



Sustainable Financing Framework

February 2020

NOTE ON REFERENCES AND USE OF PROCEEDS:

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

Despite the cooperative structure of Arla Foods, the use of proceeds outlined in this framework primarily targets investments within Arla Foods amba and not the farms of the owners.

INTRODUCTION

About Arla Foods amba

One of the largest cooperatives in the world

Arla Foods amba is the 4th largest dairy company in the world, and the largest producer of organic milk. The company is organised as a cooperative with almost 10.000 Farmer Owners located in seven Northern European countries. The Farmer Owners provide about 90 per cent of Arla Foods amba's milk intake, which is mainly processed in Denmark, U.K., Sweden and Germany.

Arla Foods can trace its roots back to Scandinavia in 1880. Since then, Arla Foods amba has evolved through a number of mergers to become a truly international player. Today, Arla Foods amba's products are sold to customers in retail and foodservice as branded and private label products, as well as business to business, in more than 100 countries.

Arla Foods amba has grown over the years to become a large 'Fast-Moving Consumer Goods' (FMCG) company with a diverse product portfolio, including a wide selection of dairy products, butter and spreads, cheese, milk powder products and ingredients for the food, medical and health industries. Recently Arla Foods amba has also engaged in plant-based production.

The business model, value chain, and governance model of Arla Foods

Arla Foods amba is focused on the processing and distribution of dairy products

The core of Arla Foods amba's business model lies in the collection, processing, development and distribution of dairy products. The farmers are responsible for the milk production at the farms.

In addition to the investments made within Arla Foods amba to continuously improve its sustainability performance, investments are also made to improve both the up- and down-stream impact. These initiatives are focused internally as well as with suppliers and the end consumers. The focus is on the overall climate impact and on recyclability and reduction of waste, including food waste.



Figure 1 - Arla Foods value chain

The Farmer Owners are governed by the quality assurance programme Arlagården®, which is compulsory for all Farmer Owners. Arlagården® provides rules and guidelines for the Farmer Owners, and forms the basis for their work to ensure a high performance with regards to milk quality, food safety, animal welfare and environmental considerations. Compliance with Arlagården® is, as a minimum, audited every third year.

External milk suppliers, who are not members of the cooperative, are encouraged to follow Arlagården® and must comply with the “Arla Foods Code of Conduct” as well as national or regional requirements recognised by Arla Foods amba. All other external suppliers are governed by the “Arla Foods Code of Conduct”, which sets out rules for human rights, child labour, equal opportunities, health and safety, and environmental impact.

Cooperative and corporate governance

The Board of Representatives is the ultimate decision-making body of Arla Foods and comprises 187 members, 175 of whom are cooperative owners and 12 employee representatives. The Board of Representatives elects the Board of Directors, which consists of 15 elected Farmer Owners and three employee representatives.

The composition of the Board of Directors reflects Arla Foods’ ownership structure across the countries. The Board of Directors is responsible for, amongst other things, setting the strategic direction of Arla Foods amba, hereunder the sustainability strategy. They are further charged with monitoring the company’s activities and appointing the Executive Board. The Board of Directors is responsible for ensuring that Arla Foods is managed in the best interests of the Farmer Owners.

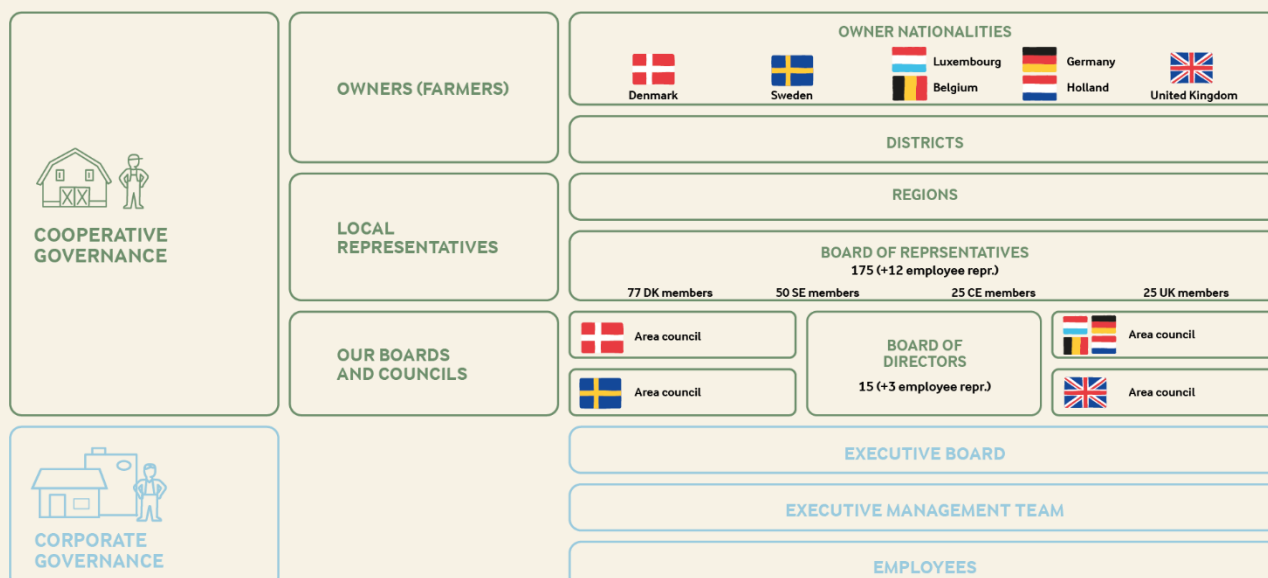


Figure 2 - Overview of Arla Foods cooperative and corporate governance model

The dairy sector from a sustainability perspective

The role of the dairy sector in a sustainable world

It is projected that by 2050 the global population will increase to 10 billion, resulting in an increase in the demand for food of 50 per cent. With millions suffering from hunger, malnutrition, overweight and obesity, food-related health problems are challenging. Not only is there an increased need for food, but for nutritious, safe and healthy food that is affordable, accessible and culturally acceptable.

When discussing the climate impact of food, it is essential that the impact is considered in relation to the nutritional value of both the products themselves and diets generally. Dairy products, especially low-fat variants, are included in nutritional recommendations across the world because of their nutrient density, i.e. there are many and significant amounts of the nutrients we all need every day. In addition there are documented beneficial health effects. When the natural nutrient content of dairy products is included in the sustainability equation, rather than considering them on a simple non-nutritional per-kilo basis, dairy products have a comparatively low climate impact.

Sustainability considerations specific to the dairy sector and Arla Foods

The dairy sector is dependent on strong and healthy cows living in harmony with the natural resources they occupy. Dairy cows convert often inedible or less nutritious foodstuffs and by-products from other food production into highly nutritious food. During this process, the cows produce manure with a high organic content, which is recycled back into the land in order to secure healthy and productive soils with a high organic content.

The main three environmental challenges in relation to dairy production relate to climate (methane emissions), clean air and water (nitrogen leakage) and land use (biodiversity). Approximately 96 per cent of all greenhouse gas emissions in Arla Foods are generated at farm level of which a very large share is methane and nitrous oxide, as a result of biological processes in the cow or in the field (see figure 3). The challenge for farming therefore differs from other sectors, in which the majority of emissions are CO₂.

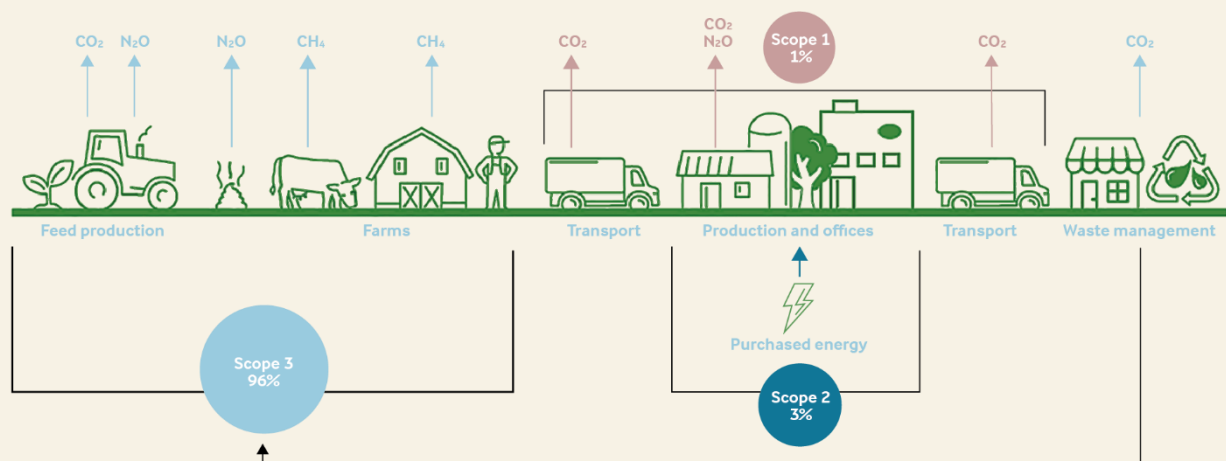


Figure 3 - Overview of emission sources of Arla Foods

To reduce the climate impact of dairy farms many different initiatives relating to management practices and technologies must be pursued at the same time. The main opportunities for reducing emissions centre around the feed and how much methane each cow emits. Key levers to reduce emissions relate to feed composition, manure handling and selection of cows with low emissions. From a farm management perspective, a reduction in emissions can also be achieved through increasing animal welfare, carbon sequestration, renewable energy production, resource efficiency and yield optimization for feed and milk production.

In order to reduce nitrogen leakage into the air (through ammonia) and into water (through nitrogen), the key measures are to grow more permanent grass and ensure that the use of fertiliser and manure is in balance with the requirements of the land.

Sustainability at Arla Foods

Arla Foods’ sustainability strategy is based on two pillars; one in relation to what is produced and the second in relation to how it is produced it. Supporting these pillars are a number of identified key strategic priorities. These priorities have been mapped against the relevant UN Sustainable Development Goals.

Strategic pillar	STRONGER PLANET How we produce:	STRONGER PEOPLE What we produce
Ambition	Improving the environment for future generations	Increase access to healthy dairy nutrition and inspire better food habits
Focus area	Sustainable farming Minimising food waste Sustainable packaging Protecting nature	Health and nutrition Food inspiration Supporting communities Caring for people
SDG		

Figure 4 - Overview of the two pillars of Arla Foods' Sustainability Strategy, strategic initiatives and link to the UN SDGs

The sustainability strategy applies to Arla Foods overall – that is, both Arla Foods amba as well as the Farmer Owners. The ‘Stronger Planet’ pillar of the sustainability strategy has been presented and discussed by the Board of Representatives and is subsequently approved by the Board of Directors (for more see section on governance above). The sustainability strategy related to ‘Stronger People’ is decided and implemented only at the corporate level at Arla Foods amba.

Improving the environment for future generations

Arla Foods' sustainability strategy and goals – from 2020 to 2030 and 2050

Arla Foods amba developed its first climate strategy in 2008, setting ambitions towards 2020 for reductions of CO₂ emissions (-25%), water- and energy efficiency (-3% year-on-year), share of renewable energy (50%) and waste handling. In 2014, Arla Foods included climate ambitions for the Farmer Owners as well as a voluntary reduction target to reduce emissions by 30 per cent per kilo milk.



Looking ahead to 2030 and 2050, Arla Foods has set ambitious strategies targeting both climate and broader environmental considerations. The goals and guidelines underlying the 2030 and 2050 strategies are highlighted in the table below.

Environmental goals for Arla Foods		
Better climate <i>Carbon Net Zero by 2050.</i>	Clean air and water <i>Nitrogen and Phosphorus in cycles in balance</i>	More nature <i>Increase biodiversity and access to nature</i>
Reduce global greenhouse gas emissions by increasing circulation of resources.	Protect regional water sources and reduce emissions across the whole value chain.	Build a more diverse, robust and accessible local agricultural landscape.
The guidelines for achieving the goals		
From fossil to renewable <i>To achieve Carbon Net Zero, Arla aims to be fossil free</i>	Circular Economy <i>Shifting perspectives from linear to circular</i>	Collaboration in the value chain <i>Relying on the cooperative spirit and working together</i>
Shifting away from fossil coal, oil and gas to renewable energy sources.	Changing to a circular economy model by focusing on reusing and recycling while reducing waste.	To achieve the goals and targets, it is critical to form strong cooperation through-out the entire value chain

Figure 5 – Environmental goals and guidelines for Arla Foods

Setting targets to meet the goals – and how to achieve these

To meet the environmental goals, Arla Foods have set targets for CO₂ reductions for operations, logistics, and farming towards 2030 and 2050 and has formulated targets for food waste towards 2030 and for packaging towards 2025:

- 100% Recyclable packaging in 2025
- 30% CO₂ reduction in 2030 with 2015 as baseline – absolute numbers for scope 1 and 2, and per kilo milk for scope 3
- 50% reduction in food waste in 2030 with 2015 as baseline
- Carbon net zero by 2050

The targets are set based on the latest scientific methodology and understanding of the ecosystem to ensure they are robust, actionable and in line with the planet's needs. To ensure verifiability, the targets have been approved by the Science Based Targets initiative, and aligned with the UN Sustainable Development Goals and emerging laws in the European countries in which Arla Foods operates.



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

In order to ensure progress towards the targets, a governance structure has been created with representatives from the executive management, where workstreams representing the different functions, have developed roadmaps towards 2025.

These actions will be followed up with KPIs and reviews in the normal business review process. A thorough dialogue with the Farmer Owners was conducted through the cooperative democratic governance structure to ensure full buy-in from the Farmer Owners to the ambitious commitments in relation to the emissions at farm level.

Addressing the on-farm climate impact

Addressing the greenhouse gas emissions at farm level is crucial to achieving the climate ambitions and Arla Foods amba is supporting the Farmer Owners in their transition. This work includes developing models to calculate climate impact at farm level, in close dialogue with researchers, and executing the roll-out across markets. Further, information is gathered on performance and progress to learn and adjust the approach along the way.

In order to address the environmental impact, Arla Foods amba offers climate checks to each of its almost 10,000 Farmer Owners across the seven operating countries. Through the climate checks, each individual farmer will receive specific advice about how to reduce their impact.

The Climate Checks are voluntary but incentivized through a higher price paid per kilo milk. Further, focus will also be on continuing to improve performance in climate impact, biodiversity, animal care and societal contribution. It is an evolving process, and Arla Foods amba works to fulfil customer and consumer expectations in dialogue with the Farmer Owners, researchers and other stakeholders.

It is expected that the Climate Checks will drive most of the 30 per cent reduction ambition on farms towards 2030. The Climate Check programme will include a digital tool in which all Farmers Owners will submit their climate data, in which they can compare their performance by sharing insights and best practise with their farmer colleagues. The data that the Farmer Owner submits is verified by an external advisor, who will subsequently visit the farm to provide advice on an action plan for the individual Farmer Owner to reduce their own emissions.

Increase access to healthy dairy nutrition and inspire better food habits

The ambition in relation to health aims at implementing nutritional criteria across the Arla Foods amba product portfolio to reduce sugar, salt and fat on an ongoing basis and ensure products contain an appropriate level of protein and calcium.

Arla Foods amba screens all products to ensure that as few artificial ingredients as possible are used in its products. Furthermore Arla Foods amba develops and manufactures products designed for people with specific needs as well as a range of affordable products for low income groups. Finally, Arla Foods amba will continue to engage in research to explore and document the health effects of dairy and deliver programmes to help children develop a better relationship with food.

In addition to distributing products in developing countries, Arla Foods amba also engages in the local dairy sector in order to build competences amongst small scale dairies and dairy farmers. Projects are currently being executed in Nigeria, Indonesia and China and ones in Bangladesh are being developed.

Sustainable Financing Framework

This Sustainable Financing Framework is based on the 2018 version of Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, published by the International Capital Markets Association, as well as the 2018 version of the Green Loan Principles, jointly published by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association. It governs all of Arla Foods amba's issuance of 'use of proceeds'-based Sustainable Financing Instruments.

In accordance with this framework, Arla Foods amba, may issue Green, Social or Sustainability Financing Instruments, the latter being a combination of Green and Social proceeds. Financing Instruments may include, but are not restricted to Bonds, Loans, Revolving Credit Facilities (RCFs), and Commercial Papers (CPs).

Arla Foods amba may in addition to such financing also take on other types of 'sustainable' debt not governed by this framework, such as 'target-linked' debt¹.

¹ 'Target-linked' debt may include 'target-linked' loans, as defined in the Sustainability Linked Loan Principles, or similar instruments.

USE OF PROCEEDS

The amount equal to the net proceeds of the Green, Social and Sustainability Financing Instruments issued by Arla Foods amba will be used to finance or re-finance Eligible Projects that have been evaluated and selected by Arla Foods amba in accordance with this Sustainable Financing Framework. Refinancing of Eligible Projects will have a look-back period of no longer than three years from the time of issuance.

Arla Foods is aware of the specific need for capital investments in addressing climate change and social impact. Indeed, the majority of the categories included as Green or Social Eligible Projects are primarily based on, and in some cases almost exclusively, capital expenditures. However, recognising that a significant part of the climate impact from Arla Foods takes place on farms, Arla Foods is mindful about addressing these as well. Due to the complex nature of managing livestock many of these expenditures are operational in nature. Similarly, for Social Eligible Projects, capital expenditures often go hand-in-hand with operational expenditures as much of the impact comes through changing behaviours and actions of people.

Eligible Projects

Green Eligible Projects

Green Eligible Projects include capital, and in some cases operational expenditures for the targeted objective of reducing the environmental impact of Arla Foods amba's products and processes.

Energy Efficiency



SDG mapping

Investments and expenses into processes and other solutions with a targeted impact of at least 25% reduction in energy usage. Examples of projects include, but are not limited to:

- **Combined Heat and Power (CHP)**
CHP-facilities allow for more efficient heat and power usage in the production process. In certain instances it may result in excess energy produced, which may be sold back to the grid. CHP units used on natural gas sources will be excluded.
- **LED lighting**
Upgrade of existing more energy efficient solutions and installation of new lighting solutions.
- **Innovative processes and technologies**
Arla Foods amba has a strong focus on innovation to increase the nutritional value of the products whilst at the same time lowering the costs and overall climate impact. Projects related to such investments include R&D into new technologies and the related production.

Renewable Energy

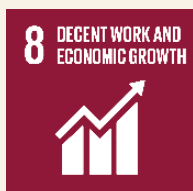


SDG mapping

Investments and expenses into processes and facilities that enable or increase the usage of renewable energy. Examples include, but are not limited to:

- **Bio-gas facilities**
Installation and maintenance of biogas units at the dairy sites. Manure and other organic material are gathered from the farm after which they are processed to extract the biogas. Residual material is returned to the farmers to be used as fertilizer.
- **Biomass boilers**
Installation and maintenance of biomass boilers. These boilers run exclusively on residual material such as branches and scrap wood from FSC-certified forests.

Eco-efficient, circular economy adapted products, production technologies and processes



SDG mapping

Investments and expenses into processes and facilities that increase the use of eco-efficient, circular economy adapted products. Examples of projects include, but are not limited to:

- **Facilities for enabling sustainable packaging**
Equipment and processes that allow for the use of recycled boxes and packaging through the company's value chain.
- **Product Life-Cycle Management (PLM)**
The PLM Programme will enable Arla Foods amba to measure the climate impact of products, ingredients and processes, and thereby support the targets towards reducing the climate impact throughout the value chain. Various types of investments and expenses relate to this programme such as R&D, software development and monitoring systems.

Environmentally sustainable management of living natural resources and land use



SDG mapping

Investments and expenses into processes and facilities that support the adoption of 'Sustainable Farm Management' techniques across the farms and support the reduction of the overall environmental impact of the farms. Examples of projects include, but are not limited to:

- **Climate Checks on Farms**
All Farmer Owners in Arla Foods are invited and incentivised to undergo climate checks which support them in meeting the 2030 and 2050 targets. Expenses relate to carrying out the climate checks, collecting and processing the data.
- **Research and collaboration**
Arla Foods amba sponsors and invests in research into various topics affecting the climate impact of farms, such as feed, additives and genetics.

Sustainable water and wastewater management



SDG mapping

Investments and expenses into processes and facilities with a targeted impact of reducing water consumption or increasing the amount of water recycled by at least 25%. Examples of projects include, but are not limited to:

- **Recycling facilities**
Rinsing equipment and wastewater facilities across various Arla Foods sites.

Green buildings



SDG mapping

Investments and expenses into the construction or acquisition of new buildings, as well as major renovations to existing buildings, with a least one of the following (or similar) certifications:

- BREEAM Certification, “Very Good” or better
- LEED Certification, “Gold” or better
- DGNB Certification, “Gold” or better

Social Eligible Projects

Social Eligible Projects include capital and operational expenditures with a targeted overall objective of supporting the development of sustainable local dairy sectors in emerging markets and provide high-quality nutrition to Arla Foods amba's customers across the world.

Socio-economic advancement and empowerment	Target population
<div data-bbox="178 539 373 730" data-label="Image"> </div> <p data-bbox="178 734 360 768"><i>SDG mapping</i></p> <p data-bbox="427 539 1198 678">Investments and expenses in projects that seek to develop and support sustainable local dairy sectors in the emerging markets in which Arla Foods amba operates. Examples of projects include, but are not limited to:</p> <ul data-bbox="478 696 1198 1240" style="list-style-type: none"> <li data-bbox="478 696 1198 904"> <p>Local infrastructure for sustainable farming Creation and development of vertically integrated value chains including processing, production and marketing of milk. Specific projects include milking robots, dairy facilities and transportation (in some case fossil-fuel based where no other alternative is feasible).</p> <li data-bbox="478 927 1198 1240"> <p>Education, knowledge and awareness building An important part of developing sustainable long-lasting value chains is to build local expertise, in order to upgrade production methods, increase efficiency, reduce waste etc. Through various initiatives such as farm visits, seminars, conferences and more Arla Foods amba ensures that the local farmers can advance and further promote sustainable dairy farming in their locality.</p> 	<p data-bbox="1235 539 1409 786">Local dairy farmers in the emerging markets in which Arla Foods amba operates.</p>

Access to low-cost, high-nutrition products	Target population
<div data-bbox="178 1485 373 1675" data-label="Image"> </div> <p data-bbox="178 1680 360 1713"><i>SDG mapping</i></p> <p data-bbox="427 1485 1198 1624">Investments and expenses in projects that increase the access to and quality of nutrition for customers in the developing markets where Arla Foods amba operates. Examples of projects include, but are not limited to:</p> <ul data-bbox="478 1641 1198 1859" style="list-style-type: none"> <li data-bbox="478 1641 1198 1859"> <p>Production of milk powder for emerging markets Production of high-quality milk powder in Northern Europe that is sold in emerging markets in which there is insufficient local dairy production, at prices and quantities that allow low income groups access to safe and high-quality nutrition.</p> 	<p data-bbox="1235 1485 1409 1731">Low income consumers², in the emerging markets where Arla Foods amba operates.</p>

² Defined as segment D and below on respective national Socio-Economic Classes (SEC) segmentation. Arla Foods works with several different institutions to help define these.

SELECTION AND EVALUATION OF ELIGIBLE PROJECTS

Arla Foods amba has designed and implemented a process to ensure that only projects aligned with the criteria set out in the section Use of Proceeds above will be selected as Eligible Projects for its issuance of Sustainability Financing Instruments. To oversee this a Sustainability Financing Committee has been established with members from Treasury and the VP from the Corporate Social Responsibility team. The finance representative is the chair of the committee and the sustainability representative holds a veto.

The procedure for reviewing investments follows the below process when selecting and evaluating projects for the Eligible Projects. The selection process has been built around existing processes for review and approval of investments.

1. All investment applications in Arla Foods are registered through the Arla Investment System.
2. The Arla Foods amba wide investment allocation process is led by the Investment Office. The Investment Office coordinates the investment approval process with the relevant decision-making bodies.
3. The Investment Office in Arla Foods amba will do the initial screening for eligible projects with material environmental and/or social impact and submit the investments to the Sustainability Financing Committee.
4. The Sustainability Financing Committee evaluates and select investments that meet the Eligibility Criteria and removes projects that do not meet the criteria.
5. The selected investment applications are subsequently forwarded for final approval by the Investment Committee in Arla Foods. The Investment Committee comprises the CEO, the CFO and the COO in Arla Foods amba.

MANAGEMENT OF PROCEEDS

Arla Foods amba will establish a Sustainable Financing Register in relation to Sustainable Financing Instruments issued by Arla Foods amba for the purpose of monitoring the Eligible Projects and the allocation of the net proceeds from such instruments to Eligible Projects.

Arla Foods amba will over the duration of the outstanding Sustainable Financing Instruments build up and maintain an aggregate amount of projects in the Sustainable Financing Register that is at least equal to the aggregate net proceeds of all outstanding Sustainable Financing Instruments issued by Arla Foods amba.

There may be periods when the total outstanding net proceeds of Sustainable Financing Instruments exceed the value of the Eligible Projects in the Sustainable Financing Register. Any such portion will be held in accordance with Arla Foods amba's normal liquidity management policy.

The Sustainable Financing Register will form the basis for the impact reporting.

REPORTING

Arla Foods amba will publish an annual report on the allocation and impact of Sustainable Financing Instruments issued under this framework on the Arla Foods amba's corporate website.³ Where relevant Arla Foods amba will seek to align the reporting with the latest standards and practices as identified by ICMA and the guidelines in the Nordic Public Sector Issuer's Position Paper on Green Bond Impact Reporting. The impact report will, where relevant, also include a section methodology, baselines and assumptions used in impact calculations.

Allocation Report

The allocation report will, where feasible, include the following components:

- Overview of allocated, dispersed and unallocated proceeds
- A list of all Eligible Projects funded including amounts allocated
- Detailed descriptions and case studies of selected Eligible Projects financed
- Amounts invested in each category as defined in the Use of Proceeds section and the relative share of new financing versus refinancing

Impact Report

Arla Foods amba will strive to report on the actual environmental impact of the investments financed by Sustainable Financing Instruments. In cases where the actual impact is not observable or unfeasible to source an estimated impact will be reported.

The impact indicators may vary according to investment category, as defined in this Sustainable Financing Framework. The impact metrics selected may include the following:

Green projects

Energy Efficiency

- Annual energy, electricity and other energy savings, reduced/avoided (MWh)
- Reduction in energy use (%)
- Annual GHG emissions reduced/avoided (Tonnes CO₂e)

Renewable Energy

- Capacity of energy generation (MW)
- Annual renewable energy generation (MWh)
- Annual GHG emissions reduced/avoided (Tonnes CO₂e)

³ <https://www.arla.com/company/investor/bond-programme/>

Eco-efficient, circular economy adapted products, production technologies and processes

- Reduction in environmental impact by improving sustainable packaging (CO₂e)
- Share of recyclable packaging material (%)

Environmentally sustainable management of living and natural resources and land use

- Annual GHG emissions reduced/avoided (Tonnes CO₂e)
- Number of climate checks conducted (#)
- Number of research projects (#)

Sustainable Water and Wastewater Management

- Annual water savings (m³)
- Annual volume of wastewater treated or avoided (m³)
- Capacity of facilities being built (m³)

Green buildings

- Annual GHG emissions reduced/avoided (Tonnes CO₂e)

Social projects

Socioeconomic advancement and empowerment

- Increase in milk yield per cow (Litre of milk)
- Number of farm visits (#)
- Number of jobs created (#)

Access to low-cost, high-nutrition products

- Number of low-income consumers reached with Arla Foods' affordable and nutritious dairy products (#)

EXTERNAL REVIEW

Arla Foods amba has engaged Sustainalytics to act as an external verifier of this Sustainable Financing Framework and the Eligible Projects. The Second Party Opinion is publicly available on Arla Foods amba's website. A Third-Party Audit will also be made available on Arla Foods amba's website.