Calcium savings achieved since the programme start in 2018 increased to EUR 354 million, approaching our 2021 target of EUR 400 million. Savings were primarily achieved through further supply chain efficiencies as well as decreased marketing spend and SG&A optimisation, supported by reduced expenses due to employees working from home and less business travel during Covid-19.

[Read more about our Calcium programme on page 16-17.](#)

## LEVERAGE BETTER THAN TARGET RANGE

Arla's leverage is calculated as the ratio of net interest-bearing debt, including pension liabilities, to operating profit, i.e. EBITDA. This measures Arla's ability to generate profit compared to our net-interest bearing debt. Leverage is our most important indicator of our financial position and our long-term target range is 2.8-3.4. In 2020, leverage decreased to 2.7 compared to 2.8 in 2019 despite a high level of investment. This was the result of strong cash generation from operations as well as firm cash management throughout the year.

Net interest-bearing debt including pensions increased to EUR 2,427 million compared to EUR 2,362 million in 2019. The increase was primarily due to a high investment level. EBITDA increased by EUR 72 million to EUR 909 million compared to EUR 837 million last year.

Arla's overall financial position is strong and provides us with flexibility to fund our strategy and pursue our vision to create the future of dairy. Arla does not hold a public rating; however, based on the market pricing of our bond issues and feedback from several external financial relations, Arla is considered a solid investment grade company and is committed to maintaining this status going forward.

## STRONG CASH FLOW FROM OPERATING ACTIVITIES

Arla's cash flow from operating activities decreased to EUR 731 million compared to EUR 773 million last year. The higher EBITDA was more than offset by increased positions of other working capital items, such as import VAT, duties and HR-related liabilities.

## NET WORKING CAPITAL

The net working capital position decreased to EUR 679 million compared to EUR 823 million last year. This was primarily driven by a decline in the value of trade receivables and increased trade payables. Increased working capital requirements, primarily related to stronger sales, were offset by the effect of the utilisation of receivables finance programmes and improved internal processes. Turnover days improved by 1.6 days from 2019 to 2020.



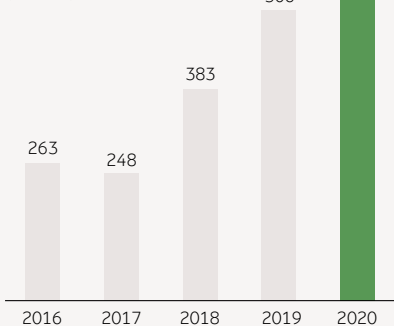
# PERFORMANCE REVIEW (CONTINUED)

## INVESTMENTS

In 2020, Arla invested significantly in our global supply chain and IT infrastructure. Our CAPEX investments, including right of use assets, totalled at EUR 580 million. Key CAPEX projects included continued activities related to the construction of our powder tower in Pronsfeld, Germany, a capacity increase in mozzarella production at our site in Branderup, Denmark, as well as investments in our newly acquired plant in Bahrain. These projects will continue into 2021.

In 2020, we also strengthened our investment process by formalising the use of a climate-adjusted payback indicator to embed the carbon footprint of CAPEX and M&A investments into our investment approval and prioritisation process, underlining our commitment to investing in the sustainable future of dairy.

**Investments in property, plant and equipment including right of use assets (EURm)**



## MEASURING AND REPORTING OUR STRONGER PLANET AND STRONGER PEOPLE IMPACT

During 2020, we continued our efforts to reduce our environmental impact and reached a reduction in CO<sub>2</sub>e emissions from operations (scope 1 and 2) of 24 per cent compared to the baseline year 2015. Understanding and measuring our climate impact correctly is an indispensable first step towards lowering our climate footprint. In this turbulent year, Arla managed to reach two important milestones on this journey. With the concerted effort of 9,406 farmer owners, carbon emissions from 96 per cent of Arla’s milk volume were measured for the first time using our Climate Check questionnaire. The external verification of the survey data began in 2020 and is expected to be finished by the end of March 2021.

[Read more on page 34.](#)

## CLIMATE IMPACT

CO<sub>2</sub>e emission reduction, scope 1 and 2

**24%**

Baseline: 2015

Science Based Target 2030: 30%

CO<sub>2</sub>e emission reduction, scope 3 per kg of milk and whey

**7%**

Baseline: 2015

Science Based Target 2030: 30%



SCIENCE  
BASED  
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



# FINANCIAL OUTLOOK

In 2021, we will further adapt and adjust to the significant changes experienced during 2020, most notably caused by the continuation of the Covid-19 pandemic. However, 2021 will also be a year when we continue to build on the current strategic momentum, continue our branded volume driven revenue growth, strive to deliver a strong final year of our transformation and efficiency programme Calcium and take new important steps towards delivering our Sustainability Strategy.

## UNCERTAINTY IN 2021 AND LEARNINGS FROM 2020

The macroeconomic and political outlook for 2021 remains challenging, primarily due to the continuation of the Covid-19 pandemic. As indicated by the IMF, the global GDP growth projection for 2021 is 5.5 per cent, but will still not recover to 2019 levels. Emerging and developing economies are projected to grow by 6.3 per cent (-2.4 per cent in 2020) and advanced economies by 4.3 per cent (-4.9 per cent in 2020). This could potentially have an impact on the buying power and dairy demand growth.

In 2021, the consequences of Covid-19 will continue to significantly impact our business, and we strive to continue our strong commercial execution with the agility and resilience of our supply chain and farmer owners to quickly adapt to new demands and

requirements in this uncertain environment.

Our most important learning from 2020 is that agility and speed of adaptation are key to success during these uncertain times.

Brexit ended with a free trade agreement, and hence the outlook for our core UK market is relatively stable despite expected friction cost and uncertainty regarding custom clearance delays etc.

Our financial outlook and guidance for 2021 are subject to these uncertainties.

## CONSUMER TRENDS IN UNCERTAIN TIMES

The main consumer trends expected to impact dairy in 2021, especially in the Western markets, are e-commerce, growing in-home consumption, and

significant uncertainty about the return of foodservice. This is due to the continued uncertainty caused by the pandemic, and the speed of return to the 'new normal'. Despite the Covid-19 impacts, we still predict a continuation of the strong consumer and societal trends of sustainably produced food, increasing expectations for nutritious products and guidelines, and growing convenience and on-the-go sales. This is coupled with with higher consumer and societal demands for transparency and accountability.

## FURTHER IMPROVING THE QUALITY OF OUR BUSINESS THROUGH STRATEGIC BRANDED GROWTH

Despite the very strong growth in 2020, we still expect to grow our brand positions in 2021. We expect to grow branded volumes in the range of

1-3 per cent and hence further improve the quality of our revenue and the competitiveness of our business portfolio. The 2021 branded growth target is expected to move our branded share of revenue to 50 per cent and our international share above 23.5 per cent. In 2021, the continued strategic branded growth is expected to be driven by strong commercial execution across our European and international commercial segments.

## FINAL DELIVERY OF EUR 400 MILLION IN CALCIUM SAVINGS

We expect to further strengthen Arla's competitiveness, driven by our transformation and efficiency programme, Calcium. Our ambition for 2021 is to achieve savings of EUR >45 million and hence take the final steps towards reaching our full programme target of EUR 400 million.

## TARGETS, ACHIEVEMENTS, OUTLOOK

Revenue	Profit share	Calcium savings	Leverage	International share	Brand share	Strategic branded volume driven revenue growth
<b>10.3 - 10.6</b>	<b>2.8 - 3.2%</b>	<b>&gt;45</b>	<b>2.8 - 3.4</b>	<b>&gt;23.5%</b>	<b>&gt;50%</b>	<b>1 - 3%</b>
2020: 10.6 EURb	2020: 3.2% of revenue	2020: 130 EURm	2020: 2.7	2020: 23.6%	2020: 48.9%	2020: 7.7%

# FINANCIAL OUTLOOK (CONTINUED)

In 2021, Calcium savings are expected to be largely driven by efficiencies in our production, logistics and procurement activities, but we expect savings to slow down to some extent due to unprecedented high levels in 2020.

## EXPECTED NET PROFIT OF AT LEAST 2.8 PER CENT

As we always focus on paying out the largest possible share of our profit via the prepaid milk price to our farmer owners, we continue to target a net profit share for 2021 in the range of 2.8 to 3.2 per cent. Our net profit target range is a full-year target, and results for the half-year 2021 are expected to be below the annual target range due to seasonality in our profit creation.

## SIGNIFICANT INVESTMENTS IN 2021

2021 will be another important investment year for Arla with an investment outlook of EUR 700 million, driven by structural investments, Calcium efficiency initiatives and sustainability activities.

Our main projects will be the finalisation of our powder tower in Pronsfeld, Germany and the mozzarella capacity increase project in Branderup, Denmark. Another key investment project will be the expansion of our production site in Bahrain, as well as investments at our production site in Riyadh, Saudi Arabia. AFI also continues to be a core investment area in 2021 focused on the Denmark Protein and ARINCO sites. Our continued strong financial position allows us to invest in the capacities and technologies required to build the future of dairy, while stepping up our focus on energy efficiency and other investments driven by our ambitious sustainability strategy.

## SOLID LEVEL OF LEVERAGE EXPECTED IN 2021

Sufficient financial room to manoeuvre is a priority for Arla as it enables us to strategically position ourselves for future growth. Based on our ambitious investment plans for 2021, we expect leverage to increase slightly versus the 2020 level. However, continued improvement of our working capital position and a strong operational cash flow will likely deliver leverage at the lower end of our long-term target range of 2.8-3.4.

## CONTINUED DELIVERY ACCORDING TO GOOD GROWTH 2020 AND NEW LEARNINGS

2021 will be a year in which we continue to build on the momentum of the Good Growth 2020 strategy as well as the learnings from the first year of the Covid-19 pandemic.

As reflected in our Essential Business Priorities for 2021, we will continue our strong operations in light of Covid-19 and further develop our branded market positions, protect and develop strategic positions with our top customers, and further strengthen e-commerce. At the same time, we will focus on delivering the last stretch of our Calcium programme and accelerating our sustainability agenda. We will continue to implement our Climate Check programme, make efficiency improvements of our Arlagården® programme and support livelihoods in selected growth markets. A new strategy will be defined to set the future course for Arla beyond 2021.

## ESSENTIAL BUSINESS PRIORITIES FOR 2021

### CONTINUE STRONG OPERATIONS IN LIGHT OF COVID-19

Continue operational stability and security of supply for our customers. Sustain and further develop branded market positions captured during Covid-19, while engaging and securing the safety of our employees.

### POWER UP GROWTH CHANNELS AND KEY CUSTOMERS

Protect and develop strategic positions with our top customers, step up e-commerce and drive new concepts for foodservice.

### WIN WITH FORESIGHT IN CHANGING CONSUMER TRENDS

Step up health and sustainability proposition through big plays for the Arla Brand, while developing our strategic brands to capture consumers' demand for value offering.

### DEMONSTRATE AND ACCELERATE SUSTAINABILITY

Accelerate our sustainability agenda and demonstrate our progress, while further building on our strong farmer owner engagement and progress.

### DELIVER CALCIUM AND EMBED NEW WAYS OF WORKING

Deliver the last stretch of EUR >45 million to reach our 2021 target of EUR 400 million sustainable cost savings, and continue to build our future pipeline, while anchoring the transformation and embedding Covid-19 learnings across the organisation.

### DELIVER MISSION-CRITICAL PROJECTS

Navigate outcome of Brexit and minimise friction costs, secure more whey for AFI and deliver on key investment projects.

### WIN THE FUTURE

Create even stronger member relations where trust in the cooperative is further enhanced, while defining a new group strategy to set the future course for Arla.

*The forward-looking statements in this Annual Report reflect our current expectations for future events and financial results. Such statements are inherently subject to uncertainty, and actual results may therefore deviate from expectations. Factors which may cause the actual results to deviate from expectations include general economic developments and developments in the financial markets, changes or amendments to legislation and regulation in our markets, changes in demand for products, competition and the prices of raw materials. See also the section on risk (from page 49).*



# OUR CONSOLIDATED FINANCIAL STATEMENTS

# TABLE OF CONTENTS

## PRIMARY STATEMENTS

65	<b>Income statement</b>
65	<b>Comprehensive income</b>
66	<b>Profit appropriation</b>
67	<b>Balance sheet</b>
68	<b>Equity</b>
71	<b>Cash flow</b>

## NOTES

73	<b>Introduction to notes</b>
	<b>Revenue and costs</b>
74	1.1 Revenue
76	1.2 Operational costs
78	1.3 Other operating income and costs
79	1.4 Key Performance indicators
	<b>Net working capital</b>
80	2.1 Net working capital, other receivables and current liabilities
	<b>Capital employed</b>
83	3.1 Intangible assets and goodwill
86	3.2 Property, plant and equipment
89	3.3 Associates and Joint ventures
90	3.4 Provisions
91	3.5 Purchase and sale of business or activities

## Funding

92	4.1 Financial risks
99	4.2 Financial items
100	4.3 Net interest-bearing debt
105	4.4 Derivatives
106	4.5 Financial instruments
107	4.6 Sale and repurchase agreements
108	4.7 Pension liabilities

## Other areas

112	5.1 Tax
113	5.2 Fees to auditors appointed by the Board of Representatives
114	5.3 Management remuneration and transactions
114	5.4 Contractual commitments, contingent assets and liabilities
114	5.5 Subsequent events after the balance sheet date
115	5.6 General accounting policies
116	5.7 Group chart

## REPORTS

118	<b>Statement by the Board of Directors and the Executive Board</b>
119	<b>Independent auditor's report</b>



# INCOME STATEMENT

(EURm)	Note	2020	2019	Development, %
Revenue	1.1	10,644	10,527	1
Production costs	1.2	-8,301	-8,325	0
<b>Gross profit</b>		<b>2,343</b>	<b>2,202</b>	<b>6</b>
Sales and distribution costs	1.2	-1,483	-1,416	5
Administration costs	1.2	-439	-389	13
Other operating costs	1.3	-52	-64	-19
Other operating income	1.3	61	39	56
Share of results after tax in joint ventures and associates	3.4	28	34	-18
<b>Earnings before interest and tax (EBIT)</b>		<b>458</b>	<b>406</b>	<b>13</b>
<i>Specification:</i>				
<i>EBITDA</i>		909	837	9
<i>Depreciation, amortisation and impairment losses</i>	1.2	-451	-431	5
<b>Earnings before interest and tax (EBIT)</b>		<b>458</b>	<b>406</b>	<b>13</b>
Financial income	4.2	7	10	-30
Financial costs	4.2	-79	-69	14
<b>Profit before tax</b>		<b>386</b>	<b>347</b>	<b>11</b>
Tax	5.1	-34	-24	42
<b>Profit for the year</b>		<b>352</b>	<b>323</b>	<b>9</b>
Non-controlling interests		-7	-12	-42
<b>Arla Foods amba's share of profit for the year</b>		<b>345</b>	<b>311</b>	<b>11</b>

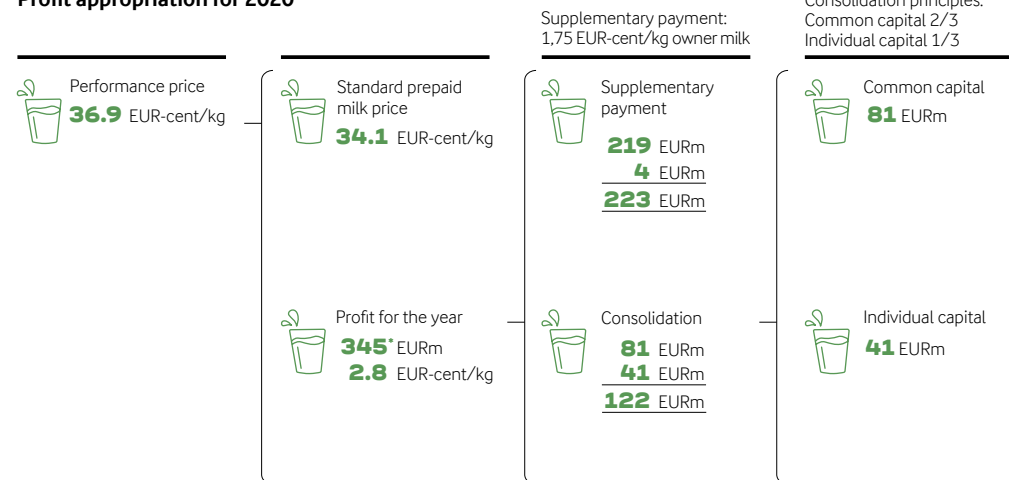
# COMPREHENSIVE INCOME

(EURm)	Note	2020	2019
<b>Profit for the year</b>		<b>352</b>	<b>323</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to the income statement:</b>			
Re-measurements of defined benefit schemes	4.7	5	-50
Tax on remeasurements of defined benefit schemes		4	11
<b>Items that may be reclassified subsequently to the income statement:</b>			
Value adjustments of hedging instruments	4.4	41	-22
Fair value adjustments of certain financial assets		-3	-2
Adjustments related to foreign currency translation		-84	42
Tax on items that may be reclassified to the income statement		0	-1
<b>Other comprehensive income, net of tax</b>		<b>-37</b>	<b>-22</b>
<b>Total comprehensive income</b>		<b>315</b>	<b>301</b>
<b>Allocated as follows:</b>			
Owners of Arla Foods amba		308	289
Non-controlling interests		7	12
<b>Total</b>		<b>315</b>	<b>301</b>

# PROFIT APPROPRIATION

(EURm)	2020	2019
Profit for the year	352	323
Non-controlling interests	-7	-12
<b>Arla Foods amba's share of net profit for the year</b>	<b>345</b>	<b>311</b>
<i>Profit appropriation:</i>		
Supplementary payment for milk	219	124
Interest on contributed individual capital	4	3
<b>Total supplementary payment</b>	<b>223</b>	<b>127</b>
<i>Transferred to equity:</i>		
Reserve for special purposes	81	123
Contributed individual capital	41	61
<b>Total transferred to equity</b>	<b>122</b>	<b>184</b>
<b>Appropriated profit</b>	<b>345</b>	<b>311</b>

## Profit appropriation for 2020



\*Based on profit allocated to owners of Arla Foods amba

## Profit appropriation

The proposed supplementary payment for 2020 is EUR 223 million, including interest, corresponding to 1,75 EUR-cent/kg owner milk. Interest on the carrying value of contributed individual capital amounted to EUR 4 million. Contributed individual capital carried an interest of 1.60 per cent in 2020.

In addition, EUR 122 million is transferred to equity and split into 1/3 to individual capital (contributed individual capital), amounting to EUR 41 million and 2/3 to common capital (reserve for special purposes), amounting to EUR 81 million.

# BALANCE SHEET

(EURm)	Note	2020	2019	Development, %
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets and goodwill	3.1	931	982	-5
Property, plant, equipment and right of use assets	3.2	2,915	2,710	8
Investments in associates and joint ventures	3.3	470	468	0
Deferred tax	5.1	29	43	-33
Pension assets	4.7	40	16	150
Other non-current assets		28	24	17
<b>Total non-current assets</b>		<b>4,413</b>	<b>4,243</b>	<b>4</b>
<b>Current assets</b>				
Inventory	2.1	1,080	1,092	-1
Trade receivables	2.1	811	889	-9
Derivatives	4.5	57	20	185
Other receivables	2.1	424	240	77
Securities	4.6	420	435	-3
Cash and cash equivalents		126	187	-33
<b>Total current assets</b>		<b>2,918</b>	<b>2,863</b>	<b>2</b>
<b>Total assets</b>		<b>7,331</b>	<b>7,106</b>	<b>3</b>

(EURm)	Note	2020	2019	Development, %
<b>Equity and liabilities</b>				
<b>Equity</b>				
Common capital		1,968	1,894	4
Individual capital		513	498	3
Other equity accounts		-118	-72	64
Proposed supplementary payment to owners		223	127	76
<b>Equity attributable to the owners of Arla Foods amba</b>		<b>2,586</b>	<b>2,447</b>	<b>6</b>
Non-controlling interests		53	47	13
<b>Total equity</b>		<b>2,639</b>	<b>2,494</b>	<b>6</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Pension liabilities	4.7	247	249	-1
Provisions	3.4	21	23	-9
Deferred tax	5.1	64	81	-21
Loans	4.3	1,964	1,951	1
<b>Total non-current liabilities</b>		<b>2,296</b>	<b>2,304</b>	<b>0</b>
<b>Current liabilities</b>				
Loans	4.3	695	776	-10
Trade and other payables	2.1	1,212	1,158	5
Provisions	3.4	25	9	178
Derivatives	4.5	66	86	-23
Current tax		11	5	120
Other current liabilities		387	274	41
<b>Total current liabilities</b>		<b>2,396</b>	<b>2,308</b>	<b>4</b>
<b>Total liabilities</b>		<b>4,692</b>	<b>4,612</b>	<b>2</b>
<b>Total equity and liabilities</b>		<b>7,331</b>	<b>7,106</b>	<b>3</b>

# EQUITY

(EURm)	Common capital		Individual capital				Other equity accounts			Total before non-controlling interests	Non-controlling interests	Total Equity after non-controlling interests
	Capital account	Reserve for special purposes	Contributed individual capital	Delivery-based owner certificates	Injected individual capital	Supplementary payment	Reserve for value adjustment of hedging instruments	Reserve for fair value through OCI	Reserve for foreign exchange adjustments			
<b>Equity at 1 January 2020</b>	<b>885</b>	<b>1,009</b>	<b>271</b>	<b>68</b>	<b>159</b>	<b>127</b>	<b>-94</b>	<b>12</b>	<b>10</b>	<b>2,447</b>	<b>47</b>	<b>2,494</b>
Supplementary payment for milk	-	-	-	-	-	219	-	-	-	219	-	219
Interest on contributed individual capital	-	-	-	-	-	4	-	-	-	4	-	4
Reserve for special purposes	-	81	-	-	-	-	-	-	-	81	-	81
Contributed individual capital	-	-	41	-	-	-	-	-	-	41	-	41
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	7	7
<b>Profit for the year</b>	<b>-</b>	<b>81</b>	<b>41</b>	<b>-</b>	<b>-</b>	<b>223</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>345</b>	<b>7</b>	<b>352</b>
Other comprehensive income	9	-	-	-	-	-	41	-3	-84	-37	-	-37
<b>Total comprehensive income</b>	<b>9</b>	<b>81</b>	<b>41</b>	<b>-</b>	<b>-</b>	<b>223</b>	<b>41</b>	<b>-3</b>	<b>-84</b>	<b>308</b>	<b>7</b>	<b>315</b>
Payments to owners	-	-	-11	-4	-7	-	-	-	-	-22	-	-22
Transactions with non-controlling interests	-20	-	-	-	-	-	-	-	-	-20	2	-18
Supplementary payment related to 2019	-	-	-	-	-	-127	-	-	-	-127	-	-127
Foreign exchange adjustments	4	-	1	1	-6	-	-	-	-	-	-3	-3
<b>Total transactions with owners</b>	<b>-16</b>	<b>-</b>	<b>-10</b>	<b>-3</b>	<b>-13</b>	<b>-127</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-169</b>	<b>-1</b>	<b>-170</b>
<b>Equity at 31 December 2020</b>	<b>878</b>	<b>1,090</b>	<b>302</b>	<b>65</b>	<b>146</b>	<b>223</b>	<b>-53</b>	<b>9</b>	<b>-74</b>	<b>2,586</b>	<b>53</b>	<b>2,639</b>
<b>Equity at 1 January 2019</b>	<b>928</b>	<b>886</b>	<b>222</b>	<b>72</b>	<b>162</b>	<b>290</b>	<b>-72</b>	<b>14</b>	<b>-31</b>	<b>2,471</b>	<b>48</b>	<b>2,519</b>
Supplementary payment for milk	-	-	-	-	-	124	-	-	-	124	-	124
Interest on contributed individual capital	-	-	-	-	-	3	-	-	-	3	-	3
Reserve for special purposes	-	123	-	-	-	-	-	-	-	123	-	123
Contributed individual capital	-	-	61	-	-	-	-	-	-	61	-	61
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	12	12
<b>Profit for the year</b>	<b>-</b>	<b>123</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>127</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>311</b>	<b>12</b>	<b>323</b>
Other comprehensive income	-39	-	-	-	-	-	-22	-2	41	-22	-	-22
<b>Total comprehensive income</b>	<b>-39</b>	<b>123</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>127</b>	<b>-22</b>	<b>-2</b>	<b>41</b>	<b>289</b>	<b>12</b>	<b>301</b>
Payments to owners	-	-	-11	-4	-9	-	-	-	-	-24	-	-24
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	-15	-15
Supplementary payment related to 2018	-	-	-	-	-	-289	-	-	-	-289	-	-289
Foreign exchange adjustments	-4	-	-1	-	6	-1	-	-	-	-	2	2
<b>Total transactions with owners</b>	<b>-4</b>	<b>-</b>	<b>-12</b>	<b>-4</b>	<b>-3</b>	<b>-290</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-313</b>	<b>-13</b>	<b>-326</b>
<b>Equity at 31 December 2019</b>	<b>885</b>	<b>1,009</b>	<b>271</b>	<b>68</b>	<b>159</b>	<b>127</b>	<b>-94</b>	<b>12</b>	<b>10</b>	<b>2,447</b>	<b>47</b>	<b>2,494</b>

# EQUITY (CONTINUED)

## Understanding equity

Equity accounts regulated by the Articles of Association can be split into three main categories: common capital, individual capital and other equity accounts. The characteristics of each account are explained below.

### Common capital

Common capital is by nature un-allocated 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 on page 70, 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 impairments 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 capital allocated to each owner based on their delivered milk volume. 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 when owners leave the cooperative. Amounts allocated to contributed individual capital as part of the annual profit appropriation are interest-bearing. The account for proposed supplementary payment that will be paid out following the approval of the annual report is also classified as individual capital.

### 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 exchange adjustments.

## Non-controlling interests

Non-controlling interests represent the share of group equity attributable to holders of non-controlling interests in group companies.



### Equity share 35 per cent

During 2020 equity increased by EUR 145 million compared to last year and totalled EUR 2,639 million at 31 December 2020.

### Transactions with farmer owners

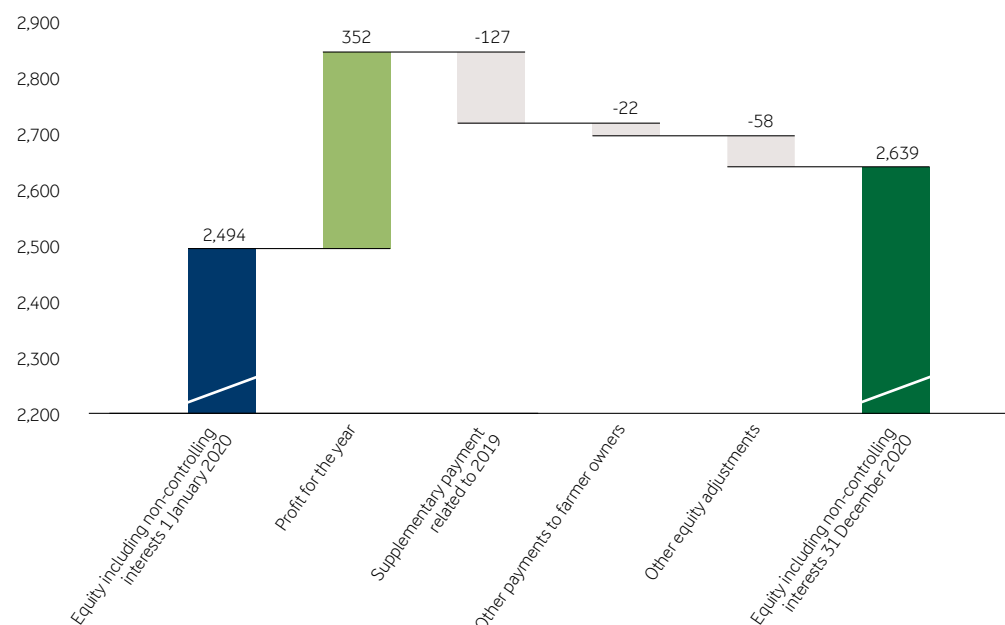
A supplementary payment relating to 2019 totalling EUR 127 million was paid out in March 2020. Additionally, EUR 22 million was paid out to owners resigning or retiring from the cooperative. The Board of Directors proposes to pay EUR 223 million in March 2021 as a supplementary payment including interest on individual capital instruments for 2020. Furthermore, it is expected that EUR 18 million will be paid out in 2021 to owners resigning or retiring.

### Other equity adjustments

Other equity adjustments of EUR -58 million relates to other comprehensive income of EUR -37 million and to changes in non-controlling interests of EUR -21 million. Other comprehensive income includes income and expenses as well as gains and losses that are excluded from the income statement. Typically they have not yet been realised. The net cost of EUR -37 million was due to negative value adjustments on net assets measured in foreign currencies, partly offset by positive value adjustments on hedging instruments and actuarial gains on pension assets and liabilities. The net cost of EUR -21 million in non-controlling interests relates to purchases of equity instruments in subsidiaries and the net effect of dividends and capital increases.

The equity share of 35 per cent is calculated as equity excluding non-controlling interests at EUR 2,586 million divided by total assets of EUR 7,331 million.

## Development in equity (EURm)



# EQUITY (CONTINUED)



## Regulations according to Articles of Association and IFRS

### Common capital

Recognised within the *capital account* are technical items such as actuarial gains or losses on defined benefit pension schemes, effects from disposals and acquisitions of non-controlling interests in subsidiaries and exchange rate differences in the equity instruments issued to owners. Furthermore, the capital account is impacted by agreed contributions from new owners of the cooperative.

Recognised within the *reserve for special purposes* is the annual profit appropriation to common capital. It may, upon the Board of Director's proposal, be applied by the Board of Representatives for the full or partial off-setting of material extraordinary losses or impairment in accordance to 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 per cent that are approved and paid out together with the supplementary payment in connection with the annual profit appropriation.

*Delivery-based owner certificates* are equity instruments issued to the original Danish and Swedish owners. Issue of these instruments ceased in 2010.

*Injected individual capital* are equity instruments issued in connection with cooperative mergers and when new owners enter the cooperative.

Balances on delivery-based owner certificates and injected individual capital instruments carry no interest.

Balances on contributed individual capital, delivery-based owners certificates and on injected individual capital can be paid out over three years upon termination of membership to 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 derivative financial instruments 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* comprise of the fair value adjustments of mortgage credit bonds classified as financial assets measured at fair value though other comprehensive income.

*Reserve for foreign exchange adjustments* comprises 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 that impair 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 accounts and reserve for special purposes are not covered by the non-impairment clause.

### 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 are recognised as part of the consolidated results and equity, respectively, but are 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.

# CASH FLOW

(EURm)	Note	2020	2019
EBITDA		909	837
Reversal of share of results in joint ventures and associates	3.3	-28	-34
Reversal of other operating items without cash impact		53	16
Change in net working capital	2.1	4	79
Change in other receivables and other current liabilities		-137	-37
Dividends received, joint ventures and associates		8	8
Interest paid		-53	-69
Interest received		3	3
Taxes paid	5.1	-28	-30
<b>Cash flow from operating activities</b>		<b>731</b>	<b>773</b>
Investment in intangible fixed assets	3.1	-53	-52
Investment in property, plant and equipment	3.2	-478	-425
Sale of property, plant and equipment	3.2	19	21
Operating investing activities		-512	-456
Sale of financial assets		17	37
Acquisition of enterprises	3.5	0	-168
Sale of enterprises	3.5	7	16
Financial investing activities		24	-115
<b>Cash flow from investing activities</b>		<b>-488</b>	<b>-571</b>

(EURm)	Note	2020	2019
Supplementary payment regarding the previous financial year		-127	-289
Paid in and out from equity regarding individual capital instruments		-22	-24
Paid out to non-controlling interests		-18	-15
Loans obtained, net	4.3.c	-24	295
Payment of lease debt	4.3.c	-66	-66
Payment to pension plans	4.3.c	-36	-37
<b>Cash flow from financing activities</b>		<b>-293</b>	<b>-136</b>
<b>Net cash flow</b>		<b>-50</b>	<b>66</b>
Cash and cash equivalents at 1 January		187	119
Exchange rate adjustment of cash funds		-11	2
<b>Cash and cash equivalents at 31 December</b>		<b>126</b>	<b>187</b>
		<b>2020</b>	<b>2019</b>
<i>Free operating cash flow</i>			
<i>Cash flow from operating activities</i>		731	773
<i>Operating investing activities</i>		-512	-456
<b>Free operating cash flow</b>		<b>219</b>	<b>317</b>
<i>Free cash flow</i>			
<i>Cash flow from operating activities</i>		731	773
<i>Cash flow from investing activities</i>		-488	-571
<b>Free cash flow</b>		<b>243</b>	<b>202</b>

# CASH FLOW (CONTINUED)



## Strong operational cash flow and increased investments

Free operating cash flow is a measure of the amount of cash generated by normal operations. Cash flow from operating activities decreased by 5 per cent to EUR 731 million compared with EUR 773 million last year, mainly due to postponed declaration of VAT and duties offset by extended payment terms for employee income taxes in Denmark. Improved net working capital contributed a modest positive net cash release of EUR 4 million whilst still maintaining the previously years trend of improving the net working capital position.

Cash flow from investment activities amounted to EUR 488 million compared with EUR 571 million last year. The overall investment level last year was higher due to the acquisition of the cheese business in Bahrain, however 2020 included a record high CAPEX investment of EUR 478 million. The free operating cash flow ended at EUR 219 million.

Cash flow from financing activities was EUR -293 million. A supplementary payment of EUR 127 million was issued in relation to the 2019 profit allocation and further payments, representing EUR 22 million from individual capital instruments, were paid out to owners who resigned or retired. Cash flow from other financing activities amounted to EUR 144 million and related to repayment of net interest bearing debt of EUR 90 million, payments to pension schemes of EUR 36 million and transactions with non-controlling interests of EUR 18 million.

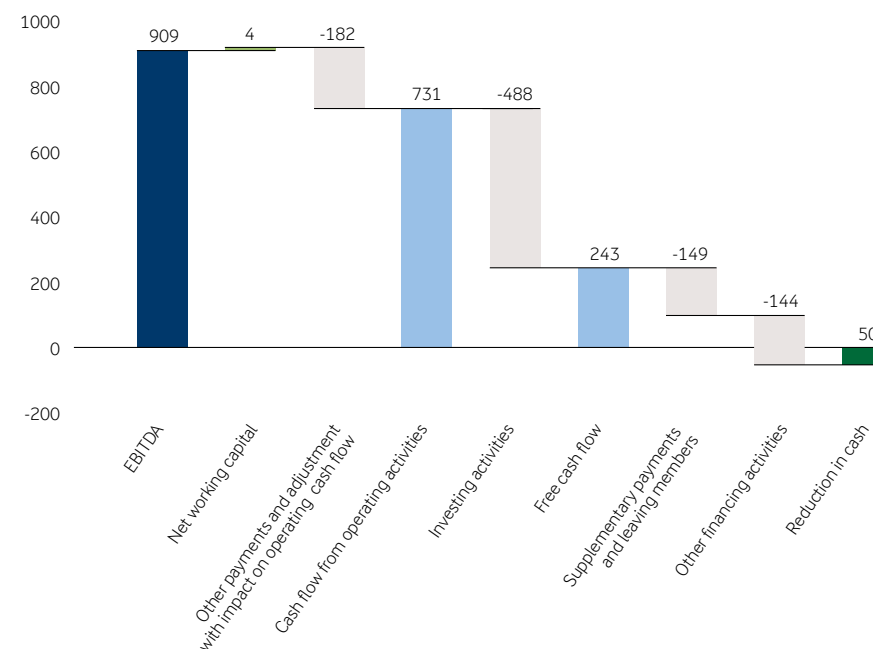
Combined cash and cash equivalents as of 31 December 2020 were EUR 126 million, compared to EUR 187 million last year. The movement was due to a net cash out-flow of EUR 50 million during 2020 and exchange rate adjustments on cash funds of EUR 11 million. An insignificant amount of cash and cash equivalents at 31 December 2020 was deposits in restricted accounts.



## Accounting policies

The consolidated cash flow statement is presented according to the indirect method, with cash flow from operating activities determined by adjusting EBITDA for the effects of non-cash items such as undistributed results in joint ventures and associates, changes in working capital items and other non-cash items.

## Development in cash flow (EURm)





# INTRODUCTION TO NOTES

The following sections provide additional disclosures supplementing the primary financial statements.

## NOTE 1 REVENUE AND COSTS

Details on the group's performance and rentability are disclosed in Note 1.

## NOTE 2 NET WORKING CAPITAL

Details on the development and composition of inventory and trade balances against customers and vendors are disclosed in Note 2.

## NOTE 3 CAPITAL EMPLOYED

Details on the production capacity, intangible assets and financial investments held by the group are disclosed in Note 3.

## NOTE 4 FUNDING

Details on funding of the group's activities and the associated financial risks are disclosed in Note 4.

## NOTE 5 OTHER AREAS

The general accounting policies, the group structure and other IFRS requirements are disclosed in Note 5.

### BASIS FOR PREPARATION

The annual report is based on the group's monthly reporting procedures. Group entities are required to report using standard accounting principles in accordance with the International Financial Reporting Standards as adopted by EU (IFRS).

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 are deemed critical to understanding the financial performance and financial position of the group, in particular the performance price. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures. Definitions are provided in the Glossary and Note 1.4.

For details on the basis for preparation and general accounting policies applied, refer to Note 5.6.

### 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 Eurozone. 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. Refer to Note 4.1.2 for more detail on how the exposure is managed.

### APPLYING MATERIALITY

Our focus is to present information that is considered of material importance for our stakeholders in a simple and structured way. Disclosures that are required by IFRS are included in the annual report, unless the information is considered of immaterial importance to the users of the annual report.

### SIGNIFICANT ACCOUNTING ESTIMATES AND ASSESSMENTS

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 are addressed below.

#### Measurement of revenue and rebates

Revenue, net of rebates, is recognised when goods are transferred to customers. Estimates are applied when measuring the accruals for rebates and other sales incentives. The majority of rebates are calculated using terms agreed with the customer. For some customer relationships, the final settlement of the rebate depends on future volumes, prices and other incentives. Therefore there is an element of estimation and judgment in determining whether performance obligations are achieved. Estimates are based on historical trends and information on sales or purchase forecasts. Refer to Note 1.1 for more detail.

#### Valuation of goodwill

Estimates are applied in assessing the value in use of goodwill. Goodwill is not subject to amortisation but is tested annually for impairment. Assessing expected future cash flows and setting discount rates involves a level of estimation based on approved forecasts and market data. The majority of goodwill is allocated to activities in the UK. Refer to Note 3.1.1 for more detail.

#### Influence assessment and classification of investments

The group holds an investment in COFCO Dairy Holdings Limited / Mengniu Dairy Company Limited, which is classified as an associated company. The classification is based on an assessment of the level of influence through board representation. Refer to Note 3.3 for more detail.

#### Valuation of inventory

Estimates are applied in assessing net realisable inventory values. Most significantly, this includes the assessment of expected future market prices and the quality of certain products within the cheese category, some of which need to mature for up to two years. Refer to Note 2.1 for more detail.

#### Classification of spare parts

Accounting estimates are applied on the classification of spare parts for production equipment. The group has updated the accounting estimates in 2020, which has led to a partly reclassification of spare parts from inventory and property, plant and equipment. Refer to Note 2.1 for more detail.

#### Measurement of trade receivables

Allowance for doubtful trade receivable positions requires estimates. Losses on trade receivables recognised in the group are historically of insignificance, which is also the case this year. During the year the Covid-19 pandemic has however challenged the foodservice business and forced extra focus on accounting estimates on trade receivables positions within this sector.

#### Valuation of pension plans

Judgements are applied when setting actuarial assumptions such as the discount rate, expected future salary increases, inflation and mortality. The actuarial assumptions vary from country to country, based on national economic and social conditions. They are set using available market data and compared with benchmarks to ensure consistency on an annual basis and in compliance with best practice. Refer to Note 4.7 for more detail.

## Revenue and cost

### 1.1 REVENUE



#### Adaption to changed consumer behaviour drove stronger sales and improved brand positions

Revenue increased by 1.1 per cent to EUR 10,644 million, compared to EUR 10,527 million last year. The increase reflects more retail sales of branded volumes both in Europe and International, and a full year effect of M&A activities from 2019. These were partly offset by lower sales volumes in food service and global industry sales and a negative effect from lower sales prices and currencies.

Strategic branded sales volumes grew by 7.7 per cent, compared to 5.1 per cent last year, driven by Lurpak®, Puck®, Arla® and other supported brands. Price levels decreased by 1.2 per cent compared to last year.

Europe is Arla's largest commercial segment, comprising 60.2 per cent of total revenue which was consistent with last year. Revenue in Europe increased by EUR 66 million, driven by higher volumes partly offset by lower prices and adverse currency effects. The strategic branded revenue in Europe grew 5.9 per cent despite volatility in the market. Branded sales grew to 53.0 per cent of revenue compared to 50.4 per cent last year.

The international segment accounted for 18.6 per cent of total revenue, compared to 17.1 per cent last year. The strategic branded revenue in international represented 86.0 per cent of revenue compared to 82.7 per cent last year.

The revenue in international increased by EUR 174 million driven by the full year of effect of the acquisition of the cheese business in MENA completed last year and generally increased volumes due to the Covid-19 situation. The increase was partly offset by adverse foreign exchange movements in the US dollar.

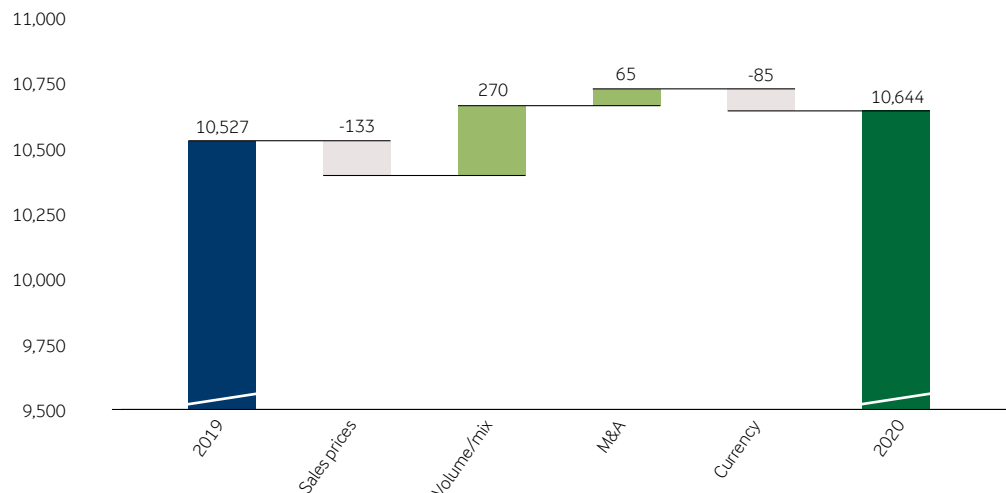
Arla Foods Ingredients comprised 6.7 per cent of total revenue, which is consistent with last year. Revenue increased due to sales of value-added products within the ingredients segment.

Our Global Industry Sales and other segment represented 14.5 per cent of the total revenue and decreased by 1.3 per cent to EUR 1,541 million versus EUR 1,662 million last year. The decrease was driven by lower volumes due to high growth in the retail segments.

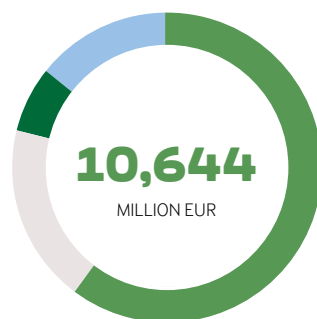
The full year effect of M&A activities in 2019 including purchase of the Kraft branded cheese business in MENA and the divestment of the remaining Allgäu-activities in Germany, contributed to a revenue increase of EUR 65 million in 2020.

Revenue was negatively impacted by adverse foreign exchange rate movements of EUR 85 million, driven primarily by USD and GBP.

#### Development in revenue (EURm)

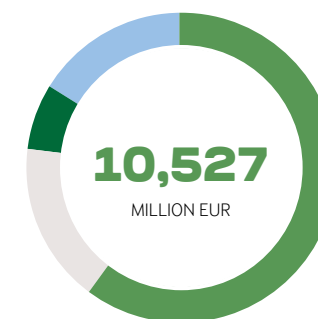


#### Revenue split by commercial segment, 2020



- Europe 60%
- International 19%
- Arla Foods Ingredients 7%
- Global industry sales and other sales 14%

#### Revenue split by commercial segment, 2019



- Europe 60%
- International 17%
- Arla Foods Ingredients 7%
- Global industry sales and other sales 16%

## Revenue and cost

### 1.1 REVENUE

Table 1.1.a Revenue split by country (EURm)	2020	2019	Share of revenue in 2020
United Kingdom	2,740	2,716	26%
Sweden	1,478	1,464	14%
Germany	1,267	1,343	12%
Denmark	1,031	1,054	10%
Netherlands	526	507	5%
China	368	331	3%
Saudi Arabia	352	282	3%
Finland	316	324	3%
Oman	194	167	2%
USA	177	176	2%
Other*	2,195	2,163	21%
<b>Total</b>	<b>10,644</b>	<b>10,527</b>	

\*Other countries include, amongst others, Belgium, Canada, UAE, Spain, France, Australia

Table 1.1.a represents the total revenue by country and includes all sales that occur in the countries, irrespective of organisational structure. Therefore, the figures cannot be compared to our commercial segment review on page 25 to 30.

Table 1.1.b Revenue split by brand (EURm)	2020	2019
Arla®	3,116	3,033
Lurpak®	638	588
Puck®	427	363
Castello®	177	179
Milk based beverage brands	232	207
Other supported brands	566	452
<b>Strategic branded revenue</b>	<b>5,156</b>	<b>4,822</b>
AFI	716	710
Non-strategic brands and other	4,772	4,995
<b>Total</b>	<b>10,644</b>	<b>10,527</b>



#### Accounting policies

Revenue is recognised when there is a contract with a customer for the production and transfer of dairy products across various product categories and geographical regions. Revenue per 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 the 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 with an average of 35 days. Therefore, an adjustment of the transaction price with regards 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 and prices, as well as other incentives. Thus, there is an element of uncertainty in estimating the exact value.

Since Arla's main line of business is the sale of fresh dairy products, returns of goods rarely occur and therefore do not require specific accounting disclosure.

Based on current milk price, Arla contractually secured approximately EUR 295 million revenue related to raw milk sales for 2020 and approximately EUR 234 million for 2021 and later.

## Revenue and cost

### 1.2 OPERATIONAL COSTS



#### Calcium contributes to lower cost

Operational costs were EUR 10,223 million which is an increase of 0.9 per cent compared with last year.

Production costs decreased 0.3 per cent to EUR 8,301 million from EUR 8,325 million last year. Excluding costs relating to raw milk, production costs decreased to EUR 3,459 million compared to EUR 3,499 million last year. Increased costs related to higher sales of branded products and full year effect of M&A activities from 2019 were offset by savings from Calcium initiatives. The Calcium savings were EUR 130 million in 2020. The net cost effect compared to last year amounted to EUR 84 million and includes re-investments and non-recurring in-year items. Refer to pages 16-17 for more on Calcium initiatives.

Sales and distribution costs increased 4.7 per cent to EUR 1,483 million compared to EUR 1,416 million last year, mainly due to higher sales and salary costs in the MENA region. Research and development costs amounted to EUR 72 million, compared to EUR 66 million last year. In addition EUR 13 million related to capitalised development activities.

Administration costs increased 12.9 per cent to EUR 439 million compared to EUR 389 million last year due to increased staff costs, operational costs within IT, depreciations and costs related full year effect of M&A's from 2019.

#### Cost of raw milk

The cost of raw milk increased to EUR 4,842 million compared to EUR 4,826 million. The increase was a result of higher weighed-in milk volumes from owners partly offset by lower volumes on other purchased milk.

#### Owner milk

Costs related to owner milk increased by EUR 46 million due to higher volumes. Average pre-paid milk price was on the same level as last year.

#### Other milk

Costs of Other milk decreased by EUR 30 million due to lower volumes. Other milk consists of speciality milk and other contract milk acquired to meet local market demands.

#### Staff costs and FTE

Staff costs increased 5.4 per cent to EUR 1,345 million compared to EUR 1,276 million last year. Staff costs increased due to additional FTE's from the insourcing activities primarily in IT and transportation and due to inflation.

The total number of FTE's increased to 20,020 compared to 19,174 last year.

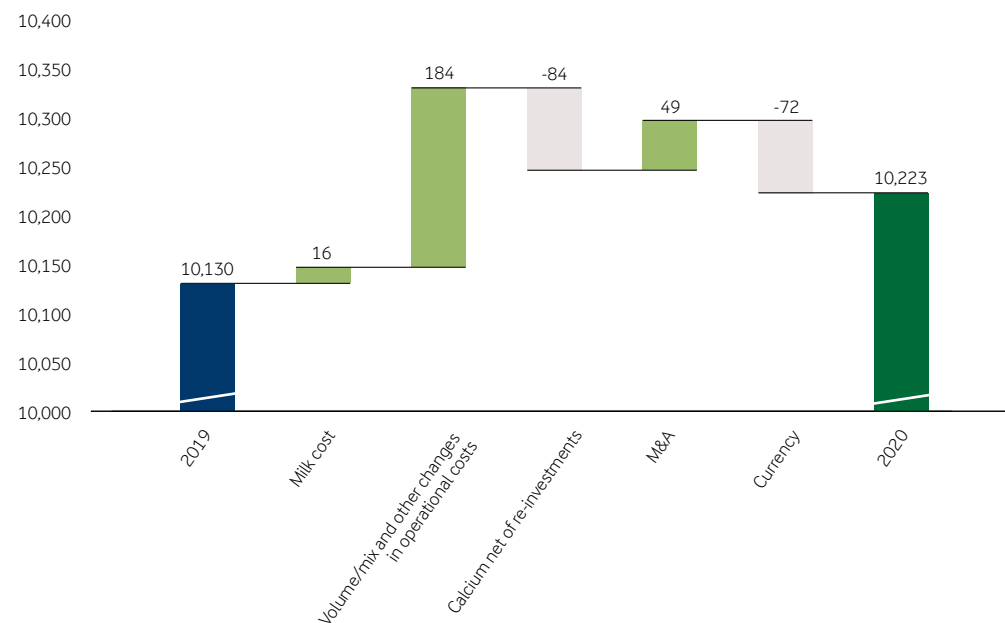
#### Marketing spend

Marketing spend was consistent with last year and amounted to EUR 248 million. Continued focus on efficiency improvements enabled by the Calcium transformation and efficiency programme including insourcing and upscaling of "The Barn" our in-house content studio, allowed us to increase our marketing activities while keeping costs consistent with last year.

#### Depreciation, amortisation and impairment

Depreciation, amortisation and impairment increased 4.9 per cent to EUR 451 million compared to EUR 431 million last year. The increase was primarily due to higher levels of CAPEX investments.

#### Development in operational costs (EURm)



## Revenue and cost

### 1.2 OPERATIONAL COSTS

**Table 1.2.a Operational costs split by function and type**  
(EURm)

	2020	2019
Production costs	8,301	8,325
Sales and distribution costs	1,483	1,416
Administration costs	439	389
<b>Total</b>	<b>10,223</b>	<b>10,130</b>

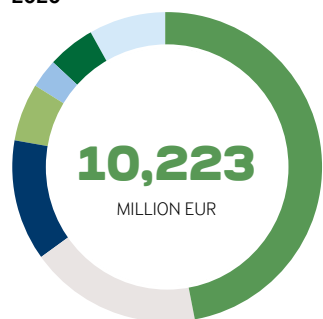
*Specification:*

	2020	2019
Weighed-in raw milk	4,842	4,826
Other production materials*	1,860	1,836
Staff costs	1,345	1,276
Transportation costs	640	645
Marketing costs	248	250
Depreciation, amortisation and impairment	451	431
Other costs**	837	866
<b>Total</b>	<b>10,223</b>	<b>10,130</b>

\*Other production materials includes packaging, additives, consumables and changes in inventory

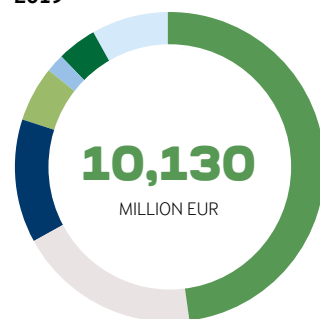
\*\*Other costs mainly includes maintenance, utilities and IT

**Cost split by type, 2020**



- Weighed-in raw milk 47%
- Other production materials\* 18%
- Staff costs 13%
- Transportation costs 6%
- Marketing costs 3%
- Depreciation, amortisation and impairment 5%
- Other costs\*\* 8%

**Cost split by type, 2019**



- Weighed-in raw milk 48%
- Other production materials\* 19%
- Staff costs 13%
- Transportation costs 6%
- Marketing costs 2%
- Depreciation, amortisation and impairment 4%
- Other costs\*\* 8%

**Table 1.2.b Weighed-in raw milk**

	2020		2019	
	Weighed in mkg	EURm	Weighed in mkg	EURm
Owner milk	12,515	4,364	12,382	4,318
Other milk	1,231	478	1,323	508
<b>Total</b>	<b>13,746</b>	<b>4,842</b>	<b>13,705</b>	<b>4,826</b>

**Table 1.2.c Staff costs**  
(EURm)

	2020	2019
Wages, salaries and remuneration	1,166	1,089
Pensions - defined contribution plans	83	79
Pensions - defined benefit plans	4	3
Other social security costs	92	105
<b>Total staff costs</b>	<b>1,345</b>	<b>1,276</b>

Staff costs relate to:

	2020	2019
Production costs	729	722
Sales and distribution costs	383	355
Administration costs	233	199
<b>Total staff costs</b>	<b>1,345</b>	<b>1,276</b>

	2020	2019
Average number of full-time employees	20,020	19,174

**Table 1.2.d Depreciation, amortisation and impairment**  
(EURm)

	2020	2019
Intangible assets, amortisation	70	64
Property, plant and equipment including right of use assets, depreciation	381	367
<b>Total depreciation, amortisation and impairment</b>	<b>451</b>	<b>431</b>

*Depreciation, amortisation and impairment relate to:*

	2020	2019
Production costs	316	310
Sales and distribution costs	80	74
Administration costs	55	47
<b>Total depreciation, amortisation and impairment</b>	<b>451</b>	<b>431</b>

## Revenue and cost

## 1.2 OPERATIONAL COSTS



## Accounting policies

*Production costs*

Production costs include direct and indirect costs related to production including movements in volumes on inventory and related inventory revaluation. Direct costs comprise purchase of milk from owners, inbound transportation costs, packaging, additives, consumables, energy and variable salaries directly related to the production. Indirect costs comprise other costs related to the production of goods including depreciation and impairment losses on production-related material 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, the write-down of receivables, sponsorship, 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, like the development of marketing campaigns, advertisement, 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.

## Revenue and cost

## 1.3 OTHER OPERATING INCOME AND COSTS



## Positive hedging impact

Other operating income and costs had a net positive development of EUR 34 million compared to last year. This was primarily attributable to a net positive hedging effect of EUR 26 million from negative currency developments, mainly in USD.

Other items included the net result from sale of surplus energy and other items not part of the regular dairy activities.



## Accounting policies

Other operating income and costs consist of items outside the regular course of dairy business activities. It includes items such as gains and losses relating to the settlement of disputes, revaluation gains from step acquisition of entities, the net result from financial hedging activities and the net result from the production and sale of energy from our biogas plants. Furthermore, it includes gains and losses from the disposal of fixed assets no longer used within our dairy operations.

**Table 1.3 Other operating income and costs**  
(EURm)

	2020	2019
Sale of electricity	24	22
Income of hedging instruments transferred from equity	14	3
Gain on disposal of intangible assets and PP&E	15	14
Other operating income	8	0
<b>Total other operating income</b>	<b>61</b>	<b>39</b>
Cost related to sale of electricity	-29	-29
Expense of hedging instruments transferred from equity	-12	-27
Other operating costs	-11	-8
<b>Total other operating costs</b>	<b>-52</b>	<b>-64</b>

## Revenue and cost

### 1.4 KEY PERFORMANCE INDICATORS

The alternative performance measures disclosed below are key performance indicators for the group. They are not IFRS requirements.

#### 1.4.1 Performance price



##### Stable milk prices and decreased costs led to higher performance price

Arla's performance price is a key measure of the overall performance, expressing the value added to each kilo 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 for the year, divided by the weighed-in milk volume in 2020. The performance price was 36.9 EUR-cent/kg owner milk, compared to 36.6 EUR-cent/kg owner milk last year.

**Table 1.4.1 Performance price**

	2020			2019		
	EURm	Volume in mkg	EUR-cent/kg	EURm	Volume in mkg	EUR-cent/kg
Owner milk	4,364	12,515	34.9	4,318	12,382	34.9
Adjustment to standard milk (4.2% fat, 3.4% protein)			-0.8			-0.8
Arla Foods amba's share of profit for the year	345		2.8	311		2.5
<b>Total</b>		<b>12,515</b>	<b>36.9</b>		<b>12,382</b>	<b>36.6</b>

#### 1.4.2 Strategic branded volume driven revenue growth



##### Financial comments

Volume driven revenue growth (VDRG) is defined as revenue growth that is derived from growth in volumes keeping prices constant.

VDRG on strategic brands is an alternative performance measure applied to support and understand the non-price revenue growth and performance of our branded business.

Strategic branded VDRG increased significantly in 2020 to 7.7 per cent compared to 5.1 per cent last year. A higher demand of branded products in the retail business was the main driver of the increase.

**Table 1.4.2 Strategic branded volume driven revenue growth (EURm)**

	2020	2019
Strategic branded revenue last year*	4,867	4,591
Strategic branded volume driven revenue growth	378	236
Price- and exchange rate adjustments	-89	-5
<b>Strategic branded revenue</b>	<b>5,156</b>	<b>4,822</b>
Strategic branded volume driven revenue growth, %	7.7%	5.1%

\*2020 includes an adjustment of EUR 45m due to changes in the other supported brand category.

Strategic branded VDRG is calculated as the volume growth of EUR 378 million divided by EUR 4,867 million and equals 7.7 per cent in 2020.

#### Note 1.4.3 Profit share



##### Financial comments

The profit share in Arla is targeted at 2.8-3.2 per cent of revenue, calculated from the profit attributable to our farmer owners.

For 2020 the profit to farmer owners amounted to EUR 345 million compared to EUR 311 million last year.

This corresponded to 3.2 per cent of revenue or 2.8 EUR-cent per kilo milk delivered and was distributed to supplementary payment and consolidation as disclosed in the statement of profit appropriation.

**Table 1.4.3 Profit share (EURm)**

	2020	2019
Revenue	10,644	10,527
Profit for the year	352	323
Profit relating to non-controlling interests	-7	-12
Profit attributable to farmer owners	345	311
<b>Profit share</b>	<b>3.2%</b>	<b>3.0%</b>

Profit share is calculated as EUR 345 million divided by EUR 10,644 million and equals 3.2 per cent in 2020.

## Net working capital

### 2.1 NET WORKING CAPITAL, OTHER RECEIVABLES AND CURRENT LIABILITIES



#### Net working capital position improved

Net working capital decreased by EUR 144 million to EUR 679 million, representing an improvement of 17.5 per cent compared to last year. Continued focus on optimising net working capital, including initiatives such as increased use of global procurement agreements, improved payment terms, as well as utilisation of finance programmes with our customers and supplies, supported this development. A higher inventory level was partly offset by reclassification of spare parts to plant and machinery and by write downs.

#### Inventory

Inventory decreased by EUR 12 million to EUR 1,080 million, compared to EUR 1,092 million last year. Underlying inventory increased with 10 per cent primarily driven by higher volumes in International, especially in MENA, and by a different composition of inventories compared to last year. This was offset by reclassification of spare parts to plant and machinery, write-downs and exchange rates.

#### Trade receivables

Trade receivables decreased by EUR 78 million to EUR 811 million, compared to EUR 889 million last year. Excluding the effect of currencies and others, trade receivables decreased EUR 51 million. This decrease was driven by a focus on cash collection and utilisation of trade receivables finance programmes. The group utilised 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 2020, 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.

Historically, amounts written off as irrecoverable were relatively low. This was unchanged in 2020, with EUR 3 million recognised in the income statement as losses arising from bad debt, compared to EUR 6 million last year.

#### Trade and other payables

Trade and other payables increased with EUR 54 million to EUR 1,212 million, compared to EUR 1,158 million last year. Continued utilisation of global contracts, focus on payment terms and use of supply chain finance programmes resulted in trade and other payables increased with EUR 66 million partly offset by adverse foreign exchange effects of EUR 11 million.

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 due date via the funding partner. The arrangement of early payment is an exclusive transaction between the supplier and the supply chain finance provider.

The liability for Arla, represented by the invoice, is recognised within trade and other payables until maturity. The programme is one of many components in the overall relationship between strategic suppliers and Arla to improve the cash position for both parties. Extended payment terms are not embedded in the programmes themselves but agreed with vendors directly. The liquidity risk for Arla by termination of programmes is limited. The payment terms for suppliers participating in the programmes are no more than 180 days. Increased utilisation of supply chain finance

programmes had a positive impact on the net working capital level compared to last year.

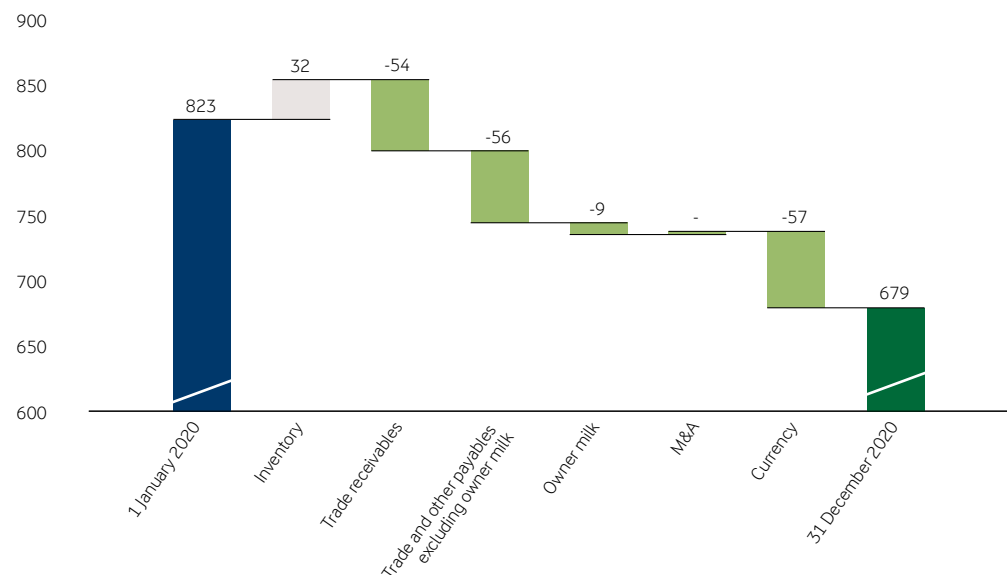
#### Other receivables and other current liabilities

Other receivables increased EUR 184 million to EUR 424 million compared to EUR 240 million last year, mainly driven by postponed declaration of VAT and duty receivables in Denmark.

Other current liabilities increased EUR 113 million to EUR 387 million compared to EUR 274 million last year, mainly due to extended payment terms for employee income taxes as part of the Danish government's Covid-19 funding programmes.

#### Development in net working capital

(EURm)

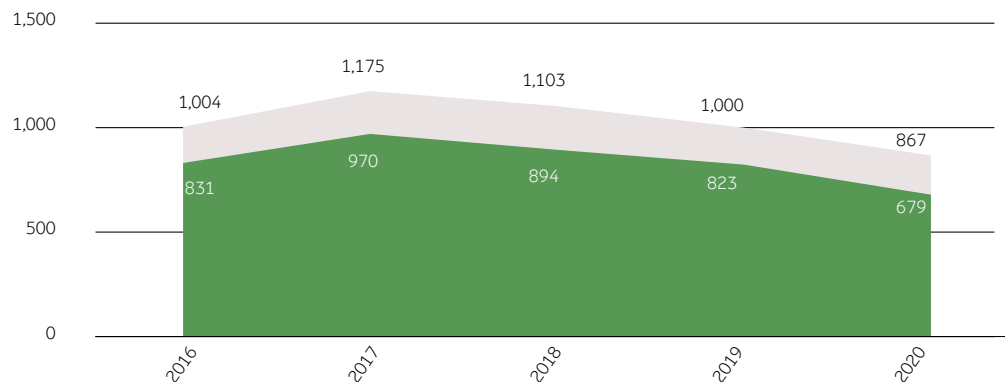




## Net working capital

### 2.1 NET WORKING CAPITAL, OTHER RECEIVABLES AND CURRENT LIABILITIES

**Net working capital**  
(EURm)



■ Net working capital excluding payables related to owner milk ■ Net working capital

**Table 2.1.a Net working capital**  
(EURm)

	Cash flow		Non-cash changes				31 December
	1 January	Included in operating cash flow	Acquisitions	Write-downs	Currency	Reclasses	
<b>2020</b>							
Inventory	1,092	113	-	-23	-44	-58	1,080
Trade receivables	889	-51	-	1	-24	-4	811
Trade and other payables	-1,158	-66	-	-	11	1	-1,212
<b>Total net working capital</b>	<b>823</b>	<b>-4</b>	<b>-</b>	<b>-22</b>	<b>-57</b>	<b>-61</b>	<b>679</b>
<b>2019</b>							
Inventory	1,074	-13	18	4	14	-5	1,092
Trade receivables	989	-96	-	2	15	-21	889
Trade and other payables	-1,169	30	-	-	-9	-10	-1,158
<b>Total net working capital</b>	<b>894</b>	<b>-79</b>	<b>18</b>	<b>6</b>	<b>20</b>	<b>-36</b>	<b>823</b>

**Table 2.1.b Inventory**  
(EURm)

	2020	2019
Inventory before write-downs	1,119	1,112
Write-downs	-39	-20
<b>Total inventory</b>	<b>1,080</b>	<b>1,092</b>
Raw materials and consumables	174	223
Work in progress	324	346
Finished goods and goods for resale	582	523
<b>Total inventory</b>	<b>1,080</b>	<b>1,092</b>

**Table 2.1.c Trade receivables**  
(EURm)

	2020	2019
Trade receivables before provision for expected losses	825	904
Provision for expected losses	-14	-15
<b>Total trade receivables</b>	<b>811</b>	<b>889</b>

**Table 2.1.d Trade receivables age profile**  
(EURm)

	2020		2019	
	Gross carrying amount	Expected loss rate	Gross carrying amount	Expected loss rate
Not overdue	682	0%	703	0%
Overdue less than 30 days	93	0%	130	0%
Overdue between 30 & 89 days	26	4%	39	5%
Overdue more than 90 days	24	54%	32	41%
<b>Total trade receivables</b>	<b>825</b>		<b>904</b>	

Historically, experienced loss rates on balances not due or less than 30 days are below 1 per cent.

## Net working capital

# 2.1 NET WORKING CAPITAL, OTHER RECEIVABLES AND CURRENT LIABILITIES



### 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 as well as commercial goods includes the purchase price plus delivery costs. The prepaid 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 flow.

Expected losses are assessed on major individual receivables or in groups at a 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 and other payables*

Trade payables are measured at amortised cost, which usually corresponds to the invoiced amounts.

#### *Other receivables and other current liabilities*

Other receivables and other current liabilities are measured at amortized cost usually corresponding to the nominal amount.



### 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.

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, number of days overdue adjusted for significant negative developments in certain geographical areas.

The financial uncertainty associated with 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.

Customer-specific bonuses are calculated based on actual agreements with retailers, however, some uncertainty exists when estimating exact amounts to be settled and timing of these settlements.

## Capital employed

## 3.1 INTANGIBLE ASSETS



## Stable level of intangible assets and goodwill

Intangible assets and goodwill amounted to EUR 931 million, representing a decrease of EUR 51 million compared to last year.

*Goodwill*

The carrying value of goodwill amounted to EUR 667 million, compared to EUR 700 million last year. This decrease was due to exchange rate movements. Of the total carrying value of goodwill, EUR 462 million related to activities in the UK, compared to EUR 489 million last year. Refer to Note 3.1.1 for more details.

*Licences and trademarks*

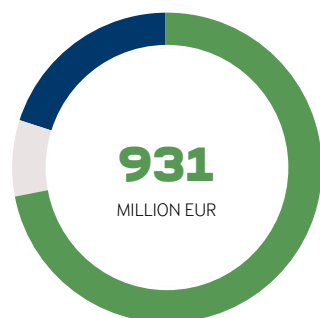
The carrying value of licences and trademarks amounted to EUR 81 million, compared to EUR 90 million last year. The carrying value primarily relates to recognition of trademarks in connection with business combinations and includes brands such as Yeo Valley®, Anchor® and Hansano®. The decrease in value compared to last year was due to amortisation.

The strategic brands, Arla®, Lurpak®, Castello® and Puck®, are internally generated trademarks and consequently no carrying values are recognised for these. Arla has the license to manufacture, distribute, and market Starbucks™ premium ready-to-drink coffee beverage under a long-term strategic license agreement. Additionally Arla holds a long term license agreement to manufacture, distribute and market Kraft branded cheese products in the MENA region. No values are recognised due to these license agreements.

*IT and other development projects*

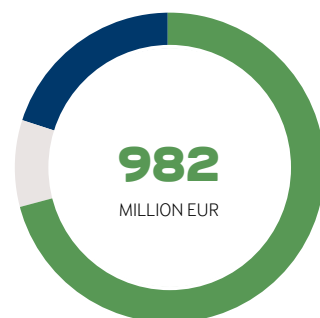
The carrying value of IT and other development projects was EUR 183 million, compared to EUR 192 million last year. The group continued to invest in the development of IT. In 2020, IT investments related to Focus Trade Investment, a freight cost management solution and a new milk settlement system. Other capitalised development costs included innovation activities and the development of new products.

## Intangible assets and goodwill, 2020



■ Goodwill 72%  
■ Licences and trademarks 8%  
■ IT and other development projects 20%

## Intangible assets and goodwill, 2019



■ Goodwill 71%  
■ Licences and trademarks 9%  
■ IT and other development projects 20%

**Table 3.1.a Intangible assets and goodwill**  
(EURm)

	Goodwill	Licences and trademarks	IT and other development projects	Total
<b>2020</b>				
Cost at 1 January	700	173	472	1,345
Exchange rate adjustments	-33	-2	1	-34
Additions	-	-	53	53
Reclassification	-	-	-	-
Disposals	-	-8	-13	-21
<b>Cost at 31 December</b>	<b>667</b>	<b>163</b>	<b>513</b>	<b>1,343</b>
Amortisation and impairment at 1 January	-	-83	-280	-363
Exchange rate adjustments	-	1	-1	-
Amortisation and impairment for the year	-	-8	-62	-70
Reclassification	-	-	-	-
Amortisation on disposals	-	8	13	21
<b>Amortisation and impairment at 31 December</b>	<b>-</b>	<b>-82</b>	<b>-330</b>	<b>-412</b>
<b>Carrying amount at 31 December</b>	<b>667</b>	<b>81</b>	<b>183</b>	<b>931</b>
<b>2019</b>				
Cost at 1 January	598	170	431	1,199
Exchange rate adjustments	25	3	-	28
Additions	-	-	52	52
Mergers and acquisitions	80	-	-	80
Reclassification	-1	-	1	0
Disposals	-2	-	-12	-14
<b>Cost at 31 December</b>	<b>700</b>	<b>173</b>	<b>472</b>	<b>1,345</b>
Amortisation and impairment at 1 January	-1	-74	-237	-312
Exchange rate adjustments	-	-1	-	-1
Amortisation and impairment for the year	-1	-	-55	-64
Amortisation on disposals	2	-8	12	14
<b>Amortisation and impairment at 31 December</b>	<b>-</b>	<b>-83</b>	<b>-280</b>	<b>-363</b>
<b>Carrying amount at 31 December</b>	<b>700</b>	<b>90</b>	<b>192</b>	<b>982</b>

## Capital employed

### 3.1 INTANGIBLE ASSETS



#### 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 basis over their expected useful lives.

##### IT and other development projects

Costs incurred during the research or exploration phase in carrying out general assessments of requirements and available technologies are expensed as incurred. Directly attributable costs incurred during the development stage for IT and other development projects relating to the design, programming, installation and testing of projects before they are ready for commercial use are capitalised as intangible assets. Such costs are only capitalised provided the expenditure can be measured reliably, the project is technically, and commercially viable, future economic benefits are probable, and the group intends to and has sufficient resources to complete and use the asset. IT and other development projects are amortised on a straight-line basis over five to eight years.

**Table 3.1.b Goodwill split by commercial segment and country**  
(EURm)

	2020	2019
UK	462	489
Finland	40	40
Sweden	22	21
Other *	63	61
<b>Europe total</b>	<b>587</b>	<b>611</b>
MENA	72	80
<b>International</b>	<b>72</b>	<b>80</b>
Argentina	8	9
<b>Arla Foods Ingredients</b>	<b>8</b>	<b>9</b>
<b>Total</b>	<b>667</b>	<b>700</b>

\*Europe Other includes an immaterial amount of goodwill related to Russia

#### 3.1.1 Impairment test of goodwill



##### Goodwill supported by strong results

Goodwill is allocated to relevant cash-generating units, primarily to our activities in the UK within the commercial segment Europe.

##### Basis for impairment test and applied estimates

Impairment tests are based on expected future cash flow derived from forecasts and targets. Revenue growth rates are projected for individual markets, based on expected developments as well as past experience. The impairment tests do not include revenue growth in the terminal value. A new strategy is expected to be launched in early 2021, it is however not expected to have any adverse impact on basis for the impairment test.

##### Procedure for impairment tests

Impairment tests of goodwill are based on an assessment of their value in use. Milk costs are recognised at a milk price that corresponds to the price at the time the test is performed. In the applied forecasts, the key operational assumption is future profitability based on a combination of the impact from moving milk intake into value added products and more profitable markets.

##### Test results

There are no identified impairments of goodwill at the year-end. Sensitivities to changes in milk prices and discount rates were calculated. The discount rate could rise up to 5 percentage points before goodwill in the UK could be at risk of being impaired. Goodwill allocated to other markets was tested applying consistent assumptions.

**Table 3.1.1 Impairment tests**  
(EURm)

	Applied key assumptions	
	Discount rate, net of tax	Discount rate, before tax
<b>2020</b>		
UK	6.1%	6.8%
Finland	5.5%	6.0%
Sweden	5.9%	6.6%
Europe other*	5.4%	6.0%
MENA	11.6%	13.0%
Arla Foods ingredients	6.0%	6.7%
<b>2019</b>		
UK	7.0%	7.8%
Finland	6.0%	6.7%
Sweden	6.3%	7.0%
Europe other*	5.9%	6.6%
Arla Foods ingredients	7.0%	7.8%

\*Europe other includes an immaterial amount of goodwill related to Russia

## Capital employed

### 3.1 INTANGIBLE ASSETS



#### Accounting policies

Impairment occurs when the carrying amount of an asset is greater than its recoverable amount through either use or sale. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use (a cash-generating unit) that are largely independent of the cash inflows of other assets or cash-generating units. For goodwill which does not generate largely independent cash inflows, impairment tests are prepared at the level where cash flows are considered to be generated largely independently.

The group of cash-generating units is determined based on the management structure and internal financial reporting. The structure of cash-generating units is revised yearly. 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 its recoverable amount to determine whether there is any indication of impairment. Any impairment of goodwill is recognised as a separate line item in the income statement and cannot be reversed.

The recoverable amount of other non-current assets is the higher value of the asset's value-in-use and its market value, i.e. fair value, less expected disposal costs. The value-in-use is calculated as the present value of the estimated future net cash flows from the use of the asset or the group of cash-generating units to which the asset is part of.

An impairment loss on other non-current assets is recognised in the income statement under production costs, sales 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

Goodwill impairment tests are performed for the group of cash-generating units to which goodwill is allocated. The group of cash-generating units is defined based on the management structure for commercial segments and is linked to individual markets. The structure and groups of cash-generating units are assessed on an annual basis.

The impairment test of goodwill is performed at least annually for each group of cash-generating units to which goodwill is allocated.

To determine the value in use, the expected cash flow approach is applied. The most important parameters in the impairment test include expectations on future free cash flow and assumptions on discount rates.

#### *Anticipated future free cash flows*

The anticipated future free cash flows are based on current forecasts and targets set for 2021. These are determined at cash-generating units level in the forecast and target planning process, and are based on external sources of information and industry-relevant observations such as macroeconomic and market conditions. All applied assumptions are challenged through the forecast and target planning process based on management's best estimates and expectations,

which are judgmental by nature. They include expectations regarding revenue growth, EBIT margins and capital expenditure. The assumptions include moving milk intake into value-added products, more profitable markets and cost reduction initiatives. The growth rate beyond the strategy period has been set to the expected inflation rate in the terminal period and assumes no nominal growth.

#### *Discounts rates*

A discount rate, namely weighted average cost of capital (WACC), is applied for specific business areas based on assumptions regarding interest rates, tax rates and risk premiums. The WACC is recalculated to a before-tax rate. Changes in the future cash flow or discount rate estimates used may result in materially different values.

## Capital employed

## 3.2 PROPERTY, PLANT AND EQUIPMENT

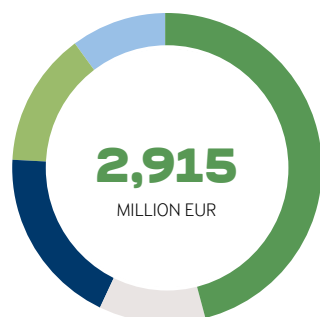


## Expanding production capacities

Arla's main tangible assets are located in Denmark, the UK, Germany and Sweden. The carrying value increased to EUR 2,915 million compared to EUR 2,710 million last year. The CAPEX investment level was once again record-high with a total increase of 14,6 per cent to EUR 580 million compared to EUR 506 million last year.

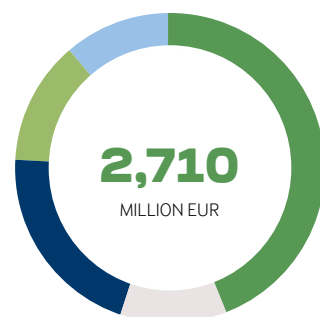
Key investments in 2020 included continued expansion of our powder production capacity in Germany, expansion of the mozzarella production capacity in Denmark and further investments in our newly acquired production facilities in Bahrain.

## Property, plant and equipment by country, 2020



■ Denmark 46%  
 ■ Sweden 11%  
 ■ UK 19%  
 ■ Germany 14%  
 ■ Other 10%

## Property, plant and equipment by country, 2019



■ Denmark 44%  
 ■ Sweden 11%  
 ■ UK 21%  
 ■ Germany 13%  
 ■ Other 11%

Table 3.2.a Property, plant and equipment (EURm)

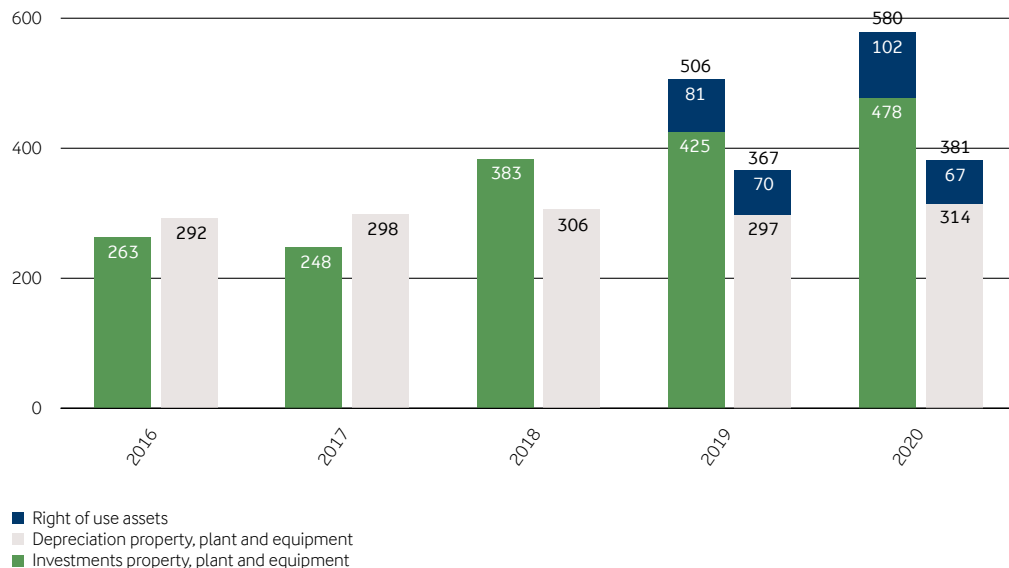
	Land and building	Plant and machinery	Fixture and fitting, tools and equipment	Asset in course of construction	Total
<b>2020</b>					
Cost at 1 January	1,666	3,152	685	407	<b>5,910</b>
Exchange rate adjustments	-17	-13	-14	-2	<b>-46</b>
Additions	81	102	60	337	<b>580</b>
Transferred from assets in course of construction	66	195	28	-289	<b>-</b>
Disposals	-26	-23	-35	-	<b>-84</b>
Reclassification	-	58	-	-	<b>58</b>
<b>Cost at 31 December</b>	<b>1,770</b>	<b>3,471</b>	<b>724</b>	<b>453</b>	<b>6,418</b>
Depreciation and impairments at 1 January	-705	-2,021	-474	-	<b>-3,200</b>
Exchange rate adjustments	1	5	4	-	<b>10</b>
Depreciation and impairments for the year	-73	-234	-74	-	<b>-381</b>
Depreciation on disposals	13	31	24	-	<b>68</b>
<b>Depreciations and impairment at 31 December</b>	<b>-764</b>	<b>-2,219</b>	<b>-520</b>	<b>-</b>	<b>-3,503</b>
<b>Carrying amount at 31 December</b>	<b>1,006</b>	<b>1,252</b>	<b>204</b>	<b>453</b>	<b>2,915</b>
Right of use assets included in the carrying amount	136	13	80	-	229
<b>2019</b>					
Cost at 1 January	1,461	2,907	552	289	5,209
Change in accounting policies	95	27	77	-	199
Adjusted cost at 1 January	1,556	2,934	629	289	5,408
Exchange rate adjustments	18	15	10	2	45
Additions	47	78	45	336	506
Mergers and acquisitions	23	23	2	-	48
Transferred from assets in course of construction	36	162	22	-220	-
Disposals	-14	-60	-23	-	-97
<b>Cost at 31 December</b>	<b>1,666</b>	<b>3,152</b>	<b>685</b>	<b>407</b>	<b>5,910</b>
Depreciation and impairments at 1 January	-645	-1,841	-415	-	-2,901
Exchange rate adjustments	-4	-7	-7	-	-18
Depreciation and impairments for the year	-70	-223	-74	-	-367
Depreciation on disposals	8	56	22	-	86
Reclassification	6	-6	-	-	-
<b>Depreciations and impairment at 31 December</b>	<b>-705</b>	<b>-2,021</b>	<b>-474</b>	<b>-</b>	<b>-3,200</b>
<b>Carrying amount at 31 December</b>	<b>961</b>	<b>1,131</b>	<b>211</b>	<b>407</b>	<b>2,710</b>
Right of use assets included in the carrying amount	109	21	78	-	208

Capital employed

**3.2 PROPERTY, PLANT AND EQUIPMENT**

**Investments and depreciation property, plant and equipment and right of use assets**

(EURm)



**Table 3.2.b Estimated useful life in years**

(EURm)

	2020	2019
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



**Accounting policies**

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.. Assets under construction, land and decommissioned plants are not depreciated.

**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 value 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 when 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 is reviewed annually. Depreciation ceases when the carrying value 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 within 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 to 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, useful life and residual values of items of property, plant and equipment.

## Capital employed

## 3.2 PROPERTY, PLANT AND EQUIPMENT

## 3.2.1 Right of use assets



## Financial comments

Arla leases various offices, warehouses, vehicles and other equipment. Lease contracts 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 facilities represent another major right of use asset category. Filling machines typically have useful lives of 7 years, whereas other technical facilities are depreciated between 1 to 7 years. Cars and trucks have on average useful lives of 4 and 5 years respectively. In total the group has approximately 4,000 lease contracts.

Additions to right of use assets during the year amounted to EUR 102 million, compared to EUR 81 last year. The main reason for the high level of additions in 2020, besides regular renewal of lease agreements, was insourcing of distribution activities in the UK, which led to many new lease agreements on trucks and trailers. The total carrying amount of right of use assets was EUR 229 million, compared to EUR 208 million last year, as specified in table 3.2.1.a. Lease liabilities are specified in note 4.3.

Total cash outflow from right of use assets amounted to EUR 114 million compared to EUR 116 million last year. This comprised, lease debt payments of EUR 67 million, compared to EUR 66 million last year, non-capitalised short-term and low value lease costs of EUR 39 million compared to EUR 43 million last year, and interest expenses on lease liabilities of EUR 8 million compared to EUR 7 million last year.

Table 3.2.1.a Right of use assets (EURm)	Land and building	Plant and machinery	Fixture and fitting, tools and equipment	Total
<b>2020</b>				
Carrying amount at 1 January	109	21	78	208
Additions	55	4	43	102
Disposals	-8	-8	-19	-35
Depreciations and impairments for the year	-23	-10	-34	-67
Depreciation on disposals	5	6	13	24
Exchange rate adjustments	-2	-	-1	-3
<b>Carrying amount at 31 December</b>	<b>136</b>	<b>13</b>	<b>80</b>	<b>229</b>
<b>2019</b>				
Carrying amount at 1 January	95	27	77	199
Additions	38	7	36	81
Disposals	-6	-1	-9	-16
Depreciations and impairments for the year	-22	-13	-35	-70
Depreciation on disposals	3	1	9	13
Exchange rate adjustments	1	-	-	1
<b>Carrying amount at 31 December</b>	<b>109</b>	<b>21</b>	<b>78</b>	<b>208</b>



## Accounting policies

Lease contracts are typically agreed for a fixed duration, but may have an option to extend at a future date.

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 the following:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment based on an index or a rate
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the group is reasonably certain to exercise that exit option

The lease payments are discounted using an incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The corresponding right of use asset is measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right of use asset is subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the value of the right of use asset is adjusted for certain remeasurements of the lease liability.

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 to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Short-term leases and leases of low-value assets are recognised as an expense in the income statement. Short-term leases are those with a lease term of less than 1 year. Leases of low-value assets are those with an underlying asset value less than EUR 5 thousand.



## Uncertainties and estimates

The group has applied estimates and judgements with impact on the recognition and measurement of right of use assets and lease liabilities. This includes assessment of the incremental borrowing rate, service components and facts and circumstances that could create an economic incentive to utilise extension options of lease arrangements.



## Capital employed

## 3.3 JOINT VENTURES AND ASSOCIATES



## Financial comments

The share of result in joint ventures and associates decreased 18 per cent to EUR 28 million compared to EUR 34 million last year and relates primarily to results from our investments in Mengniu and Lantbrukarnas Riksförbund (LRF).

*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 is EUR 343 million, compared to EUR 340 million last year. The carrying amount of the investment in CDH includes goodwill amounting to EUR 138 million, compared to EUR 151 million last year driven by the development in USD and CNY.

The fair value of the indirect share in Mengniu equals EUR 1.024 million, compared to EUR 755 million last year based on the official listed share price at 31 December 2020.

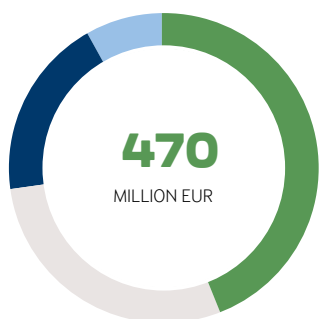
The investment in CDH is part of the China business unit and is currently managed in China, along with sales activities with similar characteristics. A potential impairment

of the investment is tested at the China business unit level, using expected future net cash flow. Impairment risks include substantial and long-term reductions in leading stock indexes in Asia, the issue of import restrictions on dairy products in China, or an adverse and permanent reduction in the expected performance of Mengniu. As the fair value exceeds the carrying value of the investment, there is no indication of impairment. Mengniu reported a group revenue of EUR 10,221 million and a result of EUR 530 million in 2019. Consolidated figures are not available for the CDH group. CDH holds no other significant investment 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 per cent indirect investment in Mengniu. See table 3.3.b for more details on CDH.

*Joint ventures*

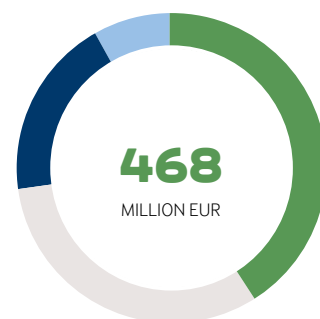
The carrying value of joint ventures increased to EUR 40 million compared to EUR 38 million last year. The value primarily relates to the German joint ventures Biolac and ArNoCo. The carrying value does not include goodwill.

**Recognised value of associates and joint ventures, 2020**



- Share of equity in CDH/Mengniu 44%
- Goodwill in CDH/Mengniu 29%
- Share of equity in immaterial associates 19%
- Share of equity in immaterial joint ventures 8%

**Recognised value of associates and joint ventures, 2019**



- Share of equity in CDH/Mengniu 41%
- Goodwill in CDH/Mengniu 32%
- Share of equity in immaterial associates 19%
- Share of equity in immaterial joint ventures 8%

**Table 3.3.a Associates and Joint ventures**

**Value of associates and joint ventures (EURm)**

	2020	2019
Share of equity in CDH/Mengniu	205	189
Goodwill in CDH/Mengniu	138	151
Share of equity in other associates	87	90
<b>Recognised value of associates</b>	<b>430</b>	<b>430</b>
Share of equity in other joint ventures	40	38
<b>Recognised value of associates and joint ventures</b>	<b>470</b>	<b>468</b>

**Table 3.3.b COFCO Dairy Holdings Limited**

**Disclosures of financial information\* (EURm)**

	2020	2019
Revenue	16	11
Results after tax	16	11
Non-current assets	702	683
Dividends received	0	5
Ownership share	30%	30%
Group share of result after tax	21	28
Recognised value	343	340

*CDH has no other significant assets or liabilities. \* Based on latest available financial reporting*

	2020	2019
Fair value based on listed share price	1,024	755

**Table 3.3.c Transactions with associates and joint ventures**

**(EURm)**

	2020	2019
Sale of goods	109	55
Purchase of goods	68	65
Trade receivables*	30	10
Trade payables*	-7	-10

*\* Included in other receivables and other payables*

## Capital employed

### 3.3 ASSOCIATES AND JOINT VENTURES



#### Accounting policies

Investments where Arla exercises significant influence, but not control, are classified as associates. Investments in which Arla has joint control are classified as joint ventures.

The proportionate share of results of associates and joint ventures after tax is recognised in the consolidated income statement, after elimination of the proportionate share of unrealised intra-group profit or loss.

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 intra-group profits and the carrying amount of goodwill are added, whereas the proportionate share of unrealised intra-group 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 reassessed 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 deficit in the associate or joint venture, the deficit is recognised under provisions. Any amounts owed by associates and joint ventures are written down to the extent that the amount owed is deemed irrecoverable.

An impairment test is performed when there is impairment indicators, 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 value.

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 flow 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 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 per cent investment in CDH, which is considered an associated company based on a cooperation agreement extending significant influence including the right of Board representation. The cooperation agreement with CDH also entitles Arla to representation on the Board of Mengniu, a Hong Kong listed dairy company in which CDH is a significant shareholder. It was agreed that Arla and Mengniu cooperate in relation to the exchange of technical dairy knowledge and expertise, and that Arla grants intellectual rights to Mengniu. Based on these underlying agreements, it is our assessment that Arla has significant influence in Mengniu.

#### *Lantbrukarnas Riksförbund, Sweden (LRF)*

Arla has an ownership interest of 24 per cent 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 significant influence over LRF. This includes, but is not limited to, owner representation on the Board of Directors. Furthermore, owners of Arla have represented the Swedish dairy industry at the Board of Directors in LRF and both Arla and our Swedish owners are individual members of LRF.

## Capital employed

### 3.4 PROVISIONS



#### Provisions

Provisions amounted to EUR 46 million in 2020, compared to EUR 32 million last year. Provisions primarily relate to insurance provisions for insurance incidents that occurred but have not been settled.

Insurance provisions primarily relate to occupational injuries. No major occupational incidents occurred during the year. The general provision for occupational injuries of EUR 9 million is recorded as a long-term provision.



#### Uncertainties and estimates

Provisions are particularly associated with estimates on insurance provisions. Insurance provisions are assessed based on historical records of, amongst other things, the number of insurance events and related costs considered. The scope and size of onerous contracts are also estimated.

## Capital employed

### 3.5 PURCHASE AND SALE OF BUSINESS OR ACTIVITIES



#### Acquisitions and divestments

Arla had no acquisition or divestment activities of any significance in 2020.

##### Prior year acquisitions

In May 2019 Arla acquired the operations of the cheese business in MENA from Mondeléz International including production facilities in Bahrain and related working capital items. The acquisition was in line with the strategy to expand branded cheese production in the MENA region and to improve overall efficiency in the group's supply chain.

The fair value of the net assets acquired was EUR 66 million and consisted of production facilities and inventories. Goodwill totalled EUR 80 million and

presents the benefit of access to production facilities in Bahrain, a location well-positioned to support our strategic ambition in MENA and the possibility to further optimise Arla's supply chain structure.

In 2019 the revenue contribution from the Mondeléz acquisition was EUR 51 million.

##### Prior year divestments

In March 2019 Arla divested both its minority interests in NGF Nature Energy Videbæk A/S, Denmark and Martin Sengele Produits Laitiers SAS, France (the Allgäu business), for total proceeds of EUR 16 million.

**Table 3.5.a Mergers and acquisitions**  
(EURm)

	2020	2019
Property, plant and equipment	0	48
Inventory	0	18
<b>Total net assets acquired</b>	<b>0</b>	<b>66</b>
Goodwill	0	80
<b>Purchase price, net</b>	<b>0</b>	<b>146</b>
Deferred payment	0	22
<b>Cash payment during the year</b>	<b>0</b>	<b>168</b>



#### Accounting policies

##### Recognition date and considerations

Newly acquired companies are recognised in the consolidated financial statements at the date when the group obtains control. The purchase consideration is generally measured at fair value. If an agreement relating to a business combination requires that the purchase consideration be adjusted in connection with future events or the performance of certain obligations (contingent consideration), this portion of the purchase considerations is recognised at fair value at the date of acquisition. Changes in estimates relating to a contingent consideration are recognised in the income statement. Costs directly attributable to the acquisition are recognised in the income statement as incurred.

The acquired assets, liabilities and contingent liabilities are generally measured at their fair value at the date of acquisition.

In a business combination achieved in stages (step acquisition), the shareholding held immediately before the step acquisition where control is gained is remeasured at fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the income statement. The total fair value of the shareholding held immediately after the step acquisition is estimated and recognised as the cost of the total shareholding in the company.

Goodwill arises when the aggregate of the fair value of consideration transferred, previously held interest and the value assigned to non-controlling interest holders exceeds the fair value of the identifiable net assets of the acquired company. Any identified goodwill is not subject to amortization, but is tested annually for impairment. The methodology outlined above also applies to mergers with other cooperatives, where the owners of the acquired company become owners of Arla Foods amba. The purchase consideration is

calculated at the acquisition date when fair values of the assets are transferred and equity instruments are issued. Positive differences between the consideration and fair value are recognised as goodwill.

##### Divestment

Changes in the group's interest in a subsidiary that do not result in a loss of control are recognised as equity transactions.

Enterprises divested are recognised in the consolidated income statement up to the date of disposal. Comparative figures are not restated to reflect disposals. Gains or losses on divestment of subsidiaries and associates are determined as the difference between the selling price and the carrying amount of the net assets, including goodwill, at the date of divestment and costs necessary to make the sale.



#### Uncertainties and estimates

To determine the classification of investments, a discretionary assessment of the level of influence is required.

Acquisitions where the group gains control of an entity requires estimates and judgements to be applied, as uncertainties regarding identification and fair value measurement of assets, liabilities and contingent liabilities exist.

Funding

**4.1 FINANCIAL RISKS**

**Financial risk management**

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 thus it is critical for the group to have an appropriate financial risk management approach in place to mitigate short-term market volatility, whilst 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 by the treasury department. 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.

**Table 4.1.1.a Liquidity reserves (EURm)**

	2020	2019
Cash and cash equivalents	126	187
Securities (free cash flow)	18	6
Unutilised committed loan facilities	326	355
Unutilised other loan facilities	12	97
<b>Total</b>	<b>482</b>	<b>645</b>

**4.1.1 Liquidity risk**



**Adequate liquidity reserves**

Liquidity reserves decreased by EUR 163 million, to EUR 482 million in 2020. Looking at the maturity profile of the group’s debt and the forecasted cash flow, the liquidity reserves are still considered adequate.

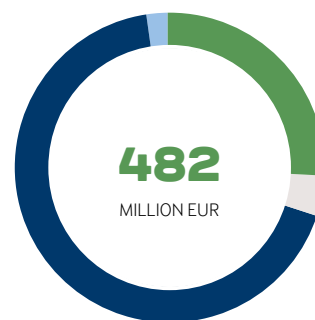
Ensuring availability of sufficient operating liquidity and credit facilities for operations is the primary goal of managing liquidity risk. Based on the liquidity models suggested by the rating agencies, Arla’s liquidity reserves have been assessed as adequate for the coming 12 months.

Supply chain finance programmes and factoring relating to customers forms part of the group’s liquidity management. Selected suppliers have access to the group’s supply chain finance facilities, which allows those suppliers to benefit from the group’s credit profile.

More than 95 per cent of the day-to-day liquidity flow of the group is managed by the treasury department and the internal bank, via cash pooling arrangements. This secures a scalable and efficient operating model. As a result, the group has been able to achieve a cost-efficient utilisation of credit facilities.

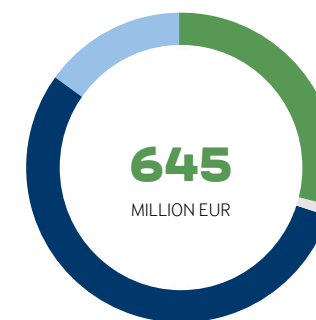
Arla operates in several countries where restrictions on transferability of cash exist. However, the balances of cash deemed trapped are insignificant.

**Liquidity reserves, 2020**



- Cash and cash equivalents 26%
- Securities (free cash flow) 4%
- Unutilised committed loan facilities 68%
- Unutilised other loan facilities 2%

**Liquidity reserves, 2019**



- Cash and cash equivalents 29%
- Securities (free cash flow) 1%
- Unutilised committed loan facilities 55%
- Unutilised other loan facilities 15%

## Funding

## 4.1 FINANCIAL RISKS

**Table 4.1.1.b Contractual expected non-discounted cash flow on gross financial liabilities**  
(EURm)

	Carrying amount	Non-discounted contractual cash flow									
		Total	2021	2022	2023	2024	2025	2026	2027	2028-2030	After 2030
<b>2020</b>											
Issued bonds	399	399	100	-	150	149	-	-	-	-	-
Mortgage credit institutions	1,042	1,061	8	12	12	12	87	51	56	219	604
Credit institutions	986	987	531	152	101	201	1	1	-	-	-
Lease liabilities	233	233	56	43	36	27	20	24	6	10	11
Other non-current liabilities	70	70	70	-	-	-	-	-	-	-	-
Interest expense - interest bearing debt	-	72	13	12	9	4	3	3	3	7	18
Trade and other payables	1,212	1,212	1,212	-	-	-	-	-	-	-	-
Derivative instruments	66	66	22	10	9	7	3	2	1	3	9
<b>Total</b>	<b>4,008</b>	<b>4,100</b>	<b>2,012</b>	<b>229</b>	<b>317</b>	<b>400</b>	<b>114</b>	<b>81</b>	<b>66</b>	<b>239</b>	<b>642</b>

	Carrying amount	Non-discounted contractual cash flow									
		Total	2020	2021	2022	2023	2024	2025	2026	2027-2029	After 2029
<b>2019</b>											
Issued bonds	382	382	-	96	-	143	143	-	-	-	-
Mortgage credit institutions	957	976	1	9	12	12	12	87	50	183	610
Credit institutions	1,175	1,176	717	21	125	101	212	-	-	-	-
Lease liabilities	213	213	62	42	31	23	15	8	6	13	13
Other non-current liabilities	13	13	13	-	-	-	-	-	-	-	-
Interest expense - interest bearing debt	-	110	13	11	10	9	6	5	5	15	36
Trade and other payables	1,158	1,158	1,158	-	-	-	-	-	-	-	-
Derivative instruments	86	86	40	12	10	9	3	1	1	2	8
<b>Total</b>	<b>3,984</b>	<b>4,114</b>	<b>2,004</b>	<b>191</b>	<b>188</b>	<b>297</b>	<b>391</b>	<b>101</b>	<b>62</b>	<b>213</b>	<b>667</b>

## Assumptions

Contractual cash flows are based on the earliest possible date at which the group can be required to settle the financial liability and the interest rate cash flow is based on the contractual interest rate. Floating interest payments were determined using the current floating rate for each item at the reporting date.

Funding

**4.1 FINANCIAL RISKS**

**Risk mitigation**

**Risk**  
Liquidity and funding are vital for the group to be able to pay its financial liabilities as they become due. It also 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 policies state 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.

**Average maturity**

	2020	2019	Policy	
			Minimum	Maximum
Average maturity, gross debt	5.0 years	5.2 years	2 years	-
Maturity < 1 year, net debt	0%	0%	-	25%
Maturity > 2 year, net debt	84%	93%	50%	-

**How we act and operate**

In addition to the treasury and funding policy, the Board of Directors have 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 members' long-term commitment to invest in the business. It is the group's objective to maintain its credit quality at a robust investment grade level.

**4.1.2 Currency risk**

**Currency impact on revenue, costs and financial position**

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 12 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 within financial income or financial costs. A net loss of EUR 25 million was recognised in financial costs compared to a loss of EUR 3 million last year. Exchange rate losses relate primarily to the devaluations of Lebanese, Nigerian and Argentine currencies, which amounted to EUR 20 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 within other income or other costs respectively. A net gain of EUR 17 million was recognised within other costs compared to a loss of EUR 24 million last year. A loss from hedges will be expected in years where export currencies strengthen during the year and vice versa.

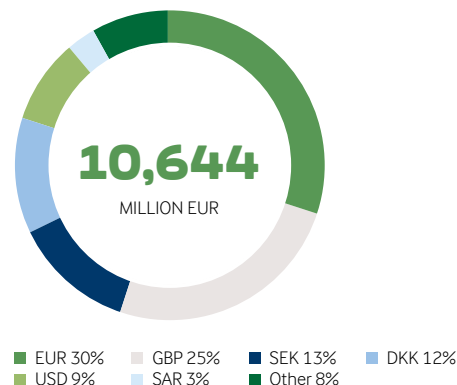
The group is exposed to translation effects from entities reporting in currencies other than EUR. The group is mainly exposed to translation of entities reporting in GBP, DKK, SEK, CNY and USD. Due to translation effects, revenue decreased by EUR 73 million compared to the revenue reported last year. Simultaneously, costs decreased by EUR 80 million compared to last year's reported cost. 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 within other comprehensive income as foreign exchange adjustments. In 2020 a net loss of EUR 84 million was recognised in other comprehensive income compared to a gain of EUR 42 million last year.

Indirectly the prepaid milk price absorbs both transaction and translation effects and the net result therefore has limited exposure to currency risks. The prepaid milk is set based on achieving an annual profit of 2.8 to 3.2 per cent. The prepaid price is initially measured and paid out based on a EUR amount and consequently exposed to EUR fluctuations against GBP, SEK and DKK.

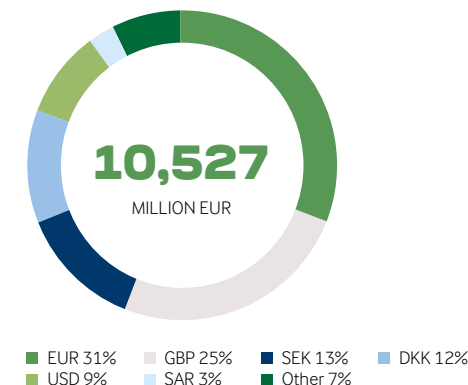
Compared to last year, the average rate of the USD weakened by 2 per cent, the GBP weakened by 1 per cent and the SEK strengthened by 1 per cent.

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 currency restrictions represented 4 per cent of the group's revenue in 2020.

**Revenue split by currency, 2020**



**Revenue split by currency, 2019**



## Funding

## 4.1 FINANCIAL RISKS

Table 4.1.2.a Exchange rates

	Closing rate			Average rate		
	2020	2019	Change	2020	2019	Change
EUR/GBP	0.903	0.854	-5.7%	0.889	0.877	-1.3%
EUR/SEK	10.081	10.470	3.7%	10.483	10.587	1.0%
EUR/DKK	7.441	7.472	0.4%	7.454	7.466	0.2%
EUR/USD	1.230	1.120	-9.8%	1.140	1.119	-1.8%
EUR/SAR	4.616	4.201	-9.9%	4.279	4.199	-1.9%

Table 4.1.2.b Currency exposure

	Balance sheet exposure			Sensitivity	Potential accounting impact	
	Open positions	Hedge of future cash flow	External exposure		Income statement	Other comprehensive income
<b>2020</b>						
EUR/DKK	-94	-10	-104	1%	-1	-
USD/DKK*	10	-197	-187	5%	1	-10
GBP/DKK	-9	-415	-424	5%	-	-21
SEK/DKK	-35	-87	-122	5%	-2	-4
SAR/DKK	8	-187	-179	5%	-	-9
<b>2019</b>						
EUR/DKK	-346	0	-346	1%	-3	0
USD/DKK*	219	-276	-57	5%	11	-14
GBP/DKK	39	-311	-272	5%	2	-16
SEK/DKK	-24	0	-24	5%	-1	0
SAR/DKK	-165	-24	-189	5%	-8	-1

\*Incl. AED



## Risk mitigation

The group's external exposure is calculated as external financial assets and liabilities denominated in currencies different from the functional currency of each legal entity, plus any external derivatives converted on 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, represents 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**

The group operates in many different countries and has significant investments in operations outside of Denmark, of which the UK, Germany and Sweden, represent the largest part of the business by net revenue, profit and assets. A major part of the currency risk from net revenue denominated in foreign currencies is offset by sourcing in the same currency.

**Policy**

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 per cent of 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.

## Funding

## 4.1 FINANCIAL RISKS

## 4.1.3 Interest rate risk



## Limited hedging activities due to decreased debt levels

The average duration of the group's interest on interest-bearing debt, including derivatives but excluding pension liabilities, has increased by 0.2 to 2.6. The

duration is increased due to new interest rate hedges partly offset by a reduction in time to maturity on the remaining hedges.

**Table 4.1.3 Sensitivity based on a 1 percentage point increase in interest rate**  
(EURm)

	Carrying value	Sensitivity	Potential accounting impact	
			Income statement	Other comprehensive income
<b>2020</b>				
Financial assets	-550	1%	6	-1
Derivatives	-	1%	5	42
Financial liabilities	2,730	1%	-13	-
<b>Net interest-bearing debt excluding pension liabilities</b>	<b>2,180</b>		<b>-2</b>	<b>41</b>
<b>2019</b>				
Financial assets	-627	1%	5	-2
Derivatives	-	1%	4	31
Financial liabilities	2,740	1%	-23	-
<b>Net interest-bearing debt excluding pension liabilities</b>	<b>2,113</b>		<b>-14</b>	<b>29</b>



## 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 exposure within comprehensive income. Profit exposure relates to net potential impairment of non-current assets. Exposure other comprehensive income relates to revaluation of net pension liabilities and interest hedging of future cash flow.

*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 per cent increase in interest rates. A decrease in the interest rate would have the adverse 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 shows the one-year cash flow sensitivity, depicting a 1 per cent increase in interest rates on the 31 December 2020. 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.

	2020	2019	Policy	
			Minimum	Maximum
<b>Duration</b>	2.6	2.4	1	7

**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 derivative financial instruments 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. Thereby, the group can 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, like interest rate swaps and options, in addition to interest conditions embedded in the loan agreements. During the year, the group has not traded in any options contracts.



## Funding

### 4.1 FINANCIAL RISKS

#### 4.1.4 Commodity price risk



##### Difficult hedging conditions in a volatile market

Supply contracts are predominately related to a floating official price index. The treasury department uses financial derivatives hedge commodity price risk. This secures full flexibility to change suppliers without having to take future hedging into consideration.

Hedging activities concentrate on the most significant risks, including electricity, natural gas and diesel. The total energy commodity spends, excluding taxes and distribution costs, amounted to approximately EUR 70 million.

The purpose of hedging is to reduce volatility in costs related to energy. In 2020, hedging activities have resulted in a loss of EUR 15 million vs a loss on EUR 6 million last year. However, the loss in 2020 was more than offset by lower physically energy costs of EUR 24 million. The result of hedging activities, classified as hedge accounting, is recognised in other income and costs.

At the end of 2020, 35 per cent of the energy spend for 2021 was hedged. A 25 per cent increase in commodity prices would negatively impact profit by approximately EUR 11 million. Conversely, other comprehensive income would be positively impacted by EUR 10 million.

**Table 4.1.4 Hedged commodities**  
(EURm)

	Sensitivity	Contract value	Potential accounting impact	
			Income statement	Other comprehensive income
<b>2020</b>				
Diesel / natural gas	25%	2	-7	6
Electricity	25%	-	-4	4
		2	-11	10
<b>2019</b>				
Diesel / natural gas	25%	-4	-8	6
Electricity	25%	-1	-6	4
		-5	-14	10



#### Risk mitigation

##### Risk

The group is exposed to commodity risks related to the production and distribution of dairy products. Increased commodity prices negatively impact the costs of production and distribution.

##### 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. The table shows the sensitivity of a 25 per cent increase in commodity prices for both hedged and unhedged commodity purchases. A decrease in commodity prices would have the reverse effect.

##### Policy

According to the treasury policy, the forecasted consumption on electricity, natural gas and diesel can be hedged for up to 36 months, of which 100 per cent can be hedged for the first 18 months, with a limited 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 financial derivative contracts, 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 effectively be hedged by matching the underlying costs, but Arla aims to minimise the base risk.

Dairy derivative market in EU, US and New Zealand remain small but are evolving. The group has engaged in hedging activities for a minor part of the group's dairy commodity trading volume. As the dairy derivative market develops, we expect this to play a role in managing fixed price contracts with customers, in the coming years.

## Funding

### 4.1 FINANCIAL RISKS

#### 4.1.5 Credit risk



##### Limited losses

In 2020 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 satisfying credit rating do not operate, the group deviated from the rating requirement.

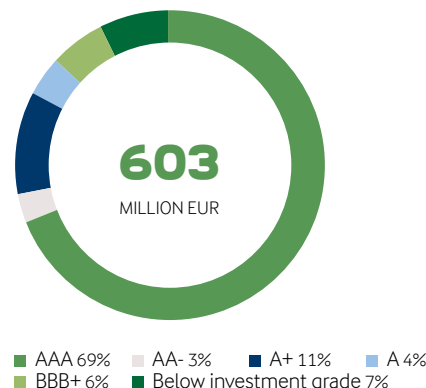
Further information on trade receivables is provided in Table 2.1.c.

The maximum exposure to credit risk is approximately equal to the carrying amount.

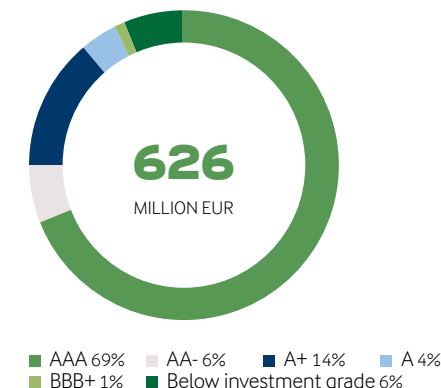
The group has, like in previous years, continuously worked with credit exposure and experienced a very low level of losses arising from customers.

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 qualifies for netting in case of default.

#### External rating of financial counterparties, 2020



#### External rating of financial counterparties, 2019



**Table 4.1.5 External rating of financial counterparties**  
(EURm)

	Counterparty rating						Total
	AAA	AA-	A+	A	BBB+	Below investment grade	
<b>2020</b>							
Securities	415				5		420
Cash		10	44	5	23	44	126
Derivatives		9	22	16	10	0	57
<b>Total</b>	<b>415</b>	<b>19</b>	<b>66</b>	<b>21</b>	<b>38</b>	<b>44</b>	<b>603</b>
<b>2019</b>							
Securities	435	-	-	-	-	-	435
Cash	-	30	78	19	7	37	171
Derivatives	-	7	7	5	-	1	20
<b>Total</b>	<b>435</b>	<b>37</b>	<b>85</b>	<b>24</b>	<b>7</b>	<b>38</b>	<b>626</b>



##### 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's strategy.

**Policy**  
Counterparties are selected based on a relationship bank strategy. Financial counterparties must be approved by the Managing Directors and the CFO upon recommendation from our Treasury team. A counterparty (or its parent) in financial contracts and deposits must as a minimum have a long rating corresponding to A3 with Moody's, A- with Standard & Poor's or A- with Fitch. If the Group has only obtained credits from the counterparty, no rating is required. If the counterparty is rated by several credit rating agencies, an average is used, rounded up to the nearest notch. In geographies

which are not properly covered by our relationship banks, the Treasury team may deviate from the counterparty requirement in this section.

##### How we act and operate

The Group has an extensive credit risk policy and uses credit insurance and other trade financing products extensively in connection with exports. In certain emerging markets, it is not always possible to obtain credit coverage with the required rating, however, the Group then applies for the best coverage available. The Group has determined that this is an acceptable risk given levels of investment in emerging markets.

If a customer payment is late, internal procedures are followed to mitigate losses. The group uses a limited number of financial counterparties where credit ratings are monitored on an ongoing basis.

## Funding

## 4.2 FINANCIAL ITEMS



## Lower interest costs offset by higher exchange rate losses

Net financial costs increased by EUR 13 million, to EUR 72 million mainly due to exchange rate losses, which were partly offset by lower interest costs.

Net interest costs amounted to EUR 54 million, representing a decrease of EUR 15 million compared to last year due to a lower average interest level and expiration of interest hedges. The average interest cost, excluding interest related to pension assets and

liabilities, was 2.3 per cent compared to 3.0 per cent last year. Interest cover increased to 17.0 compared to 12.0 last year.

Exchange rate losses relate primarily to the devaluation of Lebanese, Nigerian and Argentine currencies, which amounted to EUR 20 million.



## Accounting policies

Financial income and 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 on financial assets and financial liabilities, as well as the interest portion of financial lease payments. Additionally, realised and unrealised gains and losses on derivative financial instruments 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 2020. Financial income and costs relating to financial assets and financial liabilities were recognised using the effective interest method.

**Table 4.2 Financial income and financial costs**  
(EURm)

	2020	2019
<i>Financial income:</i>		
Interest securities, cash and cash equivalents	2	3
Fair value adjustments and other financial income	5	7
<b>Total financial income</b>	<b>7</b>	<b>10</b>
<i>Financial costs:</i>		
Interest on financial instruments measured at amortised cost	-54	-69
Net exchange rate losses	-25	-3
Interest on pension liabilities	-2	-4
Interest transferred to property, plant and equipment	8	8
Fair value adjustments and other financial costs, net	-6	-1
<b>Total financial costs</b>	<b>-79</b>	<b>-69</b>
<b>Net financial costs</b>	<b>-72</b>	<b>-59</b>

## Funding

## 4.3 NET INTEREST-BEARING DEBT



## Increased net interest-bearing debt

Net interest-bearing debt, excluding pension liabilities, increased to EUR 2,180 million compared to EUR 2,113 million last year. The increase was driven by changed rules for vacation accruals in Denmark which made EUR 60 million interest-bearing end of September 2020.

Pension liabilities decreased by EUR 2 million to EUR 247 million. Net interest-bearing debt, including pension liabilities, amount to EUR 2,427 million compared to EUR 2,362 million last year. The UK pension scheme net asset was EUR 40 million compared to EUR 16 million last year. This asset is excluded in the calculation of pension liabilities, net interest-bearing debt and leverage.

Arla's leverage ratio was 2.7, a decrease of 0.1 compared to last year. This was below the long-term target range of 2.8 to 3.4, underpinning a strong financial position.

The average maturity of interest-bearing borrowings decreased by 0.2 years to 5.0 years. Average maturity is impacted by a lapse of time to maturity, refinancing or obtaining new committed facilities, and the level of net interest-bearing debt.

The equity ratio increased to 35 per cent, compared to 34 per cent last year.

## Funding

The group applies a diversified funding strategy to balance the liquidity and refinancing risk with the aim of a low financing cost. 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 EURIBOR 3 months and derivatives are applied to match the currency of our funding needs. The interest profile is managed with interest rate swaps independent of the individual loans.

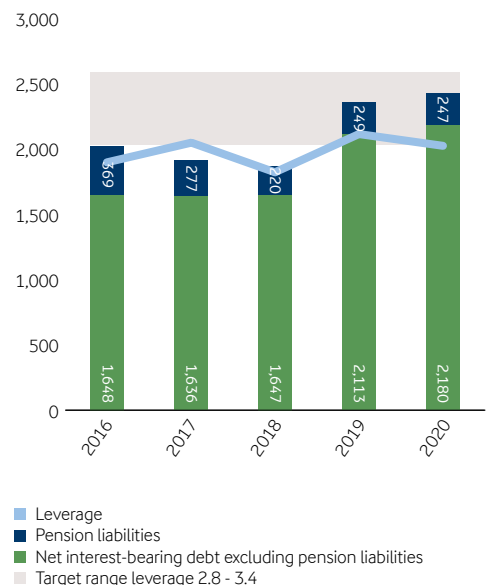
The credit facilities contain financial covenants on equity/total assets and minimum equity, as well as standard non-financial covenants. The group did not default on or fail to fulfil any loan agreements in 2020.

During Covid-19 governments granted different programmes to subsidise corporates. However, the net effect on net interest-bearing debt is limited for the group.

During 2020 the group had limited need for new funding. The most significant funding activities during the year were:

- An EUR 80 million mortgage loan
- Establishment of a new EUR 500 million "Euro commercial paper" programme and in connection to this a Covid-19 emergency facility of 300 mGBP from Bank of England which was never utilised
- Arla has a commercial paper programme in Sweden denominated in SEK and EUR. The programme is unutilised end of year due to a strong liquidity position. The average utilization in 2020 was EUR 75 million
- During the year, Arla entered into sale and repurchase arrangements based on its holdings in listed AAA-rated Danish mortgage bonds. Refer to Note 4.6 for more details.

## Net interest-bearing debt (EURm)



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 the debt. The group's long-term target range for leverage is between 2.8 and 3.4.

Leverage  
**2.7**

2019: 2.8

Table 4.3.a Net interest-bearing debt (EURm)

	2020	2019
Long-term borrowings	1,964	1,951
Short-term borrowings	766	789
Securities, cash and cash equivalents	-546	-622
Other interest-bearing assets	-4	-5
<b>Net interest-bearing debt excluding pension liabilities</b>	<b>2,180</b>	<b>2,113</b>
Pension liabilities	247	249
<b>Net interest-bearing debt including pension liabilities</b>	<b>2,427</b>	<b>2,362</b>

## Funding

## 4.3 NET INTEREST-BEARING DEBT

**Table 4.3.b Borrowings**  
(EURm)

	2020	2019
<i>Long-term borrowings:</i>		
Issued bonds	299	382
Mortgage credit institutions	1,033	957
Bank borrowings	455	458
Lease liabilities	177	154
<b>Total long-term borrowings</b>	<b>1,964</b>	<b>1,951</b>
<i>Short-term borrowings:</i>		
Issued bonds	100	-
Commercial papers	-	192
Mortgage credit institutions	9	-
Bank borrowings	531	525
Lease liabilities	56	59
Other current liabilities	70	13
<b>Total short-term borrowings</b>	<b>766</b>	<b>789</b>
<b>Total interest-bearing borrowings</b>	<b>2,730</b>	<b>2,740</b>

**Table 4.3.c Cash flow, net interest-bearing debt**  
(EURm)

	Cash flow		Non-cash changes				Fair value changes	31 December
	1 January	Included in financing activities	Acquisitions and additions	Reclasses	Foreign exchange movements			
<b>2020</b>								
Pension liabilities	249	-10	-	-	7	1	247	
Long-term borrowings	1,951	-	70	-84	5	22	1,964	
Short-term borrowings	789	-90	-	84	-17	-	766	
<b>Total interest-bearing debt</b>	<b>2,989</b>	<b>-100</b>	<b>70</b>	<b>-</b>	<b>-5</b>	<b>23</b>	<b>2,977</b>	
UK pension assets	-	-26	-	25	2	-1	-	
Securities and other	-	-	-	-	-	-	-	
Interest-bearing assets	-440	17	-	-	-2	1	-424	
Cash	-187	50	-	-	11	-	-126	
<b>Net interest-bearing debt</b>	<b>2,362</b>	<b>-59</b>	<b>70</b>	<b>25</b>	<b>6</b>	<b>23</b>	<b>2,427</b>	

Long- and short-term borrowings payments of EUR 90 million (EUR 0 million and EUR 90 million respectively) reconciles to the cash flow statement as loans obtained, net of EUR 24 million and lease payments of EUR 66 million.

**2019**

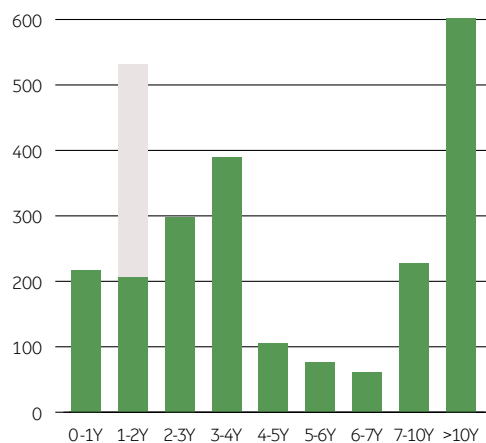
Pension liabilities	224	-10	-	-1	-5	41	249
Long-term borrowings	1,510	408	57	-38	-8	22	1,951
Short-term borrowings	930	-179	-	38	-	-	789
<b>Total interest-bearing debt</b>	<b>2,664</b>	<b>219</b>	<b>57</b>	<b>-1</b>	<b>-13</b>	<b>63</b>	<b>2,989</b>
UK pension assets	-4	-27	-	16	-2	17	-
Securities and other	-	-	-	-	-	-	-
Interest-bearing assets	-475	37	-	-3	1	-	-440
Cash	-119	-66	-	-	-2	-	-187
<b>Net interest-bearing debt</b>	<b>2,066</b>	<b>163</b>	<b>57</b>	<b>12</b>	<b>-16</b>	<b>80</b>	<b>2,362</b>

Long- and short-term borrowing payments totalling EUR 229 million (EUR 408 million and EUR -179 million respectively) equals net impact of cash flow received from new loans, EUR 295 million, and cash payments related to lease arrangements EUR -66 million.

## Funding

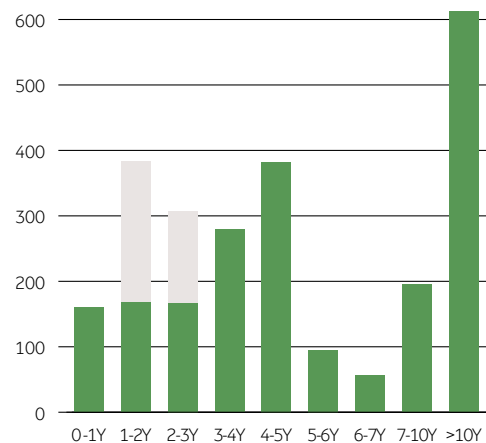
## 4.3 NET INTEREST-BEARING DEBT

Maturity of net interest-bearing debt excluding pension liabilities at December 2020 (EURm)

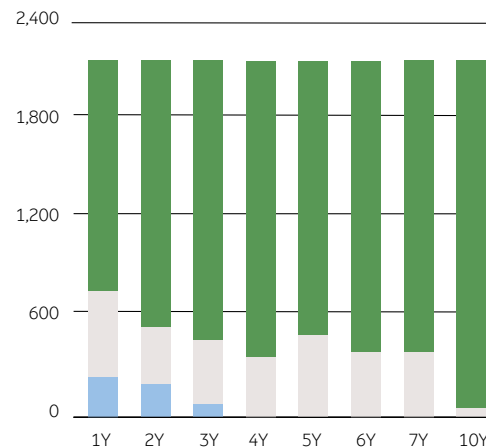


■ Unused committed facilities ■ Debt

Maturity of net interest-bearing debt excluding pension liabilities at December 2019 (EURm)



Interest profile for net interest-bearing debt excluding pension liabilities at 31 December 2020 (EURm)



■ Floating ■ Fixed via swap ■ Fixed debt

Interest profile for net interest-bearing debt excluding pension liabilities at 31 December 2019 (EURm)

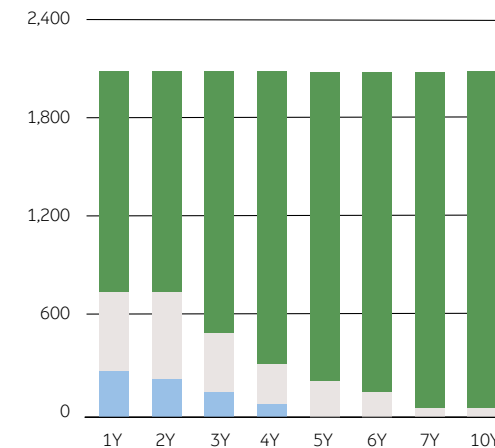


Table 4.3.d Net interest-bearing debt excluding pension liabilities and the effect of hedging, maturity (EURm)

2020	Total	2021	2022	2023	2024	2025	2026	2027	2028-2030	After 2030
DKK	794	-88	77	22	19	92	54	55	194	369
SEK	434	108	6	155	154	4	7	-	-	-
EUR	782	185	111	109	107	3	9	2	28	228
GBP	47	6	8	7	5	4	4	4	4	5
Other	123	6	4	5	104	2	2	-	-	-
<b>Total</b>	<b>2,180</b>	<b>217</b>	<b>206</b>	<b>298</b>	<b>389</b>	<b>105</b>	<b>76</b>	<b>61</b>	<b>226</b>	<b>602</b>

2019	Total	2020	2021	2022	2023	2024	2025	2026	2027-2029	After 2029
DKK	809	-27	22	21	19	17	89	52	183	433
SEK	612	200	102	6	148	147	1	1	4	3
EUR	451	19	29	12	106	103	2	1	6	173
GBP	158	10	10	124	3	2	2	2	2	3
Other	83	-43	5	4	3	113	1	-	-	-
<b>Total</b>	<b>2,113</b>	<b>159</b>	<b>168</b>	<b>167</b>	<b>279</b>	<b>382</b>	<b>95</b>	<b>56</b>	<b>195</b>	<b>612</b>

Table 4.3.e Currency profile of net interest-bearing debt excluding pension liabilities (EURm)

Disclosed before and after the effect of derivative financial instruments

2020	Original principal	Effect of swap	After swap
DKK	794	-	794
SEK	434	-581	-147
EUR	782	101	883
GBP	47	480	527
Other	123	-	123
<b>Total</b>	<b>2,180</b>	<b>-</b>	<b>2,180</b>

2018	Original principal	Effect of swap	After swap
DKK	809	-	809
SEK	612	-566	46
EUR	451	334	785
GBP	158	232	390
Other	83	-	83
<b>Total</b>	<b>2,113</b>	<b>-</b>	<b>2,113</b>

## Funding

## 4.3 NET INTEREST-BEARING DEBT

Table 4.3.f Interest rate risk excluding effect of hedging

(EURm)

	Interest rate	Average interest rate	Fixed for	Carrying amount	Interest rate risk
<b>2020</b>					
<i>Issued bonds:</i>					
SEK 500m maturing 31.05.2021	Fixed	1.88%	0-1 years	50	Fair value
SEK 750m maturing 03.07.2023	Fixed	1.51%	2-3 years	74	Fair value
SEK 750m maturing 03.04.2024	Fixed	1.58%	3-4 years	75	Fair value
SEK 500m maturing 31.05.2021	Floating	1.60%	0-1 years	50	Cash flow
SEK 750m maturing 03.07.2023	Floating	0.91%	0-1 years	75	Cash flow
SEK 750m maturing 03.04.2024	Floating	1.14%	0-1 years	75	Cash flow
Commercial papers	Fixed	-	0-1 years	0	Fair value
<b>Total issued bonds</b>		<b>1.40%</b>		<b>399</b>	
<i>Mortgages credit institutions:</i>					
Fixed-rate	Fixed	0.37%	1-2 years	124	Fair value
Floating-rate	Floating	0.43%	0-1 years	918	Cash flow
<b>Total mortgage credit institutions</b>		<b>0.42%</b>		<b>1,042</b>	
<i>Bank borrowings:</i>					
Fixed-rate	Fixed	0.02%	0-1 years	404	Fair value
Floating-rate	Floating	0.77%	0-1 years	582	Cash flow
<b>Total bank borrowings</b>		<b>0.46%</b>		<b>986</b>	
<i>Other borrowings:</i>					
Lease liabilities	Floating	3.38%	0-20 years	233	Cash flow
Other borrowings	Floating	3.69%	0-1 years	70	Cash flow
<b>Total other borrowings</b>		<b>3.45%</b>		<b>303</b>	

	Interest rate	Average interest rate	Fixed for	Carrying amount	Interest rate risk
<b>2019</b>					
<i>Issued bonds:</i>					
SEK 500m maturing 31.05.2021	Fixed	1.88%	1-2 years	48	Fair value
SEK 750m maturing 03.07.2023	Fixed	1.51%	3-4 years	72	Fair value
SEK 750m maturing 03.04.2024	Fixed	1.58%	4-5 years	71	Fair value
SEK 500m maturing 31.05.2021	Floating	1.76%	0-1 years	48	Cash flow
SEK 750m maturing 03.07.2023	Floating	1.11%	0-1 years	71	Cash flow
SEK 750m maturing 03.04.2024	Floating	0.88%	0-1 years	72	Cash flow
Commercial papers	Fixed	0.32%	0-1 years	192	Fair value
<b>Total issued bonds</b>		<b>1.04%</b>		<b>574</b>	
<i>Mortgages credit institutions:</i>					
Fixed-rate	Fixed	0.82%	1-2 years	78	Fair value
Floating-rate	Floating	0.56%	0-1 years	879	Cash flow
<b>Total mortgage credit institutions</b>		<b>0.58%</b>		<b>957</b>	
<i>Bank borrowings:</i>					
Fixed-rate	Fixed	-0.39%	0-1 years	431	Fair value
Floating-rate	Floating	0.79%	0-1 years	552	Cash flow
<b>Total bank borrowings</b>		<b>0.27%</b>		<b>983</b>	
<i>Other borrowings:</i>					
Lease liabilities	Fixed	3.16%	0-20 years	213	Cash flow
Other borrowings	Floating	3.59%	0-1 years	13	Cash flow
<b>Total other borrowings</b>		<b>3.18%</b>		<b>226</b>	

## Funding

### 4.3 NET INTEREST-BEARING DEBT



#### 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 risk and reward 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 obtains 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 at 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 at 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 cashflow 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 first-time 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*

Debts to mortgage and credit institutions, as well as issued bonds, are measured at the trade date upon first recognition 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 lease agreements are recognised under liabilities, measured at amortised cost. Other financial liabilities are measured at amortised cost. For details on pension liabilities, refer to Note 4.7.



## Funding

## 4.4 DERIVATIVE FINANCIAL INSTRUMENTS

*Hedging of future cash flows*

The group uses forward currency 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 hence, the fair value adjustment is 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 in- and outflow of foreign currency cash flows.

**Table 4.4.a Hedging of future cash flow from highly probable forecast transactions**

(EURm)

	Carrying value	Fair value recognised in other comprehensive income	Expected recognition in income statement				After 2024
			2021	2022	2023	2024	
<b>2020</b>							
Currency contracts	11	11	11	-	-	-	-
Interest rate contracts	-66	-66	-11	-10	-9	-8	-28
Commodity contracts	2	2	1	1	-	-	-
<b>Hedging of future cash flow</b>	<b>-53</b>	<b>-53</b>	<b>1</b>	<b>-9</b>	<b>-9</b>	<b>-8</b>	<b>-28</b>

	Carrying value	Fair value recognised in other comprehensive income	Expected recognition in income statement				After 2023
			2020	2021	2022	2023	
<b>2019</b>							
Currency contracts	-14	-14	-14	-	-	-	-
Interest rate contracts	-71	-71	-13	-12	-11	-9	-26
Commodity contracts	-4	-4	-4	-	-	-	-
<b>Hedging of future cash flow</b>	<b>-89</b>	<b>-89</b>	<b>-31</b>	<b>-12</b>	<b>-11</b>	<b>-9</b>	<b>-26</b>

**Table 4.4.b Value adjustment of hedging instruments** (EURm)

	2020	2019
Deferred gains and losses on cash flow hedges arising during the year	38	-21
Value adjustments of hedging instruments reclassified to other operating income and costs	-5	-22
Value adjustments of hedging instruments reclassified to financial items	8	21
<b>Total value adjustment of hedging instruments recognised in other comprehensive income during the year</b>	<b>41</b>	<b>-22</b>

**Accounting policies**

Derivative financial instruments are recognised from the trade date and measured in the financial statement at fair value. Positive and negative fair values of derivative financial instruments are recognised as separate line items in the balance sheet.

*Fair value hedging*

Changes in the fair value of derivative financial instruments 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 derivative financial instruments, 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 line 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 derivative financial instruments 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.

## Funding

## 4.5 FINANCIAL INSTRUMENTS

**Table 4.5.a Categories of financial instruments**  
(EURm)

	2020	2019
Derivatives	38	18
Shares	9	9
<b>Financial assets measured at fair value through the income statement</b>	<b>47</b>	<b>27</b>
Securities	420	435
<b>Financial assets measured at fair value through other comprehensive income</b>	<b>420</b>	<b>435</b>
Currency instruments	14	1
Interest rate instruments	1	-
Commodity instruments	4	1
<b>Derivative assets used as hedging instruments</b>	<b>19</b>	<b>2</b>
Trade receivables	811	889
Other receivable	424	240
<b>Financial assets measured at amortised cost</b>	<b>1,235</b>	<b>1,129</b>
Derivatives	19	22
<b>Financial liabilities measured at fair value through the income statement</b>	<b>19</b>	<b>22</b>
Currency instruments	3	15
Interest rate instruments	42	44
Commodity instruments	2	5
<b>Derivative liabilities used as hedging instruments</b>	<b>47</b>	<b>64</b>
Long term borrowings*	1,964	1,951
Short term borrowings*	766	789
Trade payables and other payables	1,212	1,158
<b>Financial liabilities measured at amortised cost</b>	<b>3,942</b>	<b>3,898</b>

\*Including lease liabilities

**Table 4.5.b Fair value hierarchy - carrying amount**  
(EURm)

	Level 1	Level 2	Level 3	Total
<b>2020</b>				
<i>Financial assets:</i>				
Bonds	420			420
Shares	9			9
Derivatives		57		57
<b>Total financial assets</b>	<b>429</b>	<b>57</b>	<b>-</b>	<b>486</b>
<i>Financial liabilities:</i>				
Issued bonds		399		399
Mortgage credit institutions	1,042			1,042
Derivatives		66		66
<b>Total financial liabilities</b>	<b>1,042</b>	<b>465</b>	<b>-</b>	<b>1,507</b>
<b>2019</b>				
<i>Financial assets:</i>				
Bonds	435	-	-	435
Shares	9	-	-	9
Derivatives		20	-	20
<b>Total financial assets</b>	<b>444</b>	<b>20</b>	<b>-</b>	<b>464</b>
<i>Financial liabilities:</i>				
Derivatives	-	86	-	86
<b>Total financial liabilities</b>	<b>-</b>	<b>86</b>	<b>-</b>	<b>86</b>

## Funding

## 4.5 FINANCIAL INSTRUMENTS



## Risk mitigation

Methods and assumptions applied when measuring 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.

## Funding

## 4.6 SALE AND REPURCHASE AGREEMENTS



## Attractive funding arrangement

The group has invested in listed Danish mortgage bonds underlying its mortgage debt. By entering into a sale and repurchase agreement 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 receipt of proceeds from these bonds create a repurchase obligation which has been recognised within short-term loans.

In addition to mortgage bonds, the group holds other securities with a carrying value of EUR 5 million.

**Table 4.6 Transfer of financial assets**  
(EURm)

	Carrying value	Notional amount	Fair value
<b>2020</b>			
Mortgage bonds	409	405	409
Repurchase liabilities	-398	-397	-398
<b>Net position</b>	<b>11</b>	<b>8</b>	<b>11</b>
<b>2019</b>			
Mortgage bonds	430	425	430
Repurchase liabilities	-429	-424	-429
<b>Net position</b>	<b>1</b>	<b>1</b>	<b>1</b>

## Funding

## 4.7 PENSION LIABILITIES



## Net pension assets at EUR 40 million in the UK

Pension assets and liabilities consist primarily of defined benefit plans in the UK and Sweden. The defined benefit plans provide pension disbursements to participating employees based on seniority and final salary. Pension assets were EUR 40 million compared to EUR 16 million last year. Pension liabilities were EUR 247 million compared to EUR 249 million last year. The improvement is primarily explained by payments to the pensions schemes in the UK. Remeasurements of pensions plans resulted in a net gain of EUR 5 million and consisted of a remeasurement gain on pension assets of EUR 141 million, offset by actuarial losses of EUR 136 million.

*Pension plans in Sweden*

The defined benefit plan in Sweden does not currently require the group to make further cash contributions. The recognised net liability was EUR 221 million, a decrease of EUR 2 million compared to last year.

These pension plans are contribution-based plans, guaranteeing a defined benefit pension at retirement. Contributions have been paid by the group. The schemes do not provide any insured disability benefits. The plan assets are legally structured as a trust and the group has control over the operation of the plan and their 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 40 million, representing an improvement of EUR 24 million compared to last year. The improvement is mainly explained by contributions from Arla of EUR 26 million. A remeasurement gain on the pension assets amounting to EUR 141 million was offset by actuarial losses of EUR 140 million.

The defined benefit plan in the UK is governed by an independent pension trust that oversee the interest of the members of the plan including investing the plan's assets to cover future pension payments. The assets under management amounted to EUR 1.456 million at end of 2020 compared to EUR 1.420 million last year.

The pension plan is a defined benefit final salary scheme. The plan is closed to both new entrants and future accrual. The plan does not provide any insured disability benefits. However members of the plan at the time of closure are provided with a salary continuation arrangement if they are absent on a long term basis.

Employer contributions are determined with the advice of independent qualified actuary on the basis of triennial valuation negotiations between the plan and Arla and ultimately approved by HRM Pensions Regulator. The next triennial valuation will be undertaken as at 31 December 2023.

The plan is legally structured as trust-based statutory sectionalized pension plan. The group has limited control over the operation of the plan and their investments. The trustees of the plan (of which Arla appoints the majority, ie 4 out of 6) set the investment strategy and have established a policy on asset allocation to best match the assets to the liabilities of the schemes. The trustees appoint an independent external advisor to the schemes who is responsible for advising on the investment strategy and investing the assets. The scheme is managed under a risk-controlled investment strategy, which includes a liability-driven investment approach that seeks to match, where appropriate, the profile of the liabilities.

During the year the UK pension asset and liability management has shown strong resilience against the volatile market conditions and further de-risking has taken place. The level of interest hedging against the liabilities was increased to 80 per cent compared to 65 per cent last year with the inflation hedging 67.5 per cent compared to 65 per cent last year. Thus the overall level of risk within the scheme has reduced, thereby lowered the likelihood of increased contributions from the employer.

Defined contribution schemes are in place for other employees. Contributions are made both by Arla and the employee at a rate determined by Arla.

**Table 4.7.a Pension liabilities recognised on the balance sheet**  
(EURm)

	Sweden	UK	Other	Total
<b>2020</b>				
Present value of funded liabilities	231	1,456	49	1,736
Fair value of plan assets	-13	-1,496	-29	-1,538
<b>Deficit of funded plans</b>	<b>218</b>	<b>-40</b>	<b>20</b>	<b>198</b>
Present value of unfunded liabilities	3	-	6	9
<b>Net pension liabilities recognised on the balance sheet</b>	<b>221</b>	<b>-40</b>	<b>26</b>	<b>207</b>
<i>Specification of total liabilities:</i>				
Present value of funded liabilities	231	1,456	49	1,736
Present value of unfunded liabilities	3	-	6	9
<b>Total liabilities</b>	<b>234</b>	<b>1,456</b>	<b>55</b>	<b>1,745</b>
<i>Presented as:</i>				
Pension assets	-	-40	-	-40
Pension liabilities	221	-	26	247
<b>Net pension liabilities</b>	<b>221</b>	<b>-40</b>	<b>26</b>	<b>207</b>
<b>2019</b>				
Present value of funded liabilities	232	1,420	46	1,698
Fair value of plan assets	-12	-1,436	-27	-1,475
<b>Deficit of funded plans</b>	<b>220</b>	<b>-16</b>	<b>19</b>	<b>223</b>
Present value of unfunded liabilities	3	-	7	10
<b>Net pension liabilities recognised on the balance sheet</b>	<b>223</b>	<b>-16</b>	<b>26</b>	<b>233</b>
<i>Specification of total liabilities:</i>				
Present value of funded liabilities	232	1,420	46	1,698
Present value of unfunded liabilities	3	-	7	10
<b>Total liabilities</b>	<b>235</b>	<b>1,420</b>	<b>53</b>	<b>1,708</b>
<i>Presented as:</i>				
Pension assets	-	-16	-	-16
Pension liabilities	223	-	26	249
<b>Net pension liabilities</b>	<b>223</b>	<b>-16</b>	<b>26</b>	<b>233</b>

## Funding

## 4.7 PENSION LIABILITIES

Table 4.7.b Development in pension liabilities

(EURm)	2020	2019
Present value of liability at 1 January	1,708	1,485
Current service cost	4	3
Interest cost	30	40
Actuarial gains and losses from changes in financial assumptions (OCI)	153	177
Actuarial gains and losses from changes in demographic assumptions (OCI)	-17	3
Benefits paid	-63	-70
Exchange rate adjustment	-70	70
<b>Present value of pension liability at 31 December</b>	<b>1,745</b>	<b>1,708</b>

Table 4.7.c Development in fair value of plan assets

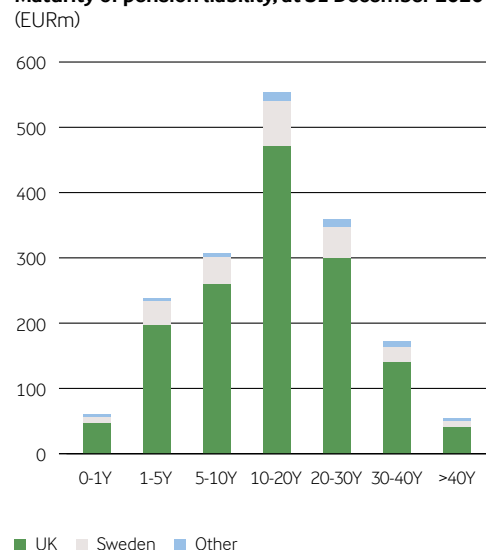
(EURm)	2020	2019
Fair value of plan assets at 1 January	1,475	1,265
Interest income	28	36
Return on plan assets, excluding amounts included in net interest on the net defined benefit liability	141	130
Contributions to plans	26	27
Benefits paid	-53	-60
Exchange rate adjustments	-79	77
<b>Fair value of plan assets at 31 December</b>	<b>1,538</b>	<b>1,475</b>

The Group expects to contribute EUR 15 million to the plan assets in 2021 and EUR 59 million in 2022-2025.

## Actual return on plan assets:

Calculated interest income	28	36
Return excluding calculated interest	141	130
<b>Actual return</b>	<b>169</b>	<b>166</b>

Maturity of pension liability, at 31 December 2020



Maturity of pension liability, at 31 December 2019

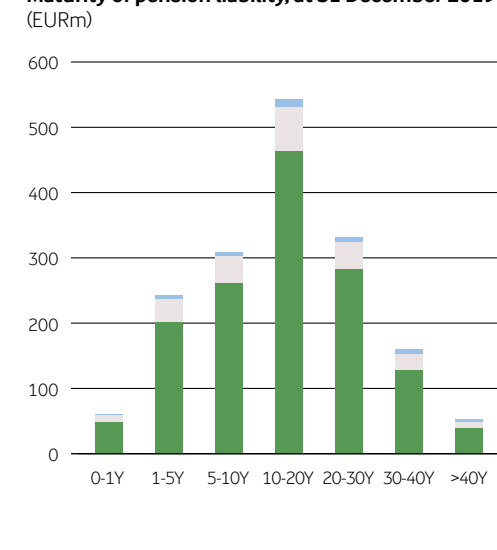


Table 4.7.d Sensitivity of pension liabilities to key assumptions

(EURm)	2020	2020	2019	2019
<b>Impact on pension liabilities at 31 December</b>	+	-	+	-
Discount rate +/- 10bps	-28	28	-27	27
Expected salary increases +/- 10bps	3	-3	3	-3
Life expectancy +/- 1 year	84	-84	77	-77
Inflation +/- 10 bps	17	-17	18	-17

## Funding

## 4.7 PENSION LIABILITIES

**Table 4.7.e Pension assets recognised**  
(EURm)

	2020	%	2019	%
Liability hedge portfolio	485	32	296	20
Debt vehicles	434	28	412	28
Bonds	208	14	239	16
Equity instruments	116	8	214	15
Properties	126	8	138	9
Infrastructure	69	4	80	5
Other assets	100	6	96	7
<b>Total assets</b>	<b>1,538</b>	<b>100</b>	<b>1,475</b>	<b>100</b>

**Table 4.7.f Recognised in the income statement for the year**  
(EURm)

	2020	2019
Current service cost	4	3
Administration cost	-	-
<b>Recognised as staff costs</b>	<b>4</b>	<b>3</b>
Interest cost on pension liability	30	40
Interest income on plan assets	-28	-36
<b>Recognised as financial cost</b>	<b>2</b>	<b>4</b>
<b>Total amount recognised in the income statement</b>	<b>6</b>	<b>7</b>

**Table 4.7.g Recognised in other comprehensive income**  
(EURm)

	2020	2019
Actuarial gains and losses on liabilities from changes in financial assumptions (OCI)	-153	-177
Actuarial gains and losses on liabilities from changes in demographic assumptions (OCI)	17	-3
Return on plan assets, excluding amounts included in net interest on the net defined benefit liability	141	130
<b>Re-measurements of defined benefit schemes</b>	<b>5</b>	<b>-50</b>

**Table 4.7.h Assumptions for the actuarial calculations**

	2020 %	2019 %
Discount rate, Sweden	1.3	1.5
Discount rate, UK	1.4	2.1
Expected payroll increase, Sweden	2.0	2.3
Expected payroll increase, UK	2.6	2.3
Inflation (CPI), Sweden	1.5	1.8
Inflation (CPI), UK	2.1	1.8

## Funding

### 4.7 PENSION LIABILITIES



#### Accounting policies

##### *Pension liabilities and similar non-current liabilities*

The group operates 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 benefit plans and defined contribution 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.

Amounts payable for 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 that the return generated by the assets are able to meet the pension liability, which are affected by assumptions concerning mortality and inflation.

The group's net liability is the amount presented on the balance sheet as pension liability.

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 obligation is impacted by remeasurement, which includes the effect of changes in assumptions used to calculate the future liability (actuarial gain and losses) and the return generated on plan assets (excluding interest). Remeasurements are recognised in other comprehensive income.

Interest cost for the period is calculated using the discounted rate used to 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 cost 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 carrying amount related to defined benefit pension plans is assessed based on a number of assumptions, including discount rates, inflation rates, salary growth and mortality. A small difference in actual variables

compared to assumptions and any changes in assumptions can have a significant impact on the carrying amount of the net liability.

## Other areas

## 5.1 TAX



## Current and deferred tax

*Tax in the income statement*

Tax costs increased to EUR 34 million compared to EUR 24 million last year, primarily due to an increase in current income tax costs.

*Current income tax*

Cost related to current income taxes increased to EUR 35 million compared to EUR 28 million last year, primarily due to higher profits. Prepaid current income tax and payments related to current tax previous years totalled EUR 28 million, which were similar to last year.

*Deferred tax*

Net deferred tax liabilities amounted to EUR 35 million, which represents a decrease of EUR 3 million compared to last year, of which EUR 1 million impacted the income statement. Net deferred tax liabilities consisted of gross deferred tax liabilities of EUR 64 million relating to temporary differences on intangible assets, pension liabilities and other items. These were offset by deferred tax assets of EUR 29 million relating to property, plant and equipment and tax losses carried forward.

**Table 5.1.a Tax recognised in the income statement**  
(EURm)

	2020	2019
<i>Current income tax</i>		
Current income tax on result for the year relating to:		
Cooperative tax	9	8
Corporate income tax	26	19
Adjustment for current tax of previous years	-	1
<b>Total current income tax costs</b>	<b>35</b>	<b>28</b>
<i>Deferred tax</i>		
Change in deferred tax for the year	-	-6
Adjustment for deferred tax of previous years	-2	2
Impact of changes in tax rates and laws	1	-
<b>Total deferred tax costs/income</b>	<b>-1</b>	<b>-4</b>
<b>Total tax costs in the income statement</b>	<b>34</b>	<b>24</b>

**Table 5.1.b Calculation of effective tax rate**  
(EURm)

	2020		2019	
Profit before tax		386		347
Tax applying the statutory Danish corporate income tax rate	22.0%	85	22.0%	76
Effect of tax rates in other jurisdictions	-1.8%	-7	-0.9%	-3
Effect of companies subject to cooperative taxation	-8.8%	-34	-9.2%	-32
Tax-exempt income, less non-deductible expenses	-0.5%	-2	-1.4%	-5
Impact of changes in tax rates and laws	0.2%	1	0.0%	-
Adjustment for tax cost of previous years	-0.5%	-2	0.9%	3
Other adjustments	-1.8%	-7	-4.4%	-15
<b>Total</b>	<b>8.8%</b>	<b>34</b>	<b>6.9%</b>	<b>24</b>

**Table 5.1.c. Deferred tax**  
(EURm)

	2020	2019
Net deferred tax asset/(liability) at 1 January	-38	-54
Deferred tax recognised in income statement	2	4
Deferred tax recognised in other comprehensive income	4	10
Impact of change in tax rates	-1	-
Exchange rate adjustments	-2	2
<b>Net deferred tax asset/(liability) at 31 December</b>	<b>-35</b>	<b>-38</b>
<b>Deferred tax, by gross temporary difference</b>		
Intangible assets	-9	-8
Property, plant & equipment	22	25
Provisions, pension liabilities and other assets	-21	-12
Tax losses carried forward	9	12
Other	-36	-55
<b>Total deferred tax, by gross temporary difference</b>	<b>-35</b>	<b>-38</b>
<i>Recognised in the balance sheet as:</i>		
Deferred tax assets	29	43
Deferred tax liabilities	-64	-81
<b>Total</b>	<b>-35</b>	<b>-38</b>



## Other areas

## 5.1 TAX

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 offset against taxable income. The assessment is performed on an annual basis and is based on the budgets and business plans for future years.



## 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 comprises the expected tax payable/receivable on the taxable income or loss for the year, any adjustment to the tax payable or receivable in respect of previous years, and for tax paid on account.

*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 on 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 applying tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled. Changes in deferred tax assets and

The group has recognised deferred tax assets in respect of tax losses carried forward totalling EUR 9 million. Temporary differences on which deferred tax assets have not been recognised totalled EUR 29 million which is on a similar level as last year. Unrecognised deferred tax assets relate to tax losses carried forward.

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 of future earnings or by offsetting against deferred tax payable in companies within the same legal tax entity or jurisdiction.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.



## 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 to 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.

## Other areas

## 5.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES



## Fees paid to EY

The fees to auditors are attributable to EY.

**Table 5.2 Fees to auditors appointed by the Board of Representatives**  
(EURm)

	2020	2019
Statutory audit	1,5	1,5
Other assurance engagements	0,2	0,1
Tax assistance	0,6	0,7
Other services	0,4	0,9
<b>Total fees to auditors</b>	<b>2,7</b>	<b>3,2</b>

## Other areas

## 5.3 MANAGEMENT REMUNERATION AND TRANSACTIONS WITH RELATED PARTIES



### Remuneration paid to management

The remuneration to the 18 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 latest adjusted in 2019. Principles applied to the remuneration of the BoD are described on page 47. Members of the Board are paid for milk supplies to Arla Foods amba, in accordance with the terms for the other owners. Similarly, individual capital instruments are issued to the BoD on the same terms as to other owners.

The Executive Board consists of chief executive officer Peder Tuborgh and chief commercial officer, Europe, Peter Giørtz-Carlsen. Principles applied for the remuneration of the Executive Board are described on page 47.

**Table 5.3.a Management remuneration**  
(EURm)

	2020	2019
<b>Board of Directors</b>		
Wages, salaries and remuneration	1.3	1.3
<b>Total</b>	<b>1.3</b>	<b>1.3</b>
<b>Executive Board</b>		
Fixed compensation	2.4	2.3
Pension	0.3	0.3
Short-term variable incentives	1.0	0.5
Long-term variable incentives	0.9	0.4
<b>Total</b>	<b>4.6</b>	<b>3.5</b>

The above table includes amount paid during the respective reporting period. The Executive Board remuneration package includes incentive plans as described on page 47. For 2020 the accrued amount was EUR 6.1 million (EUR 3.5 million last year). The amount was based on reported key figures together with estimates on performance compared to peers and consequently the final future payout may differ.

**Table 5.3.b Transactions with the Board of Directors**  
(EURm)

	2020	2019
Purchase of raw milk	26.5	26.0
Supplementary payment regarding previous years	0.8	2.1
<b>Total</b>	<b>27.3</b>	<b>28.1</b>
Unsettled milk deliveries in trade and other payables	1.5	1.5
Individual capital instruments	2.6	2.9
<b>Total</b>	<b>4.2</b>	<b>4.4</b>

Refer to note 3.3 for information on transactions with associates and joint ventures.

## Other areas

## 5.4 CONTRACTUAL COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES



### Contractual obligations and commitments

Arla's contractual obligations and commitments amounted to EUR 364 million compared to EUR 254 million last year. Increased obligations on IT contracts, increased guarantee obligations and increased commitments on CAPEX purchases were the main reasons for the development.

Contractual commitments consisted of IT licenses, short term and low value lease contracts and agreements to purchase property, plant and equipment.

The group provided security in property for mortgage debt based on the Danish Mortgage Act with a nominal value of EUR 1,061 million, compared to EUR 966 million last year.

The group is party to a small number of lawsuits, disputes and other claims. Management believes that the outcome of these will not have a material impact on the group's financial position beyond what is already recognised in the financial statements.

## Other areas

## 5.5 SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

No subsequent events with a material impact on the financial statements occurred after the balance sheet date.

## Other areas

# 5.6 GENERAL ACCOUNTING POLICIES

### Consolidated financial statements

The consolidated financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and additional disclosure requirements in the Danish Financial Statement Act for class C large companies. Arla is not an EU public interest entity as the group has no debt instruments traded on a regulated EU market place. The consolidated financial statements were authorised for issue by the company's Board of Directors on 10 February 2021 and presented for approval by the Board of Representatives on 25 February 2021.

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 roundings.

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 equity of subsidiaries are aggregated and presented on a line-by-line basis. Intra-group shareholdings, balances and transactions, as well as unrealised income and expenses arising from intra-group transactions are eliminated.

The consolidated financial statements comprise Arla Foods a.m.b.a (parent company) and the subsidiaries in which the parent company directly or indirectly holds more than 50 per cent 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 to be joint ventures. Entities in which the group exercises a significant but not a controlling influence, are considered as associates. A significant influence is typically obtained by holding or having at the group's disposal, directly or indirectly, more than 20 per cent, but less than 50 per cent, 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. Some reclassifications have been carried out compared to previously. These, however, have no impact on the net profit or the equity.

### 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 transacts 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 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.

### 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 results for the year are translated into EUR using the average monthly exchange rate if this does not differ materially from the transaction date rate. Foreign currency 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 results for the year, along with any gains or losses related to the divestment. Any repayment of outstanding balance 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 implemented all new standards and interpretations effective in the EU from 2020. IASB issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. Arla will adopt these new standards when they become mandatory. No material impact is expected from that.

## Other areas

## 5.7 GROUP CHART

	Country	Currency	Group Equity interest		Country	Currency	Group Equity interest
<b>Arla Foods amba</b>	<b>Denmark</b>	<b>DKK</b>	<b>%</b>	<b>Arla Foods amba</b>	<b>Denmark</b>	<b>DKK</b>	<b>%</b>
Arla Foods Ingredients Group P/S	Denmark	DKK	100	AF A/S	Denmark	DKK	100
Arla Foods Ingredients Energy A/S	Denmark	DKK	100	Arla Foods Finance A/S	Denmark	DKK	100
Arla Foods Ingredients Japan KK	Japan	JPY	100	Kingdom Food Products ApS	Denmark	DKK	100
Arla Foods Ingredients Inc.	USA	USD	100	Ejendomsanpartsselskabet St. Ravnsbjerg	Denmark	DKK	100
Arla Foods Ingredients Korea, Co. Ltd.	Korea	KRW	100	Arla Insurance Company (Guernsey) Ltd.	Guernsey	DKK	100
Arla Foods Ingredients Trading (Beijing) Co. Ltd.	China	CNY	100	Arla Foods Energy A/S	Denmark	DKK	100
Arla Foods Ingredients S.A.	Argentina	USD	100	Arla Foods Trading A/S	Denmark	DKK	100
Arla Foods Ingredients Comércio de Produtos Alimentícios Ltda.	Brazil	BRL	100	Arla DP Holding A/S	Denmark	DKK	100
Arla Foods Ingredients Singapore Pte. Ltd.	Singapore	SGD	100	Arla Foods Investment A/S	Denmark	DKK	100
Arla Foods Ingredients S.A. de C.V.	Mexico	MZN	100	Arla Senegal SA.	Senegal	XOF	100
Arla Foods Holding A/S	Denmark	DKK	100	Tholstrup Cheese A/S	Denmark	DKK	100
Arla Foods WLL	Bahrain	BHD	100	Tholstrup Cheese USA Inc.	USA	USD	100
Arla Oy	Finland	EUR	100	Arla Foods Belgium A.G.	Belgium	EUR	100
Massby Facility & Services Oy	Finland	EUR	60	Arla Foods Ingredients (Deutschland) GmbH	Germany	EUR	100
Osuuskunta MS tuottajapalvelu **	Finland	EUR	37	Arla CoAr Holding GmbH	Germany	EUR	100
Arla Foods Distribution A/S	Denmark	DKK	100	ArNoCo GmbH & Co. KG *	Germany	EUR	50
Cocio Chokolademælk A/S	Denmark	DKK	50	Arla Biolac Holding GmbH	Germany	EUR	100
Arla Foods International A/S	Denmark	DKK	100	Biolac GmbH & Co. KG *	Germany	EUR	50
Arla Foods UK Holding Ltd.	UK	GBP	100	Biolac Verwaltungs GmbH *	Germany	EUR	50
Arla Foods UK plc	UK	GBP	100	Arla Foods Kuwait Company WLL	Kuwait	KWD	49
Arla Foods GP Ltd.	UK	GBP	100	Arla Kallassi Foods Lebanon S.A.L.	Lebanon	USD	50
Arla Foods Finance Ltd.	UK	GBP	33	Arla Foods Qatar WLL	Qatar	QAR	40
Arla Foods Ltd.	UK	GBP	100	AFIQ WLL	Bahrain	BHD	51
Arla Foods Hatfield Ltd.	UK	GBP	100	Arla Foods Trading and Procurement Ltd.	Hong Kong	HKD	100
Arla Foods Limited Partnership	UK	GBP	100	Aishichenxi Dairy Products Import & Export Co. Ltd. **	China	CNY	50
Yeo Valley Dairies limited	UK	GBP	100	Wuhan ASCX Dairy Co. Ltd.	China	CNY	50
Arla Foods Cheese Company Ltd.	UK	GBP	100	Arla Foods Sdn. Bhd.	Malaysia	MYR	100
Arla Foods Ingredients UK Ltd.	UK	GBP	100	Arla Foods Corporation	Philippines	PHP	100
MV Ingredients Ltd. *	UK	GBP	50	Arla Foods Ltd.	Ghana	GHS	100
Arla Foods UK Property Co. Ltd.	UK	GBP	100	Arla Global Dairy Products Ltd.	Nigeria	NGN	100
Arla Foods B.V.	Netherlands	EUR	100	Arla Global Development Company Ltd.	Nigeria	NGN	99
Arla Foods Comércio, Importação e Exportação de Produtos Alimentícios Ltda.	Brazil	BRL	100	TG Arla Dairy Products LFTZ Enterprise	Nigeria	NGN	50
Danya Foods Ltd.	Kingdom of Saudi Arabia	SAR	75	TG Arla Dairy Products Ltd.	Nigeria	NGN	100

## Other areas

## 5.7 GROUP CHART

	Country	Currency	Group Equity interest		Country	Currency	Group Equity interest
<b>Arla Foods amba</b>	<b>Denmark</b>	<b>DKK</b>	<b>%</b>	<b>Arla Foods amba</b>	<b>Denmark</b>	<b>DKK</b>	<b>%</b>
Arla Foods AB	Sweden	SEK	100	Arla Foods Logistics GmbH	Germany	EUR	100
Svenska Bönders Klassiska Ostar AB	Sweden	SEK	100	Hansa Verwaltungs und Vertriebs GmbH (In liquidation)	Germany	EUR	100
Arla Gefleortens AB	Sweden	SEK	100	Arla Foods Mayer Australia Pty, Ltd.	Australia	AUD	51
Årets Kock AB	Sweden	SEK	67	Arla Foods Mexico S.A. de C.V.	Mexico	MXN	100
Arla Foods Russia Holding AB	Sweden	SEK	100	Arla Foods S.A.	Spain	EUR	100
Arla Foods LLC	Russia	RUB	80	Arla Foods France S.a.r.l	France	EUR	100
Arla Foods Inc.	USA	USD	100	Arla Foods S.R.L.	Dominican Republic	DOP	100
Arla Foods Production LLC	USA	USD	100	Arla Foods SA	Poland	PLN	100
Arla Foods Transport LLC	USA	USD	100	Arla Foods UK Farmers Joint Venture Co. Ltd.	UK	GBP	100
Arla Foods Deutschland GmbH	Germany	EUR	100	Arla Global Shared Services Sp. Z.o.o.	Poland	PLN	100
Arla Foods Verwaltungs GmbH	Germany	EUR	100	Arla National Foods Products LLC	UAE	AED	49
Arla Foods Agrar Service GmbH	Germany	EUR	100	Arla National Food Products Company LLC	Oman	OMR	67
Arla Foods LLC	Russia	RUB	20	Cocio Chokolademælk A/S	Denmark	DKK	50
Team-Pack Vertriebs-Gesellschaft für Verpackungen mbH	Germany	EUR	100	Marygold Trading K/S °	Denmark	DKK	100
Dofø Cheese Eksport K/S °	Denmark	DKK	100	Mejeriforeningen	Denmark	DKK	91
Dofø Inc.	USA	USD	100	PT. Arla Indofood Makmur Dairy Import PMA.	Indonesia	IDR	50
Aktieselskabet J. Hansen	Denmark	DKK	100	PT. Arla Indofood Suksus Dairy Manufacturing PMA.	Indonesia	IDR	100
J.P. Hansen USA Incorporated	USA	USD	100	COFCO Dairy Holdings Limited **	British Virgin Islands	HKD	30
AFI Partner ApS	Denmark	DKK	100	Svensk Mjök Ekonomisk förening	Sweden	SEK	75
Andelssmør A.m.b.a.	Denmark	DKK	98	Lantbrukarnas Riksförbund upa **	Sweden	SEK	24
Arla Foods AS	Norway	NOK	100	Jörd International A/S	Denmark	DKK	100
Arla Foods Bangladesh Ltd.	Bangladesh	BDT	51	Ejendomsselskabet Gjellerupvej 105 P/S	Denmark	DKK	100
Arla Foods Dairy Products Technical Service (Beijing) Co. Ltd.	China	CNY	100	Svenska Osteklassiker AB	Sweden	SEK	68
Arla Foods FZE	UAE	AED	100				
Arla Foods Hellas S.A.	Greece	EUR	100				
Arla Foods Inc.	Canada	CAD	100				

\* Joint ventures \*\* Associates

° According to Danish Act §5 the company does not make a statutory report  
The group also 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 group consolidated financial statements without the financial statements of the parent company, Arla Foods amba. The annual report of the parent company is an integrated part of the full annual report and available on [www.arlafoods.com](http://www.arlafoods.com). Profit sharing and supplementary payment from the parent company are set out in the equity section of the consolidated financial statements. The full annual report contains the statement from the Board of Directors and the Executive Board as well as the independent auditor's report.

# STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

Today, the Board of Directors and the Executive Director discussed and approved the annual report of Arla Foods amba for the financial year 2020. The annual report was prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

It is our opinion, that the consolidated financial statements, the parent company financial statements and the environmental, social and governance data give a true and fair view of the group's and the parent company's financial position as at 31 December 2020 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 2020.

In our opinion, management's review of the annual report includes a true and fair view of the developments of the group's and the parent company's financial position, activities, financial matters, results for the year and cash flow, as well as a description of the most significant risks and uncertainties that may affect the group and the parent company.

We hereby recommend the annual report for adoption by the Board of Representatives.

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

Peder Tuborgh  
CEO

Peter Giørtz-Carlson  
Executive Board Member

Jan Toft Nørgaard  
Chairman

Heléne Gunnarson  
Vice Chairman

René Lund Hansen

Jonas Carlgren

Arthur Fearnall

Manfred Graff

Jan-Erik Hansson

Walter Lausen

Bjørn Jepsen

Steen Nørgaard Madsen

Jørn Kjær Madsen

Johnnie Russell

Marcel Goffinet

Simon Simonsen

Inger-Lise Sjöstrom

Håkan Gillström  
Employee representative

Ib Bjerglund Nielsen  
Employee representative

Harry Shaw  
Employee representative

# 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 2020, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the group and the parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting 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 2020 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 2020 in accordance with International Financial Reporting 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' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical

responsibilities in accordance with these rules and requirements.

### 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 International Financial Reporting 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, 10<sup>th</sup> of February 2021

EY Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28

Henrik Kronborg Iversen  
State Authorised  
Public Accountant  
MNE no. 24687

Jes Lauritzen  
State Authorised  
Public Accountant  
MNE no. 10121

# OUR CONSOLIDATED ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA





# TABLE OF CONTENTS

## CONSOLIDATED ESG OVERVIEW

---

122 **Consolidated environmental, social and governance data**

## NOTES

---

### Environmental figures

123 1.1 Greenhouse gas emissions (CO<sub>2</sub>e)  
125 1.2 Renewable energy share  
126 1.3 Solid waste  
127 1.4 Animal welfare

### Social figures

128 2.1 Full-time equivalents  
129 2.2 Gender diversity  
130 2.3 Gender pay ratio  
130 2.4 Employee turnover  
131 2.5 Food safety - recalls  
131 2.6 Accidents

### Governance data

132 3.1 Gender diversity - Board of Directors  
132 3.2 Board meeting attendance  
133 3.3 General accounting policies

## REPORTS

---

134 **Independent auditor's combined assurance report**

# CONSOLIDATED ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA

## Sustainability at Arla

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

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

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

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

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

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

### Our Science Based Targets:

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

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

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

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

## Five-year ESG overview

ESG note	2020	2019	2018	2017	2016	
<b>Environmental data</b>						
CO <sub>2</sub> e scope 1 (mkg)	474	463	490	492	474	
CO <sub>2</sub> e scope 2 – location-based (mkg)	237	274	263	313	334	
Scope 2 – market-based (mkg)	277	399	456	438	466	
CO <sub>2</sub> e scope 3 (mkg)*	18,479	18,243	18,411	18,528	18,644	
<b>Total CO<sub>2</sub>e (mkg)</b>	<b>1.1</b>	<b>19,230</b>	<b>19,105</b>	<b>19,357</b>	<b>19,458</b>	<b>19,584</b>
Total CO <sub>2</sub> e – location-based (mkg)	19,176	18,977	19,156	19,337	19,456	
CO <sub>2</sub> e scope 3 per kg of milk and whey (kg)*	1.21	1.21	1.20	1.22	1.22	
CO <sub>2</sub> e reduction (scope 1 and 2) market-based	-24%	-12%	-4%	-5%	-4%	
CO <sub>2</sub> e reduction (scope 1 and 2) location-based	-16%	-14%	-12%	-6%	-6%	
Progress towards 2030 CO <sub>2</sub> e reduction target (scope 3 per kg milk and whey)*	-7%	-7%	-7%	-6%	-6%	
Renewable energy share (%) market-based	1.2	31%				
Renewable energy share (%) location-based	1.2	35%	33%	27%	24%	21%
Solid waste (tonnes)	1.3	32,975	33,713	34,600	32,608	32,192
Percentage of farmer owners reporting on animal welfare (%)	1.4	100%	89%	82%		
<b>Social data</b>						
Full-time equivalents (average)	2.1	20,020	19,174	19,190	18,973	18,765
Total share of females (%)	2.2	27%	27%	27%	26%	26%
Share of females at director level or above (%)	2.2	26%	26%	23%	22%	22%
Share of females in Executive Management Team (%)	2.2	14%	29%	29%	29%	29%
Gender pay ratio, white-collar (male to female)	2.3	1.05	1.05	1.06	-	-
Employee turnover (%)	2.4	10%	12%	12%	11%	14%
Food safety - number of recalls	2.5	1	4	2	10	6
Accident frequency (Per 1 million working hours)	2.6	5	6	8	10	11
<b>Governance data</b>						
Share of females, Board of Directors (%)**	3.1	13%	13%	13%	12%	7%
Board meeting attendance (%)	3.2	99%	96%	99%	99%	98%

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

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

Environmental figures

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



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

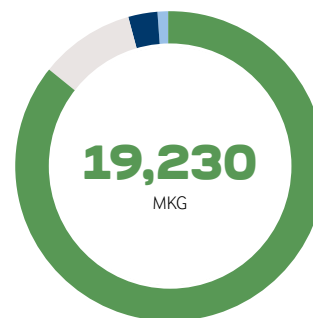
To follow up on Arla’s contribution to climate change and the progress towards our emission targets, the total greenhouse gas emissions (expressed as CO<sub>2</sub> equivalents, CO<sub>2</sub>e) are calculated annually. CO<sub>2</sub>e is categorised into three scopes according to the methodology of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

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

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

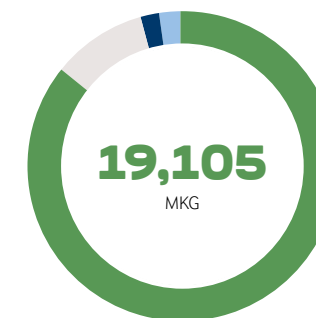
Scope 3 emissions per kilo milk and whey amounted to 1.21 in 2020, down by 7 per cent since 2015 due to activities on Arla farms. According to our Science Based Target, scope 3 emissions per kilo of milk and whey should be reduced by 30 per cent by 2030. In 2020, emissions from milk only amounted to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

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



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

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



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

ESG Table 1.1 Greenhouse gas emissions\* (mkg)

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

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

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

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

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

<i>Emissions from farms:</i>					
Emissions related to milk production and operations on farm***	16,499	16,380	16,406	16,666	16,603
<i>Emissions from purchased goods and services:</i>					
Whey	1,133	1,032	1,162	1,002	1,117
Packaging	396	384	383	384	433
Transport	306	312	326	345	359
Operations	145	135	134	131	132
<b>Total CO<sub>2</sub>e scope 3</b>	<b>18,479</b>	<b>18,243</b>	<b>18,411</b>	<b>18,528</b>	<b>18,644</b>
<b>Total CO<sub>2</sub>e</b>	<b>19,230</b>	<b>19,105</b>	<b>19,357</b>	<b>19,458</b>	<b>19,584</b>
<i>Total CO<sub>2</sub>e – location-based</i>	<i>19,176</i>	<i>18,977</i>	<i>19,156</i>	<i>19,337</i>	<i>19,456</i>



Accounting policies

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

Calculating CO<sub>2</sub> equivalents

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

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

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

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

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

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

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

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

Environmental figures

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



Accounting policies (continued)

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

Scope 1 – All direct emissions

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

Scope 2 – Indirect emissions

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

Scope 3 – All other indirect emissions

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

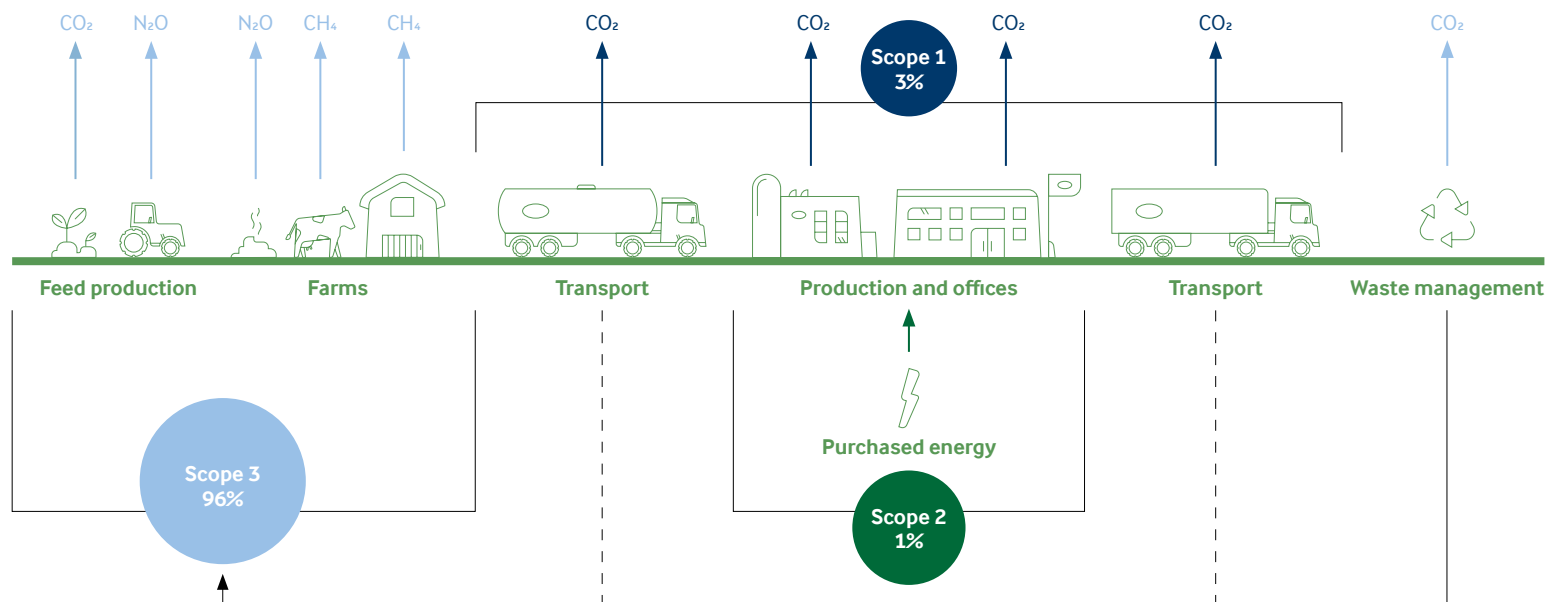
Scope 3 emissions from raw milk are calculated in accordance with the International Dairy Federation’s guideline for the carbon footprint of dairy products (IDF 2015). Emissions related to raw milk include all emissions on farm (e.g. from cows digesting the feed, manure handling, nitrogen, diesel use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

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

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

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

Where do our emissions come from?



## Environmental figures

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



#### Uncertainties and estimates

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

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

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

## Environmental figures

### 1.2 RENEWABLE ENERGY SHARE



#### Share of renewable energy increased

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

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

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

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

#### ESG Table 1.2 Energy purchased for production (Thousand MWh)

	2020	2019	2018	2017	2016
<b>Non renewable sources:</b>					
Natural gas, fuel oil and gas oil	1,816	-	-	-	-
Electricity	626	-	-	-	-
District heating	5	-	-	-	-
<b>Renewable sources:</b>					
Biogas and biomass	559	-	-	-	-
District heating	119	-	-	-	-
Electricity	432	-	-	-	-
<b>Total actual consumption</b>	<b>3,557</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Renewable energy share, market-based*</b>	<b>31%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Renewable energy share, location-based</i>	<i>35%</i>	<i>33%</i>	<i>27%</i>	<i>24%</i>	<i>21%</i>

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



#### Accounting policies

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

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



#### Uncertainties and estimates

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

Environmental figures

1.3 WASTE



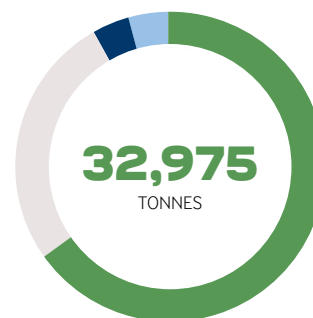
Solid waste decreased

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

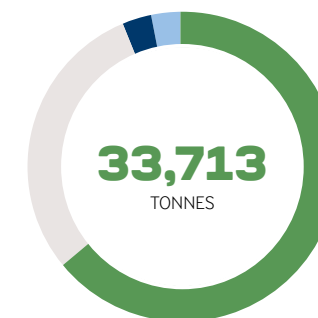
In 2020, waste decreased to 32,975 tonnes compared to 33,713 tonnes last year.

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

Solid waste, 2020



Solid waste, 2019



ESG Table 1.3 Solid waste (Tonnes)

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



Accounting policies

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



Uncertainties and estimates

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

Environmental figures

1.4 ANIMAL WELFARE



Animal welfare journey well on track

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

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

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

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

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

Definitions

Percentage of farmer owners reporting on animal welfare

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

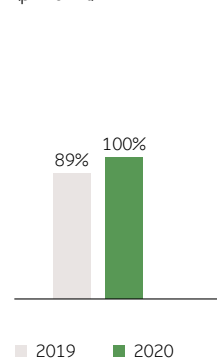
Audits on farms

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

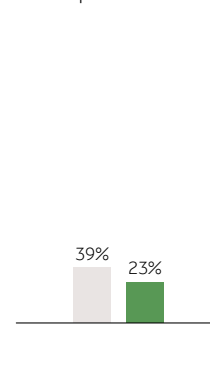
Somatic cell count (average)

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

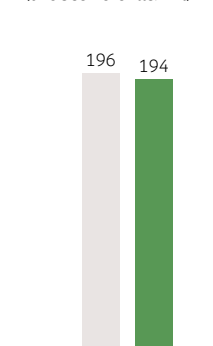
Percentage of farmer owners reporting on animal welfare (per cent)



Percentage of audits (per cent)



Somatic cell count (thousand cells/ml)



Accounting policies

Percentage of farmer owners reporting on animal welfare

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

Audits on farms

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

Somatic cell count:

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



Uncertainties and estimates

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

ESG Table 1.4 Animal welfare indicators

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

Social figures

2.1 FULL-TIME EQUIVALENTS



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

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

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

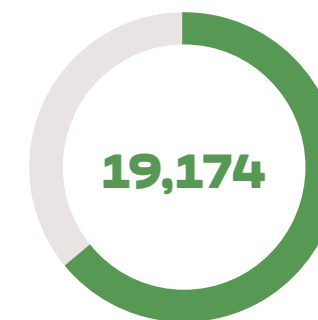
Over the last five years, the FTE level has been relatively stable, but shows a shift of FTEs from core European countries to international markets, especially to MENA. This supports Arla’s strategic plan to expand the share of business outside Europe, where the outlook for growth is more promising.

Full-time equivalents split by employee type, 2020



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

Full-time equivalents split by employee type, 2019



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

ESG Table 2.1 Full-time equivalents

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



Accounting policies

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

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

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

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

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



Social figures

## 2.2 GENDER DIVERSITY AND INCLUSION



### Share of females in management stable

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

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

#### Gender diversity (all employees)

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

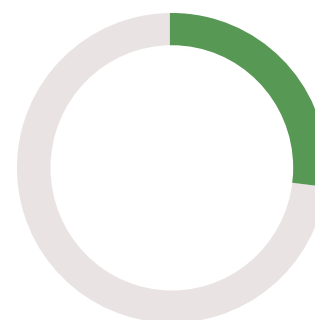
#### Gender diversity (in management)

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

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

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

### Gender diversity for all employees, 2020



Female 27%  
Male 73%

### Gender diversity for all employees, 2019



Female 27%  
Male 73%

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

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

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

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

ESG Table 2.2.c Gender diversity in Executive Management Team

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



### Accounting policies

#### Gender diversity (all employees)

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

#### Gender diversity (in management)

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

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

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

Social figures

## 2.3 GENDER PAY RATIO



### Gap between male and female salary unchanged

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

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

ESG Table 2.3 Gender pay ratio

	2020	2019	2018
Gender pay ratio	1.05	1.05	1.06



### Accounting policies

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



### Uncertainties and estimates

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

Social figures

## 2.4 EMPLOYEE TURNOVER



### Employee turnover decreased

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

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

ESG Table 2.4 Employee turnover

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



### Accounting policies

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

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

Social figures

## 2.5 FOOD SAFETY - NUMBER OF PRODUCT RECALLS



### Number of product recalls decreased

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

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

ESG Table 2.5 Recalls

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



### Accounting policies

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

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

Social figures

## 2.6 ACCIDENTS



### Accidents remains key priority

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

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

ESG Table 2.6 Accidents (per 1 million working hours)

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



### Accounting policies

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

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

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

**Governance data**

**3.1 GENDER DIVERSITY - BOARD OF DIRECTORS**



**Share of females unchanged from last year**

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

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

**ESG Table 3.1 Gender diversity on Board of Directors**

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



**Accounting policies**

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

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

**Governance data**

**3.2 BOARD MEETING ATTENDANCE**



**Meeting attendance remains high**

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

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

**ESG Table 3.2 Board meeting attendance**

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



**Accounting policies**

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

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

## Governance data

### 3.3 GENERAL ACCOUNTING POLICIES

#### Basis for preparation

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

#### Materiality and reporting scope

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

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

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

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

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

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

#### Comparison figures

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

A threshold is defined for each Science Based Target:

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

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

# INDEPENDENT AUDITOR'S COMBINED ASSURANCE REPORT

## TO THE STAKEHOLDERS OF ARLA FOODS AMBA

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

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

### Management's responsibility

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

### Auditor's responsibility

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

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

### Our independence and quality control

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

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

### Description of procedures performed

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

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

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

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

### Conclusion

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

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

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

EY Godkendt Revisionspartnerselskab  
CVR-nr. 30700228

Henrik Kronborg Iversen  
State Authorised Public  
Accountant  
MNE no. 24687

Carina Ohm  
Associate Partner  
Head of climate Change  
and Sustainability Services

# GLOSSARY

**Arlagården®** is the name of our quality assurance programme.

**BEPS** is an acronym 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 breakdown of organic matter in the absence of oxygen, primarily consisting of methane and carbon dioxide. At 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.

**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 and consultancy etc.

**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.

**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 digital content, i.e. spending more than 2 minutes on our website, watching our videos to the end on YouTube, and liking or commenting on content on our social media platforms.

**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 acronym referring to 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.

**FMCG** is an acronym for 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 acronym for 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.

**GDPR** is an acronym for 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 business-to-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.

**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.

**International share** of business is defined as the revenue from the International zone as a percentage of of revenue from the International and Europe zones.

**Lactalbumin**, also known as 'whey protein', is the albumin contained in milk and obtained from whey.

# GLOSSARY (CONTINUED)

**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.

**MENA** is an acronym referring to the Middle East and North Africa.

**Meal kits** are a subscription service-foodservice 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.

**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.

**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.

**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.

**OCI** is an acronym for 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.

**Performance price** for Arla Foods is defined as the prepaid 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.

**Prepaid 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.

**QEHS** stands for Quality, Environmental, Health, and Safety. It is a department within Arla's supply chain safeguarding the quality and safety of production.

**SEA** is an acronym referring to 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® and Puck®.

**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.

**USD-related currencies** are currencies which move in the same direction as the USD (i.e. when the USD depreciates versus the EUR, they also depreciate versus the EUR). Currencies in the MENA region and the Chinese yen are typical examples.

**Value-added protein segment** contains products with special functionality and compounds, compared to standard protein concentrates with a protein content of approximately 80 per cent.

**Volume driven revenue growth** is defined as revenue growth associated with growth in volumes while keeping prices constant.

**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 referring to whole milk powder.

---

*Project management: Corporate external reporting, Arla. Design and production: We Love People. Translation: Semantix. Photos: Hans-Henrik Hoeg and Arla. The Annual Report is published in English, Danish, Swedish, German, French and Dutch. Only the original English text is legally binding. The translations have been prepared for practical purposes.*



# CORPORATE CALENDAR 2021

Financial reports and major events

## **24-25 FEBRUARY**

Board of Representatives meeting

## **25 FEBRUARY**

Publication of the consolidated annual report for 2020

## **27 MAY**

Board of Representatives meeting

## **26 AUGUST**

Publication of the consolidated half-year results for 2021

## **5-6 OCTOBER**

Board of Representatives meeting



**Arla Foods amba**  
Sønderhøj 14  
DK-8260 Viby J.  
Denmark  
CVR no.: 25 31 37 63

Phone +45 89 38 10 00  
E-mail [arla@arlafoods.com](mailto:arla@arlafoods.com)

[www.arla.com](http://www.arla.com)

**Arla Foods UK plc**  
4 Savannah Way  
Leeds Valley Park  
Leeds, LS10 1 AB  
England

Phone +44 113 382 7000  
E-mail [arla@arlafoods.com](mailto:arla@arlafoods.com)

[www.arlafoods.co.uk](http://www.arlafoods.co.uk)