2021

BUILDING STRENGTH IN A VOLATILE MARKET

Consolidated Annual Report

OUR VISION

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

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Our external reporting comprises of three reports: Annual report, sustainability report and environmental, social and governance (ESG) report. Each includes content tailored to its specific audience, and cross-references to the other reports where relevant.

Annual report
Our annual report is our detailed annual account of the company's performance, strategy and governance. It includes our consolidated financial statements and our externally audited ESG figures.

Sustainability report
Our sustainability report describes how we work with social, ethical and environmental commitments, and also serves as our annual communication on our progress towards the UN Global Compact, and the statutory statement on CSR in accordance with section 99a of the Danish Financial Statements Act.

Environmental, social and governance (ESG) report
The ESG report focuses on presenting our ESG data and corresponding methodologies and accounting policies in detail. The ESG report carries a reasonable assurance statement by EY.

2021 PERFORMANCE AT A GLANCE

STRATEGIC ASPIRATIONS

Strategic branded volume driven revenue growth

4.5%

2021	4.5%
2020	7.7%
2019	5.1%

Target 2021: 1-3%

CO₂e emission reduction, **SCOPE 1 AND 2**

25%
2020: 24%

Baseline: 2015
Science Based Target
2030: - 63%

CO₂e emission reduction, **SCOPE 3** per kg of milk and whey

7%
2020: 7%

Baseline: 2015.
Science Based Target 2030: -30%

FINANCIAL PERFORMANCE

Revenue
(EURb)

11.2

2021	11.2
2020	10.6
2019	10.5

Target 2021: 10.3 -10.6 EURb

Performance price*
(EUR-cent/kg)

39.7

2021	39.7
2020	36.5
2019	36.3

Profit share**
(of revenue)

3.0%

2021	3.0%
2020	3.2%
2019	3.0%

Target 2021: 2.8-3.2%

Milk volume
(bkg)

13.6

2021	13.6
2020	13.9
2019	13.8

QUALITY OF BUSINESS

Brand share

49.3%

2021	49.3%
2020	48.9%
2019	46.7%

Target 2021: > 50%

International share***

24.1%

2021	24.1%
2020	23.6%
2019	21.9%

Target 2021: > 23.5%

COST AND CASH

Calcium savings excl. inflation

155

2021	155
2020	143
2019	141

Leverage

2.6

2021	2.6
2020	2.7
2019	2.8

Target 2021: 2.8-3.4

** The milk conversion factor from litre into kg was 1.02 for milk volumes until 30 June 2021. Effective from 1 July 2021, the milk conversion factor is 1.03. Historical figures were restated throughout the report according to the new conversion factor. This change was only applied to the owner milk volumes.*
*** 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.*

MESSAGE FROM THE CHAIRMAN AND THE CEO

CREATING THE FUTURE OF DAIRY FROM THE GROUND UP

In 2021, both on-farm and company operations were heavily impacted by the continued effects of the Covid-19 pandemic and rapidly rising production costs. Yet thanks to the dedicated efforts of farmers, employees and management, Arla successfully navigated this challenging environment to deliver strong performance while making key progress on our sustainability journey.

In volatile market conditions, Arla's brands continued their strong growth trajectory, gaining ground in a number of important markets to reach a strategic branded volume growth of 4.5 per cent – on top of unprecedented growth in 2020. Combined with continued efficiency gains across the supply chain and rising commodity prices, this meant we were able to deliver our farmer owners a competitive performance price of 39.7 EUR-cent/kg. While this represents an increase from 36.5 EUR-cent/kg in 2020, it is also a necessary development as our farmer owners have been under intense pressure from the sharp price increases on labour, feed, energy and other commodities.

New strategy

Building on our strong financial and commercial position, we launched our Future26 strategy in 2021, cementing our commitment to sustainable dairy production and growing the business responsibly. While global demand for dairy is growing, so too are expectations from consumers. This requires investments, both within the company and for our owners, whose farming practices are more important than ever. For them to continue and accelerate their sustainability efforts, and future-proofing their business, we must secure the highest value for their milk. This ambition is reflected both in our target to deliver a competitive milk price and our new retainment policy, which means that we will return more of the annual profit to our farmer owners in the coming years – from previously 1.0 EUR-cent/kg milk to a guaranteed 1.5 EUR-cent/kg. Over the strategy's five-year span this will amount to a supplementary payment of more than EUR 1 billion.

Accelerating sustainability efforts

Conducting the second round of Climate Checks in 2021 was an important step on our sustainability journey. Confirming that Arla's farmers are among the most climate-efficient in the world, detailed data from almost 8,000 farmer owners provides us with a unique tool to guide efforts and measure our progress in the coming years, collectively as well as on the individual farm. The continued efforts of our farmers, our participation in research projects and piloting new technology and innovative farming methods give us a strong setup to accelerate improvements.

> "Combined with continued efficiency gains across the supply chain and rising commodity prices, we were able to deliver our farmer owners a competitive performance price of 39.7 EUR-cent/kg."

Building on our unique strengths as a farmer-owned cooperative and optimising our democracy was another key priority in 2021. Through the Coop 2.0 initiative, our owners have shown great engagement in dialogues about the future of our cooperative, how to improve our democratic processes and member engagement and ways for us to best work together as we create the future of dairy.

Jan Toft Nørgaard
Chairman of the Board of Directors

SOLID PERFORMANCE AND SUSTAINABILITY ACTION IN ANOTHER VOLATILE YEAR

2021 proved to be far more volatile and disrupted than anticipated. While the global economy recovered more quickly than expected and the demand for dairy products remained high, the impact of Covid-19 persisted throughout the year. Massive global supply chain challenges, labour scarcity and inflation had widespread impact on operations and costs both for the company and for our farmer owners.

Yet, month on month, we managed sales and operations firmly, delivering solid results on our most important performance indicators while at the same time maintaining a high activity and investment level. Combined with relatively high global raw milk prices, this resulted in an improved performance price of 39.7 EUR-cent/kg in 2021, up from 36.5 EUR-cent/kg in 2020.

Our brands did exceptionally well in 2021. Shifts in consumer patterns towards more dining out and less home cooking as lockdowns eased and rising prices towards the end of the year gave us some headwind, however we delivered volume growth above expectations, at 4.5 per cent and increased market share in key position. Both the European and International zones built on the exceptional brand performance in 2020 and achieved 2.3 and 9.1 per cent branded volume growth in 2021, respectively. Particularly Starbucks™ and Castello® exceeded expectations, but also Arla®, Lurpak® and Puck® delivered solid growth.

> “Month on month, we managed sales and operations firmly, delivering solid results on our most important performance indicators while at the same time maintaining a high activity and investment level.”

On a 1.5°C trajectory

Towards the end of the year, our new Future26 strategy was launched with the central ambition to lead on value creation and sustainability. Together with our farmer owners, we will ensure that people can continue to trust and enjoy the benefits, versatility and affordability of dairy nutrition from a cooperative that continuously takes climate action.

I am therefore delighted that, close to year-end, we received the much awaited approval from the Science Based Targets initiative deeming our new emission reduction target for operations as consistent with reductions required to limit global warming to 1.5°C. With plans to convert to fossil-free trucks, green electricity and low-energy solutions at our sites, we are doubling our emission reduction target for operations from 30 to 63 per cent by 2030.

The important sustainability work at farm level progressed, as we conducted the second round of Climate Checks and stepped up the efforts to utilise the farm data, advisory services, ongoing research and pilot farm trails to make more knowledge and solutions available to our owners. Owners that generate electricity from renewable energy sources on farm were also given the opportunity to help power their dairy company by selling their Guarantees of Origin to Arla at a competitive price.

Outlook for 2022

We expect the inflation and volatility to continue to impact our business and other sectors well into 2022, and the impact on consumer behaviours will be multifaceted and difficult to predict. It is likely that we will see a slowdown in our branded growth until the market resettles at a new level. As demonstrated in 2020 and 2021, we will do what we can to respond quickly and diligently to protect profitability as well as the continuity of our operations and the health and safety of our colleagues in the workplace.

2022 will be the important first year of executing our new Future26 strategy. With the robust foundations we stand upon today, the next five years will see us investing more than ever in innovation, digitalisation and sustainability across our value chain and in our brands for the benefit of our owners, customers and consumers.

Peder Tuborgh
CEO

HIGHLIGHTS

2021 was characterised by three themes for Arla: volatility, strong performance and the future. Covid-19, volatility of the dairy market and the historically high inflation affected Arla from farmers to customers. Nevertheless, our cooperative performed as strong as ever, with a competitive milk price paid to our owners, remarkably high branded growth and efficiencies created across our supply chain. This performance created a strong foundation for Arla to launch our new strategy, Future26, which will make Arla a leader in value creation and sustainability.

Read more

4.5%

Our strategic brands performed exceptionally well on the backdrop of fast evolving consumer habits due to the Covid-19 lockdowns and general uncertainty, reaching 4.5 per cent branded volume growth and gaining market share in key regions. Growth was driven by our strong operations, the agility of our business as well as high consumer confidence in our brands. The branded share of our revenue reached 49.3 per cent.

Read more

EUR-CENT/KG

Performance price

Our performance price reached 39.7 EUR-cent/kg in 2021. This positions Arla among the market leaders in Europe and supports our farmer owners, who also face increasing production costs at their farms.

Read more

VOLATILITY

In 2021, Arla had to navigate an intensely volatile market still very much affected by Covid-19. Fast economic rebound and disrupted global supply chains took inflation to unprecedented levels, while low milk supply combined with high demand for dairy products accelerated commodity prices to historical heights in the second half of 2021.

Read more

Our e-commerce channel experienced an outstanding revenue growth of 17 per cent due to changing shopping habits and our agile reaction to the trend.

Read more

We launched our ambitious new five-year strategy from a position of financial and commercial strength, and committed ourselves to becoming leaders in sustainability and value creation.

HIGHLIGHTS / CONTINUED

Read more

Arla Foods Ingredients (AFI) opened a new, state-of-the-art innovation centre in Denmark spanning 9,000 square metres to develop new ways in specialised dairy and whey ingredients.

9,000 M2

Read more

1.5°C

Our new strategy, Future26, significantly raised our climate ambition, which is now aligned with the 1.5°C global warming commitment of the Paris agreement.

Read more

1.15 KG

Based on the 2021 data from our Climate Check programme, our farmers remained amongst the most climate efficient in the world with only 1.15 kg of CO_2e emission per kg of milk.

Read more

NET 0

Arla joined forces with three other dairy industry leaders, Mengniu, Royal FrieslandCampina and Fonterra to back the Pathways to Dairy Net Zero initiative and support each other in becoming carbon neutral across our supply chains by 2050.

Arla now ranks number five on the Access to Nutrition index which assesses how the top 25 global food and beverage companies contribute to the Sustainable Development Goals on nutrition.

Read more

NO.5

FIVE-YEAR OVERVIEW

FINANCIAL KEY FIGURES	2021	2020	2019	2018*	2017*
Performance price (EUR-cent)					
EUR-cent/kg owner milk	39.7	36.5	36.3	36.0	37.7
Income statement (EURm)					
Revenue	11,202	10,644	10,527	10,425	10,338
EBITDA	948	909	837	767	738
EBIT	468	458	406	404	385
Net financials	-61	-72	-59	-62	-64
Profit for the year	346	352	323	301	299
Profit appropriation for the year (EURm)					
Individual capital	42	41	61	0	38
Common capital	83	81	123	0	120
Supplementary payment	207	223	127	290	127
Balance sheet (EURm)					
Total assets	7,813	7,331	7,106	6,635	6,442
Non-current assets	4,668	4,413	4,243	3,697	3,550
Current assets	3,145	2,918	2,863	2,938	2,871
Equity	2,910	2,639	2,494	2,519	2,369
Non-current liabilities	2,446	2,296	2,304	1,694	1,554
Current liabilities	2,457	2,396	2,308	2,422	2,499
Net interest-bearing debt including pension liabilities	2,466	2,427	2,362	1,867	1,913
Net working capital	810	679	823	894	970
Cash flows (EURm)					
Cash flow from operating activities	780	731	773	649	386
Cash flow from investing activities	-482	-488	-571	-432	-219
Free cash flow	298	243	202	217	167
Cash flow from financing activities	-330	-293	-136	-191	-155
Investments in property, plant and equipment	-452	-478	-425	-383	-248
Acquisition of enterprises	-	-	-168	-51	-7

** Not restated following the implementation of the IFRS 16 Leases standard.*

FINANCIAL KEY FIGURES	2021	2020	2019	2018*	2017*
Financial ratios					
Profit share	3.0%	3.2%	3.0%	2.8%	2.8%
EBIT margin	4.2%	4.3%	3.9%	3.9%	3.7%
Leverage	2,6	2.7	2.8	2.4	2.6
Interest cover	23.7	16.8	12.0	14.9	12.9
Equity ratio	37%	35%	34%	37%	36%
Inflow of raw milk (mkg)					
Inflow from owners in Denmark	4,952	5,011	4,988	4,986	4,874
Inflow from owners in the UK	3,306	3,303	3,261	3,227	3,235
Inflow from owners in Sweden	1,838	1,844	1,806	1,844	1,873
Inflow from owners in Germany	1,681	1,731	1,717	1,779	1,776
Inflow from owners in the Netherlands, Belgium and Luxembourg	741	749	731	732	736
Inflow from others	1,128	1,231	1,323	1,457	1,564
Total inflow of raw milk	13,646	13,869	13,826	14,025	14,058
Number of owners					
Owners in Sweden	2,236	2,374	2,497	2,630	2,780
Owners in Denmark	2,274	2,357	2,436	2,593	2,675
Owners in Germany	1,497	1,576	1,731	1,841	2,327
Owners in the UK	2,127	2,241	2,190	2,289	2,395
Owners in the Netherlands, Belgium and Luxembourg	822	858	905	966	1,085
Total number of owners	8,956	9,406	9,759	10,319	11,262
Environmental, social and governance data					
CO_2e scope 1 and 2 (mkg) reduction	-25,0%	-24,0%	-12,0%	-4,0%	-5,0%
CO_2e scope 3/kg of milk and whey reduction	-7,0%	-7,0%	-7,0%	-7,0%	-6,0%
Average number of full-time equivalents	20.617	20,020	19,174	19,190	18,973
Gender diversity, Board	13%	13%	13%	12%	13%

For in-depth info, please refer to the Consolidated Financial Statements (from page 64), and the Environmental, Social and Governance Statements report (from page 120).

STRATEGY

Arla is the world's fourth largest dairy company based on milk intake, and the world's largest organic dairy producer.

We are also the oldest cross-border dairy cooperative, and as such, our farmer owners are at the core of our business model.

Our vision is to create the future of dairy to bring health and inspiration to the world, naturally.

Our aspiration is to become a leader in value creation and sustainability.

OUR BUSINESS MODEL

OWNERS & COWS

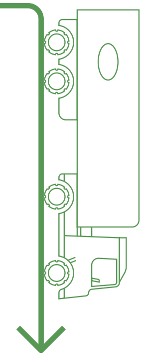
- We have 8,956 farmer owners, who are responsible for over 1.5 million cows
- Our owners are amongst the best in the world* in terms of efficient and sustainable production, with only 1.15 kg CO_2e emissions per kg of milk

MILK COLLECTION

- We collect around 13.6 billion kg of raw milk each year, mainly from our owners in seven countries

PRODUCTION, PACKAGING & INNOVATION

- We process milk at our 60 sites
- We produce 6.8 billion kg of nutritious dairy products each year



OUR MISSION IS TO SECURE THE HIGHEST VALUE FOR OUR FARMERS' MILK WHILE CREATING OPPORTUNITIES FOR THEIR GROWTH

CONSUMERS & WASTE MANAGEMENT

- We provide nutrition for millions of people
- It is important to us that our products have the lowest possible negative impact on the environment throughout their lifecycle. We work continuously to reduce our waste

CUSTOMERS

- We sell our products in 152 countries
- We add value to our owners' milk through innovation, branding and marketing, and the profit is shared among owners through the milk payment

* *FAO and GDP. 2018. Climate change and the global dairy cattle sector – The role of the dairy sector in a low-carbon* future

GOOD GROWTH 2020 PREPARED US FOR THE FUTURE

Summing up Good Growth 2020

One year ago we concluded our Good Growth 2020 strategy. Despite Covid-19 and other unprecedented external impacts throughout the strategy period, Good Growth 2020 delivered above expectations on all four target KPIs, and continued to guide and support our business in 2021, a gap year between two strategical periods..

With the strategy we strengthened our competitiveness and our international presence, and we structurally improved the quality of our business by shifting volumes from low margin private label and industry sales into our higher margin branded retail and food ingredient business.

As a response to unforeseen external impacts on our business, including depreciation of currencies, especially GBP and SEK, and the unstable fat and protein prices, we launched our savings and efficiency programme, Calcium, in 2018 to accelerate the Good Growth 2020 strategy.

In 2019, we launched our new sustainability strategy, which focuses on improving the environment for future generations, increasing access to healthy dairy nutrition, and inspiring good food habits. As part of this strategy we defined clear pathways to reduce our carbon footprint and set ambitious, science-based reduction goals.

> Our new strategy Future26 is largely built on the learnings and results from Good Growth 2020, while the lessons from the global pandemic are also reflected in our strategic thinking.

KEY ACHIEVEMENTS

Strategic branded volume driven revenue growth

4.5%

Target 2021: 1-3%

Brand share

49.3%

Target 2021: > 50%

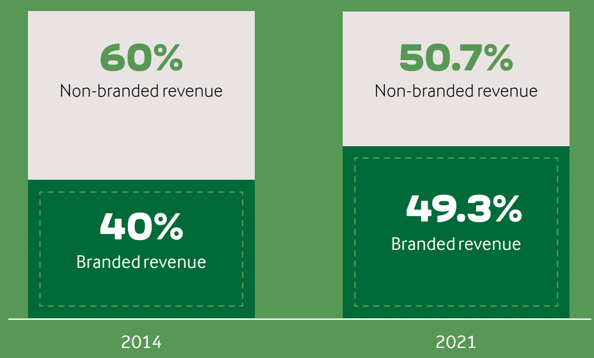
International share

24.1%

Target 2021: > 23.5%

STRUCTURAL SHIFT IN BUSINESS

(percentage of revenue)



CO_2e emission reduction, **SCOPE 1 AND 2**

25%

Baseline: 2015
Science Based Target 2030: - 63%

CO_2e emission reduction, **SCOPE 3** per kg of milk and whey

7%

Baseline: 2015.
Science Based Target 2030: -30%

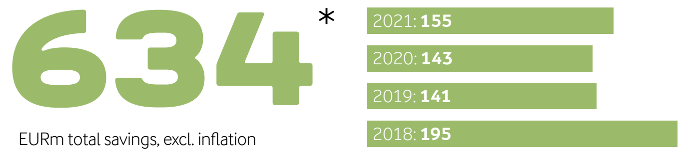
Read more about our Sustainability strategy

Read more about our Cacium programme

ACHIEVEMENTS OF OUR CALCIUM PROGRAMME

In 2018, we launched our four-year transformation and efficiency programme, Calcium, to accelerate Arla's strategy by transforming the way we work, spend and invest. In its final year in 2021, Calcium continued to create efficiencies and was a crucial mitigating factor in alleviating the effects of inflation on our business. We concluded the programme with EUR 634 million total savings*.

Calcium delivered much more than savings, it truly made the way we work, spend and invest smarter. Here are some key transformations from the past four years:



SUPPLIERS

We significantly reduced the number of suppliers and increased compliance with ordering policies.

ADMINISTRATION

A new level of transparency by deep diving to the details of our spend enabled us to spend where it matters. We significantly reduced costs that do not directly contribute to our products.

SALES AND MARKETING

We now spend less on developing campaigns and focus more on reaching consumers. Our content is now developed cheaper, faster and better in our in-house digital studios, the Barn. We also developed more efficient promotional tools that help us create more effective sales and rebates campaigns.

LOGISTICS

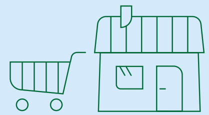
With the help of increased transparency into logistics data, we optimised the distribution to customers – route by route – creating value for us and our customers

PRODUCTION

We created profound change at every site and in every role. We shifted our focus to the efficiency of the individual production line and to overall equipment efficiency to ensure significant drop in waste. We also reduced complexity and share more products across markets.

OWNER / FARMER

Savings and efficiencies contribute to improving the milk price



CUSTOMERS AND CONSUMERS

Better service and more sustainable products

Read more in Our performance review

** Calcium savings including inflation in 2021: EUR -66 million. Total Calcium savings including inflation: EUR 287 million.*

TRENDS SHAPING OUR STRATEGY

KEY DEMOGRAPHIC TRENDS

GROWING POPULATION

Population growth in millions, 2020-2030

+750

ACCELERATED URBANISATION

Growth of urban populations, 2020-2030

+8% POINTS 56% -> 64%

DEMAND FOR DAIRY

Forecasted yearly growth

+2%

STRONG ECONOMY

Global GDP growth, 2020-2024

+5%

CONSUMER TRENDS DRIVE GROWTH OPPORTUNITIES

Consumers demand more **ADVANCED NUTRITION,** sustainability on all fronts and new sources of food

Purchase patterns are disrupted as online grocery shopping keeps growing, and technology becomes a differentiator, leading to a **CHANNEL REVOLUTION**

CONSUMER ACTIVISM increases the need for transparency and authenticity

SUSTAINABILITY

Sustainability has become a deciding purchase factor for an increasingly large group of consumers

TRENDS SHAPING OUR STRATEGY / CONTINUED

INGOING CONDITIONS FOR OUR STRATEGY

IF THERE EVER WAS A TIME TO CREATE THE FUTURE OF DAIRY, IT IS NOW

DAIRY IS AT A DEFINING MOMENT

Globally, the desire for dairy is increasing, but it's also changing. How, when and where people buy and consume dairy is fast-evolving. Lifestyles and beliefs are being shaped by sustainability, nutrition science, technology and urbanization, intensifying the competition amongst old and new players in the market, and ultimately deciding who the winners and losers will be.

CLIMATE CHANGE AND MALNUTRITION ARE AMONGST THE BIGGEST CHALLENGES OF OUR TIME

These are the challenges our cooperative faces –and also our greatest opportunities. Our food system requires re-thinking and dairy is definitely part of the solution.

WITH "GOOD GROWTH 2020", OUR PREVIOUS STRATEGY, WE ARE IN A STRONG POSITION

We created the right recipe for how to grow our brands and our market share, deliver efficiencies and invest in sustainable action across our value chain. While, simultaneously, delivering a competitive milk price to our owners, even during the disruption of the pandemic.

FUTURE 26 – OUR NEW STRATEGY

Our new strategy aims at providing answers on how to ensure a healthy, sustainable growth for our business by integrating our sustainability ambitions right to its core. Future26 shows how to direct our resources and ways of working towards what we believe will define the future of dairy. We strive for our vision – to bring health and inspiration to the world, naturally – with a strategic aspiration to be a leader in value creation and sustainability.

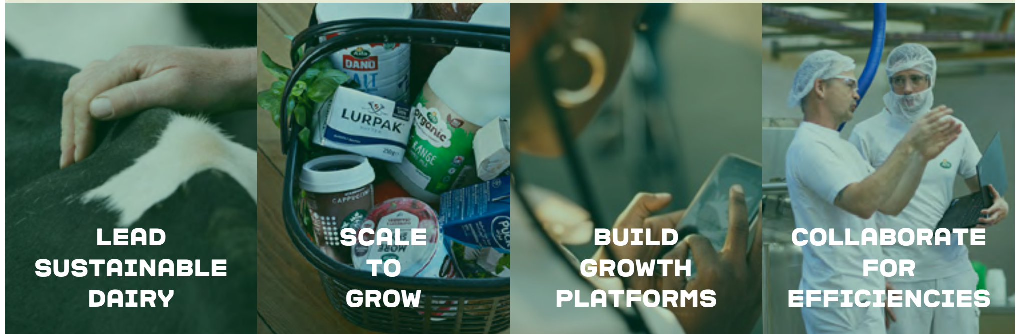
FUTURE 26

VISION

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

STRATEGY ASPIRATION

A leader in value creation and sustainability



DIGITAL & INNOVATION AS ACCELERATORS

WIN WITH OUR OWNERS & PEOPLE

STRATEGY ASPIRATION

103-107
Peer group index

3-4%
Branded growth

SCOPE 1+2
-63%

SCOPE 3
-30%
By 2030

PEER GROUP INDEX
We aspire to have a competitive milk price compared to our peers

BRANDED GROWTH
We aim to create brands and products that bring value to our consumers' life through health and nutrition

CO_2E
We commit to the 1.5°C ambition and to becoming the most ambitious global dairy cooperative

INVESTMENTS
Future26 steps up investments to support owners & value creation

EUR 4+ BILLION

LEAD SUSTAINABLE DAIRY

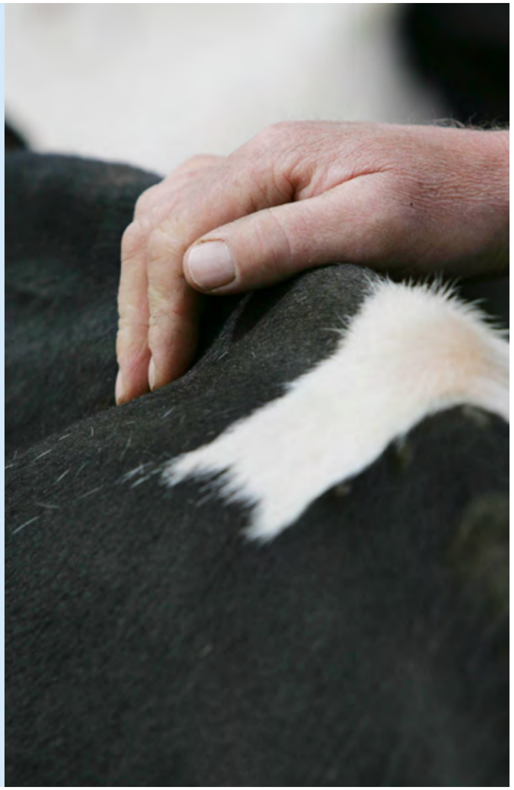
Climate change and malnutrition are amongst the most difficult challenges of our time. Providing a healthy, affordable, and environmentally friendly diet for a growing population requires a radical transformation of the global food system. To lead this transformation towards a more sustainable future we must accelerate our actions to meet our targets, and we must secure a strong commercial value to make the journey financially sustainable for our owners.

1.5

DEGREE COMMITMENT

How will we do that?

- Arla farmers will lead the way and accelerate carbon reductions through more efficient practices and new technologies.
- We will inspire healthier and stronger lives by offering more healthy, natural and affordable products
- We will create a sustainable supply chain by investing in energy optimization and green electricity and converting our vehicles to fossil free fuel
- We will create circular packaging by using less and better plastic and ensuring our packaging is recyclable.
- We will secure a strong commercial value to make the journey financially sustainable for our owners.



FARMS

1. Supporting implementation and monetize on-farm progress
2. Numerous levers identified to jointly secure reduction, eg. Breeding, feeding, peat soil management
3. Developing and scaling of new technologies

LOGISTICS

1. Reducing mileage through optimization
2. Fossil free fleet through conversion of our internal fleet to biodiesel, biogas and electric trucks
3. Engaging suppliers to secure that they also reduce fossil fuels in their fleet

OPERATIONS

1. Reducing energy consumption through on-site investments and efficiencies
2. Using 100 per cent green electricity in Europe by the end of 2025
3. Creating pilots for new technologies and fuels, e.g. high temperature heath pumps

PACKAGING

1. Ensuring that our branded packaging is actually recyclable where our consumers live
2. Securing recycled and bioplastic availability and developing solutions to use these materials
3. Replacing plastic by developing fiber solutions

Read more about Our sustainability journey on page 23

SCALE TO GROW

Over the years, we developed unique strengths and capabilities, such as strong brands, unique technologies, category leadership and expertise in our supply chain that allowed us to produce world leading products, increased our competitiveness and enabled us to build market leading positions. Scaling these strengths and capabilities will be key to creating more value for our owners.

BRANDS

Strategic branded volume driven revenue growth CAGR 2021-2026

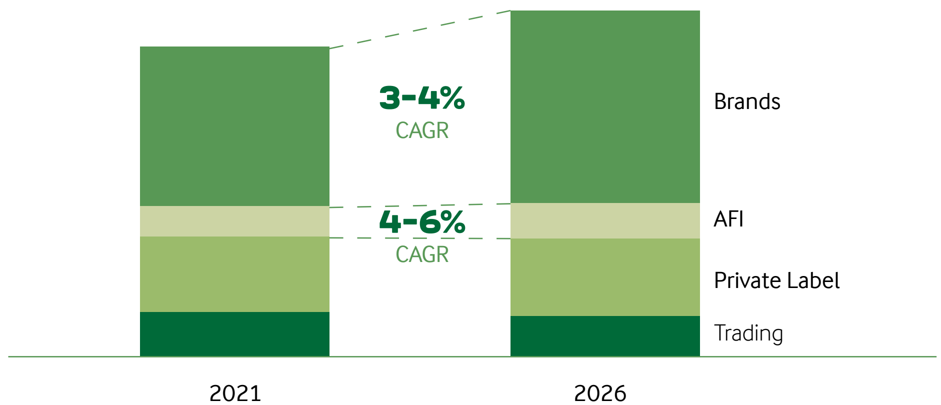
Arla	3-4%
Castello	6-8%
Lurpak	3-4%
Starbucks	10-12%
Puck	4-5%

How will we do that?

- We will strenghten our global brands. We will invest in creating further loyalty and preference around our brands and connect with more consumers around the world.
- We will accelerate growth by scaling the positions in which we have a global competitive advantage.
- We will win in our core markets by strengthening our strategic partnerships with customers, taking leadership in the category, scaling our distribution and becoming stronger in both traditional and new sales channels.
- We will take growth in Arla Foods Ingredients to the next level with cutting-edge innovation and strong partnerships with customers and suppliers

REVENUE SHARE DEVELOPMENT

Share of total revenue

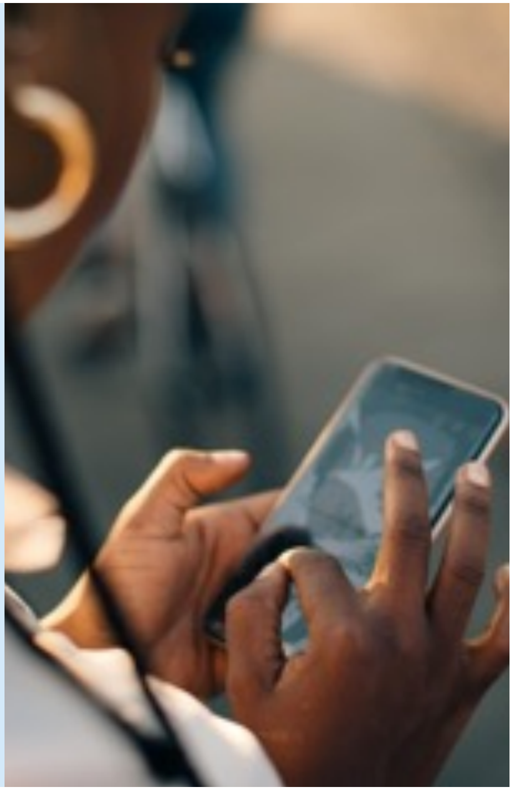


BUILD GROWTH PLATFORMS

The growing population and economic progress, especially in Asia, are driving a growing demand for dairy. At the same time, the dairy category is changing, in Europe and internationally. New lifestyles, technologies and beliefs mean people are increasingly shifting from traditional dairy to new products, formats and new channels.

How will we do that?

- We will build positions in selected growth markets with focus on our brands and innovation.
- We will accelerate foodservice globally by growing our arla pro brand in restaurants and bakeries.
- We will accelerate e-commerce by building partnerships with the best e-com platforms and continuing to develop the capabilities necessary to win online.



GROWTH MARKETS

GERMANY
NETHERLANDS
WEST AFRICA
SOUTH-EAST ASIA
CHINA

GROWTH CHANNELS

E-COMMERCE

5-10%

Revenue CAGR development, 2021-2026

FOODSERVICE

4-6%

SB VDRG CAGR development, 2021-2026

COLLABORATE FOR EFFICIENCIES

Being an efficient company is core to our competitiveness. Our transformation programme, Calcium, improved our efficiency significantly and the journey will continue with Future26 and our new efficiency programme, Fund our Future. We are already advanced in functional efficiency and it's now time to take the next step with heightened focus on net revenue management and end-to-end efficiency planning.

How will we do that?

- We will fund our future by having an end-to-end focus on becoming both more efficient and more effective in the way we work.
- We will future-proof our supply chain by continuing to optimize where and how we produce and deliver our products while reducing our carbon footprint.
- We will partner with customers to create growth and drive excellence. with commercial, agile operating models, digital tools and data.

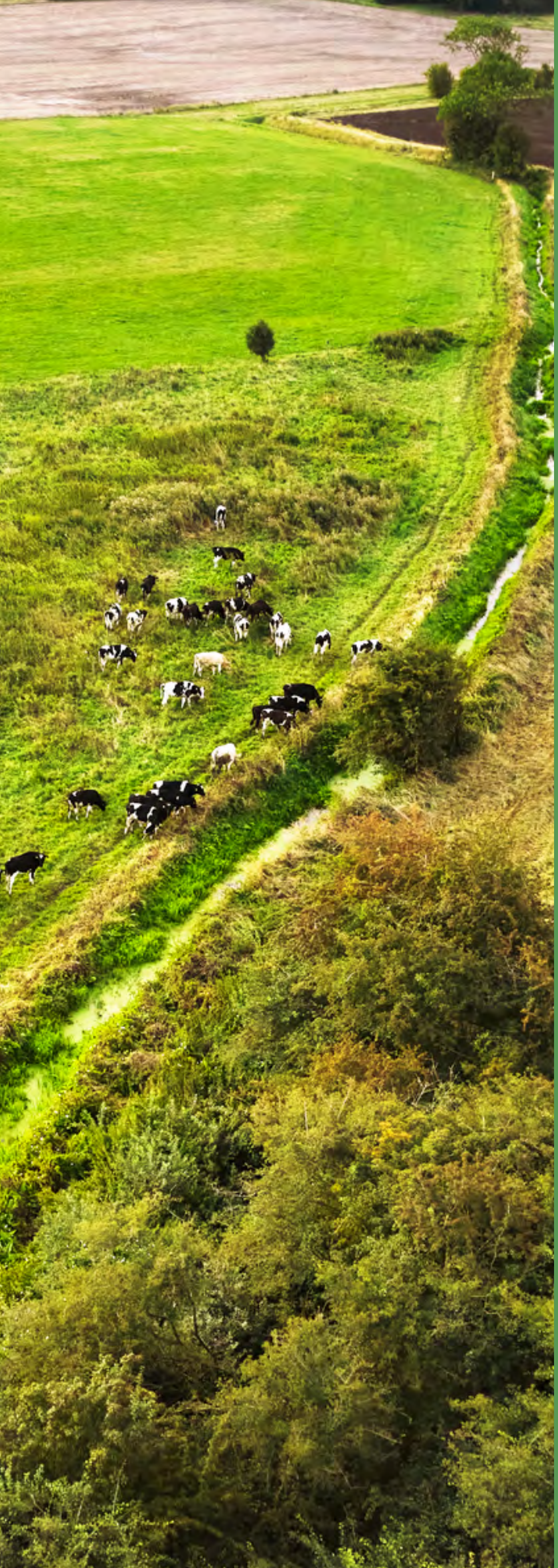
CALCIUM (2018-2021): COST FOCUS

Functional & capability driven

FUND OUR FUTURE (2022-2026): COST & NET REVENUE FOCUS

Cross-functional & digital capability driven

Savings target: 500 million EUR



OUR SUSTAINABILITY JOURNEY

OUR SUSTAINABILITY STRATEGY

At Arla we believe that dairy is part of the solution to one of the most pressing issues of our time: to feed a growing population sustainably. Our products satisfy a range of nutritional needs across generations and continents with a constantly reduced environmental impact. Our journey to become the leading sustainable dairy company is guided by our comprehensive sustainability strategy, inspired by the UN Sustainable Development Goals. We are committed to making both the planet and people stronger.

Our sustainability strategy was launched in 2019, and our ambitions were further strengthened in our new company strategy, Future 26, where sustainability is one of the four key focus areas. We approach sustainability from two perspectives, the planet and the people, as we aim to improve the environment for future generations while increasing access to healthy dairy nutrition. The strategy is founded on our Code of Conduct, which ensures our commitment to respecting human rights and responsible business practices across our markets.

Our work with sustainability contributes to the realisation of the UN's Sustainable Development Goals (SDGs). Our prioritised focus is on the SDGs we can directly influence through our value chain to maximise our positive impact while addressing our negative impacts as well. These SDGs relate to food, environment and climate.

In the following section, we give detailed insights into our journey to reduce our climate impact and environmental footprint, particularly on farms, and also elaborate on how our sustainability strategy relates to society.

Read our detailed and externally audited environmental, social and governance data

Read more stories and follow our SDG progress in our sustainability report

Taking actions to support a

STRONGER PLANET

by improving the environment for future generations

Sustainable dairy farming | Carbon net zero operations | Minimising food waste | Sustainable packaging | Protecting nature

Helping and enabling

STRONGER PEOPLE

by increasing access to healthy dairy nutrition and inspiring good food habits

Access to healthy nutrition | Inspiring good food habits | Supporting communities | Caring for people

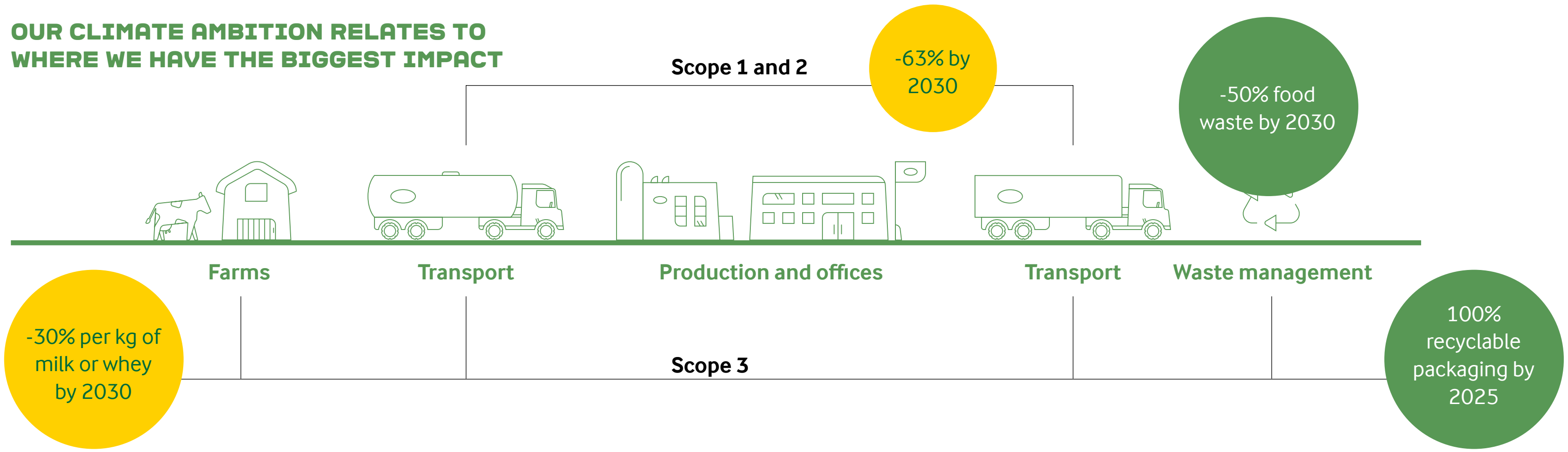
CODE OF CONDUCT

Our responsibility throughout the value chain

STRONGER PLANET – OUR ENVIRONMENTAL AMBITION

Countering climate change is at the top of the agenda in our cooperative. Together with our 8,956 farmer owners we updated our ambitious climate targets in 2021, which now commit us to contributing to the Paris agreement's target of limiting global warming to 1.5°C. We are working towards becoming carbon net zero across our value chain by 2050. Our 2030 targets guide us on our way to carbon neutrality: reducing scope 1 and 2 emissions by 63 per cent in absolute terms, and scope 3 emissions by 30 per cent per kg of milk or whey.

OUR CLIMATE AMBITION RELATES TO WHERE WE HAVE THE BIGGEST IMPACT



See the definitions of the scopes in our ESG report

FURTHER AMBITIONS

Clean air and water

We are protecting regional water sources and reducing emissions across the whole value chain.

Our goal
Keep nitrogen and phosphorus cycles in balance.

More nature

We are building a more diverse, robust and accessible local agricultural landscape.

Our goal
Increase biodiversity and access to nature.

OUR BRANDS PLAY A KEY ROLE IN SECURING A STRONG COMMERCIAL VALUE TO MAKE THE JOURNEY FINANCIALLY SUSTAINABLE FOR OUR OWNERS

Arla LURPAK CASTELLO

SUSTAINABILITY ON FARMS

Dairy is part of a healthy and sustainable diet due to its nutrient density. And, as is the case for all food production, it comes with a carbon cost. As part of the food industry, we have a great responsibility – and at the same time a great opportunity – to do something about it. 83 per cent of our emissions come from farms, so that is where we focus most of our efforts to reduce our carbon footprint.

Arla farmers have reduced their emissions by 23 per cent since 1990, and with our new global Climate Check tool launched in 2019 we can now track and guide their progress better. In 2021, 93 per cent of our farmer owners answered the Climate Check's 203 questions, covering feed, energy use, manure management, housing and multiple other relevant topics. Their answers were validated by external experts who also gave each of the farmers a personalised plan to reduce their climate footprint.

Based on the extensive data collected with the Climate Check tool, we can say that our farmers are amongst the most climate-efficient dairy farmers in the world with 1.15 kg of CO_2e per kg of milk. But this is just the beginning. The number is not a result – it is a baseline for how to improve. With their personalised climate action plans, our farmer owners now have a clear blueprint for how they can triple the speed of CO_2e reductions on their farms during this decade. They will focus on five key areas.

> "Our farmers are amongst the most climate-efficient dairy farmers in the world with 1.15 kg of CO_2e per kg of milk"
>
> Result of our Climate Check programme

THE FIVE MOST EFFECTIVE CLIMATE ACTIONS ON FARM

More milk per feed

A cow's feed has a big influence on how much milk it produces. If farmers manage to maximise the milk per feed ratio and minimise feed waste, the milk will be more climate efficient.

Feeding precise protein amounts

Cows need protein to stay healthy and produce milk but, like humans, they excrete unnecessary protein. Carefully measuring feed with the right protein levels means less nitrogen, a greenhouse gas, in the manure.

Healthy and happy cows

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

Just the right amount of fertiliser

Crops grow better if they are fertilised, but fertilisers emit greenhouse gasses. Matching precisely the amount of fertiliser with the plants' needs and using different methods to spread the muck can improve the yield per carbon emission ratio.

Better feed crop yield

A lot of our farmer owners produce feed for their cows, which is great, because imported feed carries a higher carbon footprint. Feed yield can also be optimised to increase climate efficiency.

Animal welfare at Arla

In Arla we strongly believe that animals should be treated well, and the welfare of our herds is a key concern for our customers and consumers too. We do not take it lightly to ensure that Arla cows are well-cared for: our owners have to submit an extensive report on their herds' well-being four times a year. 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. In an audit process harmonized across all owner countries, farmers are also visited by external experts specialized in animal welfare at least once every three years, to have their self-reported data validated and their herds checked-on. We report the result of these audits in our ESG section

Check our data in the ESG report

STRONGER PEOPLE – OUR SOCIETAL AMBITION

As one of the largest dairy producers in the world, we have multifaceted responsibility towards society. We provide nutritious and sustainable dairy products to millions around the world, which gives us a great chance and mandate to inspire healthy food habits. To cater to the needs of a growing population in certain emerging markets where we operate, we promote the development of the local dairy sector. We also take good care of our over 20,000 employees by providing them with safe and favourable work conditions and means for an adequate standard of living.

> “Sustainability is not just about reducing our climate impact. We have a large agenda, and sustainability is also about the people working for us in the entire value chain from farm to fork. We listen, we act and we try to lead by example in our industry.”
>
> Hanne Søndergaard, Chief Agriculture, Sustainability and Communications officer

Health and nutrition

Reducing sugar

Since 2011, we have been making significant improvements to the health value of our products. For example, we have reduced the sugar content of various yoghurts and milk-based-beverages by up to 30 per cent.

Nutrition criteria

Our nutrition criteria are guiding the principles of new product development and recipe formulation for our branded products.

Supporting communities

Going the extra mile to distribute affordable nutrition

Distributing affordable nutrition can be challenging in some markets. That is why, for example in Bangladesh, we teamed up with various partners to empower Bangladeshi micro-entrepreneurs to generate their own income, while distributing packs of Arla® Dano milk powder.

International dairy development

We work with local industry partners, NGOs and national governments to improve the dairy value chain through our knowledge of European farm management and dairy production practices.

Caring for people

Human rights

Building on our Scandinavian heritage, we are committed to respecting human rights, promoting non-discrimination and ensuring it in our business around the world.

Health and safety

Our people are our strength, and it is our ambition to ensure that all people at Arla are safe at work.

Supporting better food habits

Recipe inspiration

Our chefs & food experts have provided over 10,000 recipes to inspire healthy and nutritious meals for the whole family.

Farm visits

Our owners open up their farms every year to over 200,000 people visiting, so they can see where their food comes from.

Educational activities

Arla has many educational initiatives that aim to encourage a healthier relationship to food.

OUR BRANDS AND COMMERCIAL SEGMENTS

OUR GLOBAL BRANDS

Our strategic global brands are at the heart of our business and they drive the majority of Arla's value creation. In 2021, our brands did excellent, driving our overall branded volume growth to 4.5 per cent on top of the very high 2020 growth, and the branded share of our revenue to a record high of 49.3 per cent. We also gained market shares in key positions. All this while navigating the constantly evolving situation around Covid-19, fast-changing consumer trends and delivery challenges across the globe.

ARLA®

Arla® is our largest strategic brand based on revenue. It's an umbrella brand with diverse successful sub-brands covering milk, yoghurt, cream, powder and cheese. Arla® is the market leader in dairy in Denmark and Sweden, and has leading positions across the sub-brands in Germany, the Netherlands and the UK. We are also present in the market outside Europe, with succesfull sub-brands such as Arla® Dano in Soth East Asia and Western Africa. The brand's identity is built up around health and naturalness.

Arla® performed strong across all markets

Our Arla brand performed well in a challenging year, drawing from, and supporting our sustainability agenda by popularizing and commercializing the results from our Climate Check programme, and coming forth with more planet friendly packaging for our organic milk in Denmark and the Lactofree range. The overall branded volume growth was 4.4 per cent. From a geographic point of view, the growth was driven by the UK, where Cravandale, Lactofree and our organic line all grew ahead of the market. Amongst the sub-brands, our Arla® Fill n' Fuel products led the way, close to breaking EUR 100 million in revenue. In particular, Arla® Protein grew volumes exceptionally fast, by 32 per cent. Our repositioned Lactofree® products, did great, growing by 10.9 per cent in total. Arla® Dano in Bangladesh grew volumes by 18.8 per cent. The most important innovation of 2021 for Arla® was Creamy Skyr, a thicker, creamier version of the market favourite.

Strategic branded volume driven revenue growth

4.4%

2020: 3.0%

Revenue (EURm)

3,359

2020: 3,116

OUR GLOBAL BRANDS / CONTINUED

LURPAK®

Lurpak® is one of our oldest brand which just turned 120 years old in 2021. It's the leading butter and spreadable brand in Denmark, the UK, and MENA with constantly strengthening positions across all our key markets. Lurpak®, sold in 95 countries, is a key driver of our competitive advantage against our peers

Strategic branded volume driven revenue growth

0.5%

2020: 13.7%

Revenue (EURm)

646

2020: 628

Lurpak® gained market share

Our emblematic butter brand, Lurpak®, lived up to its now 120-years old reputation in 2021 as well. We managed to further gain market share in our biggest markets the UK and Denmark. Overall, Lurpak®'s volume growth ended up at 0.5 per cent year on year, due to the exceptionally high growth in 2020, driven mostly by the trend of home cooking during Covid-19 lockdowns. Lurpak® came close to repeating the historical success of 2020 in Denmark and MENA, but lost volume in the UK, where the growth in 2020 was also the highest. One exemption from the overall trend was the Netherlands, where Lurpak® doubled volumes between 2019 and 2021, due to significant new efforts in advertising the brand to Dutch consumers. Notably, Lurpak® experienced volume growth compared to 2019 across all markets.

PUCK®

Puck® is the number one spreadable cheese brand in MENA. Besides spreadable cheese, Puck® has also strong positions in other categories, such as shredded mozzarella and all purpose cream. The brand is focused on bringing mealtime joy and inspiration to families in the Middle East.

Another strong year for Puck® in MENA

Puck®, our loved dairy brand and household staple in MENA reached record market shares and became the number one spreadable cheese brand across the region. Puck® mamanged to maintain the exceptionally high volumes of 2020, which shows the brand's ability to adapt to the changing environment and connect with families in a meaningful way. However, Puck®'s revenue declined to EUR 382 million from EUR 403 million last year, due to exchange rates effects. As a breakthrough innovation, Puck® launched a range of sweet, milk-based ambient spreads bolstering the brand's foothold outside the chilled dairy aisle. Another significant achievement has been consolidating production from several sites into our site in Bahrain for improved efficiency and speed to market.

Strategic branded volume driven revenue growth

2.7%

2020: 9.9%

Revenue (EURm)

383

2020: 403

OUR GLOBAL BRANDS / CONTINUED

Strategic branded volume driven revenue growth

6.1%

2020: 3.5%

Revenue (EURm)

192

2020: 172

CASTELLO®

Castello® is our specialty cheese brand with a strong legacy of creating indulgent sensations, dating back to 1893. Our strongest market positions are in Denmark and Sweden, where Castello® is a tradtional, yet constantly renewing cheese brand. Castello® also has a strong presence as a challanger brand in US, Australia and Canada.

Castello® built on their excellent performance during the pandemic

In 2021, Castello® managed to build on the historic growth experienced in 2020 on the back of the home cooking trend, and achieved 6.1 per cent volume growth on top of that. Castello®'s recipe for success in 2021 was to get into recipes, to reposition specialty cheese from the cheeseboard to an exciting ingredient for cooking. Our new, digital marketing strategy focused on inspiring consumers through various channels from online recipe collection to Instagram accounts to cook with Castello® cheeses. These campaigns engaged consumers and proved to be more efficient, and cheaper than previous ways of advertising. The US, Sweden and Denmark did exceptionally well, with 21.6, 8.3 and 8.8 per cent volume growth, respectively.

STARBUCKS™

Starbucks™'s essence is to inspire and nurture the human spirit - one person and one cup at a time.
Arla has a long-term licence agreement to produce, market and sell Starbucks™ ready-to-drink products in Europe and MEA for over ten year now. Starbucks™ is a key driver for growth in EMEA, with multiple market-leading positions.

Starbucks™ reached 250 million units sold

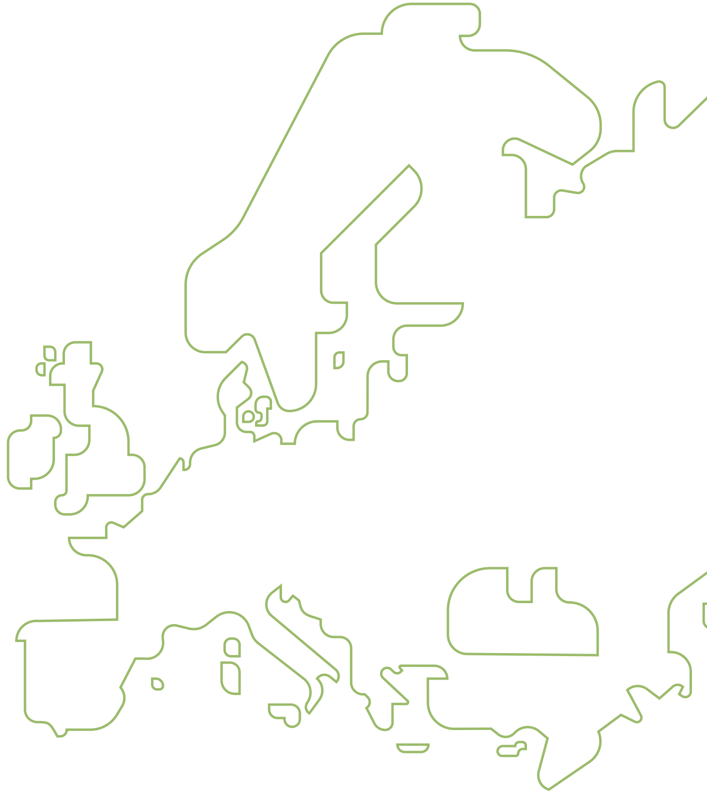
Our Starbucks™ ready-to-drink coffee assortment, now available in 51 countries in the EMEA region delivered 33.8 per cent volume growth, reaching 250 million units sold, and gained more than 3 percentage points market share compared to 2020. The growth was largely driven by the improved distribution in nearly all markets, availability in additional channels, like convenience stores, and the brands success in the UK, where Starbucks™ reached EUR 117,5 million in retail value. Innovation is also key to Starbuck™'s success, which was demonstrated this year by the successful launches of the Triple shot and the seasonal offers.

Strategic branded volume driven revenue growth

33.8%

2020: 27.3%

EUROPE



Our European commercial zone gained market share and delivered overall strong branded volume growth of 2.3 per cent in 2021, on top of the exceptionally strong growth of 5.7 per cent in 2020, despite a challenging set of circumstances including significant disruption from Covid-19, consumers shifting from foodservice to retail and price increases due to inflation. All markets contributed to the growth. From a brand perspective, Starbucks™ at 33.7 per cent, Castello® at 1.7 per cent and the Arla® brand at 2.3 per cent were the key drivers. Foodservice also delivered branded growth of 7.8 per cent.

Our European business unit

Our European commercial zone encompasses nine countries in Northern and Western Europe, and represents 59 per cent of the total Arla revenue. We are in mature markets, yet we are delivering market share gains and solid branded growth year on year, driven by strong brands such as Lurpak®, the Arla® brand and Starbucks™.

Key drivers of performance in 2021

The key drivers of branded volume growth were successful Starbucks™'s launches of the Grande Cup and Triple Shot, the 14.7 per cent growth of the Arla sub-brand Fill N' Fuel driven by Cream Skyr, Protein yogurts, pouches & puddings, and Arla Lactofree® with 11.2 per cent growth. The key markets driving growth were NL/FR/BE, UK and Denmark with 8.4, 3.8 and 2.2 per cent branded volume growth, respectively. Revenue in the e-commerce channel increased by 17 per cent.

Our preparation to Brexit helped us navigate the new trading environment and we only experienced minor disruption, but were impacted by the shortage of truck drivers.

Focus points for 2022

The volatility seen in 2021 is expected to continue into 2022. Inflation will continue to be a major factor in the market, likely making dairy products more expensive and slowing growth outlook for 2022. As we deliver the first year of our new global strategy, Future26, our focus will be on managing our market share through our brands across the Europe zone. Sustainability will be front and center with the Arla® brand leading the agenda driven by innovation and development of products that inspire consumers to live and eat sustainably.

Strategic branded volume driven revenue growth

2.3%

2020: 5.9%

Share of total Arla revenue

59%

2020: 60%

Revenue, EURm

6,621

2020: 6,413

Brand share

55.5%

2020: 54.1%

Click here for more information about the performance in particular countries and regions.

INTERNATIONAL

In 2021, our international zone delivered solid branded volume growth of 9.1 per cent despite the disruption of the Covid-19 pandemic and inflation pushing up prices towards the end of the year. Growth came from all six regions and was very balanced. We also managed to gain market share in key positions. As an important milestone for the zone, the production of processed cheese and milk based beverages, creams and sauces was consolidated at our Bahrain and Riyadh sites from sites across Denmark.

Our International business unit

Our International commercial zone encompasses around 140 countries on five continents, and represents 19 per cent of the total Arla revenue. In general, these are the regions where we experience the steepest volume growth. Our key brands in the zone include Puck®, Arla® Dano, Lurpak® , Castello® and Starbucks™.

Key drivers of performance in 2021

In 2021, despite the constantly changing circumstances due to shifting Covid-19 restrictions across our markets, we increased market shares in key positions in our International zone. Puck® gained market share in the Middle East, and Arla® Dano did so in Bangladesh and Nigeria. All of our global brands contributed to the strong volume growth of 9.1 per cent, on top of the very high 2020 baseline (12 per cent): Starbucks™ with 34 per cent, Arla® with 12 per cent, Castello® with 9 per cent, and Puck® with 3 per cent. However, the weak USD and the rising inflation throughout the year put pressure on our margins in all regions. A key achievement in 2021 was consolidating production from several sites into our site in Bahrain and Riyadh for improved efficiency and speed to market.

Focus points for 2022

In 2022 we are going to focus on recovering price inflation, growing our key brands and building international infrastructure to execute our new strategy, Future26. As a part of infrastructure development, we are establishing an Arla farm in Nigeria to contribute to the ambition of producing more milk in the country.

Strategic branded volume driven revenue growth

9.1%

2020: 11.6%

Share of total Arla revenue

19%

2020: 19%

Revenue, EURm

2,101

2020: 1,975

Brand share

86.6%

2020: 86.3%

Click here for more information about the performance in particular countries and regions.

ARLA FOODS INGREDIENTS

In spite of the continuing Covid-19 pandemic, AFI managed to grow their value-add ingredient business by 14.5 per cent compared to 2020, primarily driven by strong demand for specialised ingredients across our key markets. Growth was supported by the conversion of additional raw materials, recently secured through new strategic sourcing arrangements, to value-add sales. Significant increases in raw material and energy prices challenged margins in our ingredients business.

Growth of the value-add segment

14.5%

2020: 5.3%

Share of total Arla revenue

7%

2020: 7%

Revenue, EURm

794

2020: 716

Value-add share

74.0%

2020: 73.7%

Our ingredients business

Arla Foods Ingredients' (AFI) mission is to discover and deliver all the wonders whey can bring to people's lives. AFI is a global leader in whey-based ingredients and we bring unique protein and lactose solutions with added value to our customers. Our ingredients are used in a wide range of categories from infant, clinical and sports nutrition to dairy and bakery. In addition, we manufacture child nutrition products for third parties. AFI is a 100 per cent owned subsidiary of Arla.

Key drivers of performance in 2021

AFI's performance was largely driven by their strong innovations, such as the newly launched innovative ingredient, Beta-lactoglobulin (BLG), which has a unique nutritional profile targeted for muscle growth, and is produced using a patented new separation technology. In the meantime, our Child Nutrition Manufacturing business performed slightly below 2020 levels, following difficult market conditions in China. Our strategic outlook for this business remains positive.

Focus areas in 2022

In 2022, AFI will focus on the priorities outlined in the newly launched AFI strategy 2026, such as growing whey intake and implementing comprehensive sustainability programmes. The AFI Innovation Centre opened in 2021 will further support the innovation agenda by giving home to AFI's leading scientists, and bridging the gap between world class research, clinical trials and collaboration across the globe.

GLOBAL INDUSTRY SALES

The flexibility of our Global Industry Sales business model enabled us to quickly shift milk volumes throughout the year as effects from the pandemic changed the demand between the retail and foodservice sectors. During 2021, we have succeeded in increasing the proportion of higher-value commodity products sold, and gained the highest possible value for our farmer owners from the increasing prices.

Revenue, EURm

1,686

2020: 1,540

Share of total Arla revenue

15%

2020: 14%

Share of milk solids sold through global industry sales

22.1%

2020: 22.7%

What is the segment about?

In addition to our main sales channels, Arla conducts business-to-business sales of cheese, milk powder and butter to other companies for use in their production. 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.

Focus in 2022

In 2022, our main focus will however be handling volatile market conditions we have seen developing towards the end of 2021, with an unprecedented uptake in commodity prices and swings in milk production. 2022 will also bring a significant change to our business in Global Industry Sales with newly established capacities, especially in our powder tower in Pronsfeld and the expansion of our mozzarella facilities.

Key drivers of performance in 2021

European and global dairy commodity market prices increased significantly throughout the year, with an unprecedented acceleration towards the end of the year. The price increases were driven globally by lower milk production due to higher cost both on farm and in the dairies, combined with high demand in the industrial sector. The overall share of milk solids sold by our Global Industry Sales fell to 22.1 per cent compared to 22.7 per cent last year due to a decline in milk production in Northern Europe and an increase in the sales through Arla's retail channels. Despite the decrease in volume the revenue increased to EUR 1,686 million compared to EUR 1,540 million as a result of the price increases.

PERFORMANCE REVIEW

PERFORMANCE REVIEW

In a volatile year defined by Covid-19, fast economic rebound and inflationary pressure across value chains, we managed sales and operations with strong hands and delivered results above expectations on our most important performance indicators. The performance price increased to **39.7 EUR-cent/kg**, up from 36.5 EUR-cent/kg in 2020, driven by our ability to navigate the rising commodity market, firm underlying efficiencies and brand growth. Our brands achieved high branded volume growth of **4.5 per cent**, on top of the extraordinarily high 2020 growth (7.7 per cent).

Torben Dahl Nyholm
CFO

MARKET OVERVIEW

Highly volatile macroeconomic environment
As Covid-19 lockdowns were lifted in more and more countries and life returned to the 'new normal' during the first half of 2021, the global economy recovered fast from the steep decrease in 2020, keeping demand for dairy products high. However, new variants of Covid-19, labour and logistics challenges, weather-related issues along with other issues weighed on the global economic recovery and had a significant impact on the global dairy sector as well.

GDP growth was 5.6 per cent globally, the strongest post-recession pace in 80 years. Despite this year's pickup, the level of global GDP in 2021 was 3.2 per cent below pre-pandemic projections, and per capita GDP in many emerging market and developing economies remained below pre-Covid-19 peaks.

Global supply chains experienced several challenges during 2021, from energy and labour scarcity to problems with logistics. This, coupled with the increasing demand from the fast economic rebound, led to inflation quickly rising to very high levels in the second half of the year. Inflation, in turn, put further pressure on global supply chains as cost of production rose on all fronts, from energy and feed through ingredients and paper used for packaging, to fuel. While energy price increases hit the consumers in the second half of 2021, they have not felt the full effect of price increases on consumer goods much yet.

Opposed to the volatile macro and commodity markets, foreign exchange levels were relatively stabile during 2021 with average rates strengthening 3.3 and 3.2 per cent for GBP and SEK respectively. USD average rate weakened by 3.7 per cent compared to 2020.

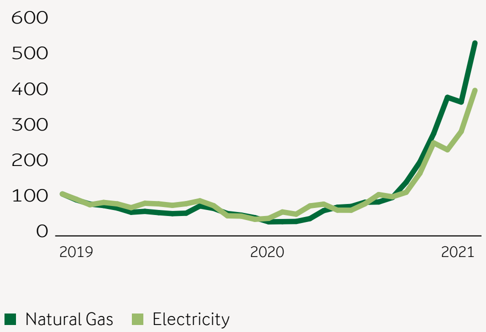
Changing consumer behaviour driven by Covid-19
During 2021, consumer behaviour was still significantly influenced by Covid-19, although to a lesser extent than last year. Overall, demand for dairy increased slightly in our key markets. Along with the easing of Covid-19 restrictions, consumer trends normalised, which meant less in-home cooking and less stocking of groceries at home. This was accompanied by the slow revival of the foodservice sector as restaurants, cafes and canteens opened again, overall leading to re-balancing of demand between retail and foodservice.

Online grocery shopping was largely accelerated by Covid-19 in the past two years. At the peak, 15 per cent of all grocery sales were online in certain European markets in 2021.

Slightly declining milk supply and significantly rising commodity prices
European milk production decreased slightly compared to the same period last year. Milk production generally decreased in big countries like Germany and France, and this was only partly offset by growth in small countries like Ireland. The supply flow was mostly stable, but high inflation in feed and energy prices as well as challenging weather conditions put pressure on milk production.

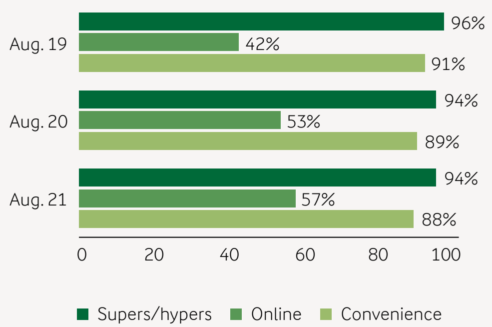
European and global dairy commodity markets quickly recovered from a decline in 2020. Similarly to other commodities, dairy prices increased steadily throughout the year, with an acceleration towards the end of the year. Farmgate milk prices followed the increase across the globe with a lag of a few months, however high feed, energy and fuel prices challenged profitability.

INFLATION IN ELECTRICITY AND NATURAL GAS PRICES (%)



Source: Kairos Commodities; Arla Procurement

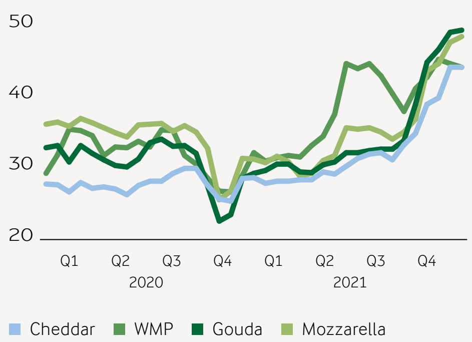
CHANNELS SHOPPED FOR GROCERIES (%)



Source: IGD, Online shopper trends 2021

EUROPEAN COMMODITY MARKET PRICES

Milk utilisation price equivalents, EURc/Kg



Source: GDT

:Source: OECD

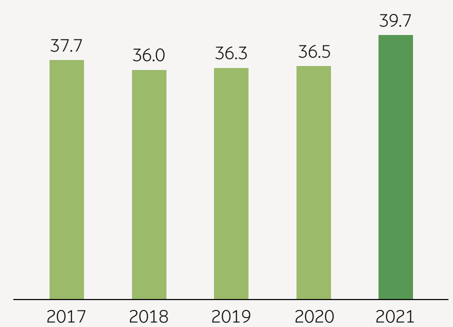
PERFORMANCE OVERVIEW

Competitive pre-paid milk price throughout the year
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 2021, we achieved a net profit of EUR 332 million, equalling 3.0 per cent of revenue.

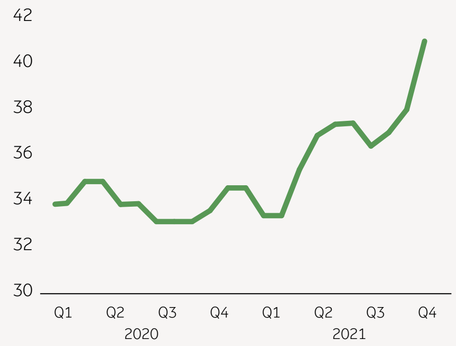
Our excellent branded volume growth combined with our agility to promptly adapt to new price conditions with the main impact materialising in our industry sales segment resulted in a competitive milk price paid to our owners. The continued momentum to create efficiencies across our value chain also contributed to the milk price increases. We managed to increase the average standard pre-paid milk price to 37.0 EUR-cent/kg, which is an increase of 3.3 EUR-cent/kg compared to 2020. Our performance price was 39.7 EUR-cent/kg in 2021, up from 36.5 EUR-cent/kg in 2020 (an increase of 8 per cent). This performance price positions Arla among the market leaders in Europe and supports our farmer owners, who also face increasing production costs on their farms.

Milk intake from our farmer owners decreased by 1.0 per cent compared to last year. The decrease effected all member countries but the UK. We saw the largest decrease in our Central European region, where cold weather, flooding and increased feed prices put a pressure on milk production. Milk intake from other sources decreased by 8.4 per cent compared to last year. However, total milk intake remained virtually unchanged compared to last year at 13.6 billion kg.

Performance price
(EUR-cent/kg)



Standard pre-paid milk price
(EUR-cent/kg)



PERFORMANCE OVERVIEW / CONTINUED

Revenue increase driven by brands and prices
Outperforming our guidance, our total revenue amounted to EUR 11.2 billion compared to EUR 10.6 billion in 2020. In 2021, we saw a revenue increase from prices of EUR 432 million, and an increase from growing branded volumes of EUR 72 million, driven by the success of our brands to meet changing consumer needs. Exchange rates had a positive impact of EUR 54 million. See Note 1.1 for further information.

Brands successfully built on their exceptional 2020 performance
A key pillar of our strategy is improving the overall quality of our revenue by driving our brands to success and thus growing our branded volumes. In 2021, we delivered strategic branded volume driven revenue growth of 4.5 per cent, on top of the exceptionally strong 7.7 per cent growth in 2020. This result shows the great adaptability of our brands. Our natural nutrition-rich products with their clear focus on sustainability, made our brands attractive to consumers in 2021, even as shopping and cooking habits started to return to pre-pandemic patterns.

Our biggest brand, Arla® performed above expectations with 4.4 per cent volume growth, driven by Lactofree®, Fill n' Fuel and the Arla® Pro products sold by our food service segment. Lurpak®came close to repeating its historical success of 2020 by growing 0.5 per cent on top of last years exceptional growth. Starbucks™ grew volumes at an astonishing 33.8 per cent, and Castello® at 6.1 per cent. Puck®also closed a successful year with 2.7 per cent volume growth.

Read more about our brands from page 28

BRANDED VOLUME DRIVEN REVENUE GROWTH

4.5%

2020: 7.7%

STRONG RESULTS DELIVERED BY OUR COMMERCIAL UNITS

Strategic branded volume driven revenue growth, Europe

2.3%

2020: 5.9%

Strategic branded volume driven revenue growth, International

9.1%

2020: 11.6%

Growth of value added products, AFI

14.5%

2020: 5.3%

Share of milk solids sold through global industry sales

22.1%

2020: 22.7%

- Both our Europe and International commercial zones contributed to the solid performance of Arla with their strong branded volume growth of 2.3 and 9.1 per cent, respectively, and increased market shares in key positions.
Read more in the report on page 32
- Our ingredients business, Arla Foods Ingredients (AFI), further increased its value added share by 14.5 per cent.
Read more in the report on page 34
- Due to the increased sales through Arla's retail channels, the overall share of milk solids sold by our Global Industry Sales fell to 22.1 per cent compared to 22.7 per cent last year.
Read more in the report on page 35

PERFORMANCE IN EUROPE

Denmark

In Denmark, revenue remained stable compared to 2020, with strong underlying branded volume growth of 2.2 per cent, increasing market shares and revenue of EUR 1,004 million. 2021 was a turbulent year impacted by both Covid-19 lockdowns and fast increasing inflation, which led to significant price increases. During 2021, Arla® re-launched Cultura® to strengthen our gut health focused proposition, asand extended the plant-based Jörd® assortment. The journey to become more sustainable continued. This included launching the three hearts symbol for good animal welfare on Arla® Organic, purchasing new climate-friendly distribution trucks and investing in more sustainable production.

Strategic branded volume driven revenue growth

2.2%

2020: 5.1%

Sweden

During 2021, Arla Sweden grew revenue by 5 per cent to EUR 1,431 million, with growth primarily driven by a rebound in the foodservice channel as society opened up post-Covid. Market shares developed positively across all customers, categories and brands. Particularly, Starbucks™, Castello® and Arla® Pro brands performed well. Overall branded volume growth was 0.8 per cent. In the latter part of 2021, commodity inflation led to significant price increases. In support of the sustainability agenda, we opened an innovation farm centre of excellence, Finngarne Gård.

Strategic branded volume driven revenue growth

0.8%

2020: 2.5%

UK

2021 was a year where our UK business navigated successfully through several external challenges to deliver much-needed returns for farmer owners. Despite the cumulative effects of driver and labour shortages, accelerating inflationary cost pressures dampening the performance somewhat, we managed to deliver overall branded growth of 3.8 per cent and revenue of EUR 2,526 million. In the first half of the year performance was under-pinned by continued heightened in-home consumption as a result of the extension of Covid-19 lockdown. We recorded strong branded volume growth, with notably Arla®, Lurpak® and Starbucks™ continuing to consolidate their market share positions. The latter half of 2021 welcomed the reopening of foodservice, which achieved 18.8 per cent branded volume growth. We also finalized Climate Checks on our owner farms, which is a clear differentiator for the Arla® brand.

Strategic branded volume driven revenue growth

3.8%

2020: 13.1%

Germany

Our branded business delivered another year of growth in 2021, with volumes increasing by 1.7 per cent. The pandemic led to slightly declining dairy consumption in retail after the lockdown was lifted, while the foodservice sector only partly recovered. As a result of this, revenue decreased slightly, to EUR 991 million from EUR 1,024 million last year. We landed strong innovations, for example Arla® Kærgarden Bio, successfully launched an Arla® master brand campaign and took clear market leadership on the Starbucks™ brand. Unprecedented inflation in the second half of the year resulted in a decline of milk production on farm. This triggered major price increases, in line with the market trend

Strategic branded volume driven revenue growth

1.7%

2020: 7.1%

The Netherlands, Belgium and France

In our cluster, the Netherlands, Belgium and France, 2021 was yet another strong year with branded volume growth of 8.4 per cent, bringing the total revenue to EUR 360 million. We continued to build our core brands and delivered impressive double-digit growth for Lactofree, Arla® Skyr, Melkunie® Protein, Melkunie® Breaker, Starbucks™ and Lurpak®. The first climate neutral dairy products, Arla® Organic climate neutral, were introduced on the Dutch market in 2021 – a next big step in our sustainability journey, which also put our brand in a stronger position by gaining market share.

Strategic branded volume driven revenue growth

8.4%

2020: 9.8%

Finland

Covid-19 continued to impact the Finnish business in 2021, which meant that our total revenue in Finland declined slightly and landed at EUR 309 million, compared to EUR 315 million last year. Despite the challenging market environment including restrictions hitting the sizeable foodservice channel, we managed to offset some of the headwinds by winning new customers and growing branded volumes by 0.8 per cent. In the retail channel, our main brands such as Arla® Lempi delivered solid growth. Innovation is a continuous strong focus for the Finnish business and some of the succesful innovations in 2021 were the Arla® Protein puddings, Arla® Keso flavoured cottage cheese and Ingman quark. Sustainability is another key focus for our Finnish business. In 2021, we launched free-range grazing milk combined with an augmented reality experience.

Strategic branded volume driven revenue growth

0.2%

2020: -7.3%

PERFORMANCE IN INTERNATIONAL

Middle East and North Africa

On top of the unprecedented growth in 2020, driven by Covid-19 induced trends, we achieved 5.2 per cent volume growth in the Middle East and North Africa in 2021. However, revenue decreased to EUR 734 million, from EUR 748 million last year due to exchange rates. The branded volume growth was driven by Iraq, Kuwait and our distributor sales, while political tension in the region caused difficulties in supplying products to certain markets. Our food-service business also gained momentum after a challenging 2020, growing volumes at 44 per cent. Arla also continued to gain market shares in key markets, especially for Puck®, Kraft® and Starbucks™, proving our strong position in the market.

Strategic branded volume driven revenue growth

5.2%

2020: 20.1%

North America

In North America, overall revenue increased by 7 per cent to EUR 289 million and branded volume growth was up by 8.3 per cent in 2021. Despite significant price increases, Castello® grew volumes by a remarkable 8.3 per cent, driven by the US and Canada. The Arla® brand continued last year's strong performance, this year with a volume growth of 10.3 per cent. Canada maintained solid growth, driven by local brand Tre Stelle, positively impacted by the continued home cooking trend. The North American branded share of sales went from 79.6 per cent in 2020 to 82.3 per cent in 2021.

Strategic branded volume driven revenue growth

8.3%

2020: 7.6%

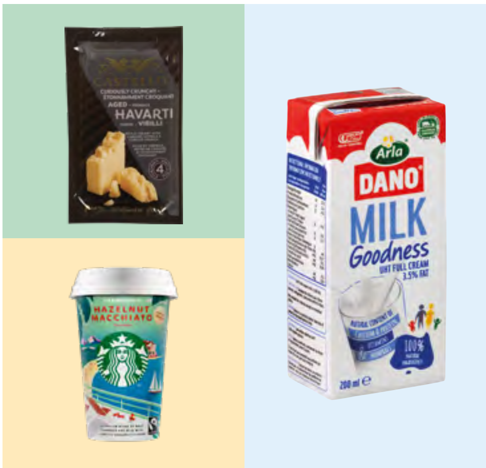
Rest of the world

Rest of the world, including Australia, Russia, our distributor sales and European subsidiaries, delivered volume driven growth of 8.5 per cent, and total revenue of EUR 508 million in 2021. Key drivers of the performance were Lurpak®, growing volumes by 8.8 per cent, and Starbucks™ growing volumes by 45.8 per cent. As Covid-19 restrictions eased, our foodservice business bounced back from the decline in 2020, however it has not yet reached pre-pandemic levels. All markets contributed to the growth, and particularly our European subsidiaries and our distributor sales experienced double-digit growth rates.

Strategic branded volume driven revenue growth

8.5%

2020: 9.5%



West Africa

2021 was an exceptionally good year for West Africa, with 13.3 per cent branded volume growth and 14 per cent revenue growth. Growth was driven primarily by the Arla® Dano products, which gained significant market share in Nigeria, our main market in the region. Price increases more than offset the devaluation of the Nigerian currency. In the second half of the year, we signed a land lease agreement in Kaduna state in Nigeria and started the construction of an Arla farm. Senegal continued its positive development in 2021, with 27.8 branded volume growth.

Strategic branded volume driven revenue growth

13.3%

2020: -1.3%

South East Asia

Despite a turbulent year with lockdowns and economic challenges due to Covid-19, we grew our branded volumes by 27.1 per cent across South East Asia and achieved a significant profit improvement in 2021. Our growth was mainly driven by the strong performance of our Arla® Dano brand in Bangladesh, where we grew our volumes by an astonishing 20 per cent. In the Philippines we were able to further increase our market share and achieve 23.7 per cent branded volume growth with our strategic brands. Furthermore, our foodservice business across the region achieved 32 per cent volume driven revenue growth. We reached total revenue of EUR 180 million for 2021, forming a solid basis for continuous growth in the coming years.

Strategic branded volume driven revenue growth

27.1%

2020: 9.3%

China

Our Chinese business performed well in 2021, with 12.4 per cent branded volume, and 24.3 per cent revenue growth, reaching EUR 235 million in revenue. Growth was primarily driven by milk sales. Through our partnership with Mengniu, cheese and butter export sales also grew significantly. We successfully launched Lurpak® sales in a popular members-only warehouse store, Sam's club. Our early-life nutrition segment performed on a par with last year.

Strategic branded volume driven revenue growth

12.4%

2020: 9.3%

PERFORMANCE OVERVIEW / CONTINUED

Foodservice and e-commerce had a good year
In the continued pandemic in 2021, with both re-openings and lockdowns in our key markets in Europe, our foodservice business captured the opportunities in the marketplace, gaining shares in most markets due to strong delivery, key account management and agility.

Our European foodservice business delivered 7.8 per cent branded volume growth, resulting in EUR 38 million revenue growth in 2021. Half of the growth was delivered by our Arla® Pro brand. From a geographical perspective, most of the growth was coming from the UK, Sweden and Denmark.

On the back of an exceptionally strong 2020, Arla e-commerce managed to grow revenue above expectations in 2021, by 17 per cent, despite the slowdown in the market. All six European core markets reported positive growth, with the UK contributing 65 per cent of total growth. To accelerate our e-commerce presence, we invested in digital tools and human resources. Our newly formed, specialised e-commerce acceleration team rolled out digital shelf analytics to measure, track and influence Arla's performance on the digital shelf.

Calcium concluded successfully
In 2018, we launched our four-year savings and efficiency programme Calcium in response to the volatility of fat and protein prices and the GBP falling due to Brexit. Calcium created operational efficiencies across the organisation and delivered underlying savings (excluding inflation) of EUR 634 million over the past four years, surpassing our original expectations. In the past two years, we managed to deliver efficiencies at the same pace as during the first half of the programme, even though Covid-19 posed serious challenges to our supply chain and the continuity of our operations. In 2021, savings primarily came from optimised supply chain operations, in-sourcing of marketing activities and optimised trade investments. Moreover, Covid-19 restrictions led to extra savings in indirect costs, as there were minimal travel and events in 2021.

Net savings from the programme came under pressure in 2021 due to the unprecedented inflation with a EUR 221 million negative effect. However, with active pricing efforts we recovered some of the loss due to inflation.

With our new strategy, Future26, we also launched the next phase of our efficiency programme called Fund our Future in 2021. Fund our Future largely builds on the successes of Calcium, with the additional focus on net revenue management and end-to-end planning across our supply chain.

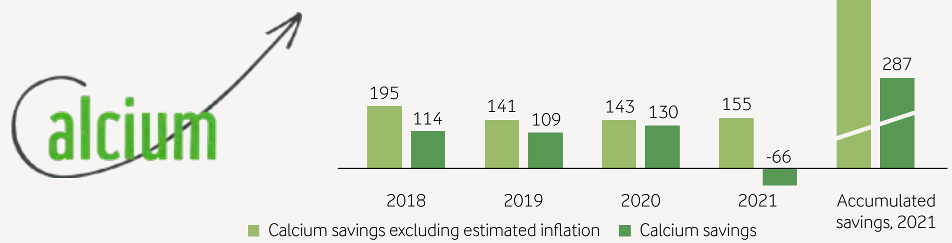
Carbon emissions on farm on a par with last year
In 2021, we continued to work towards lowering our CO_2e emissions throughout our supply chain. Compared to our baseline, 2015, scope 1 and scope 2 emissions lowered by 25 per cent, which puts us well in progress to reach our science-based reduction target of 63 per cent by 2030. Our scope 3 CO_2e emissions were reduced by 7 per cent since 2015.

In total, CO_2e emissions increased to 19,783 million kg compared to 19,376 million kg last year. The development is explained by an increase in externally purchased whey in Arla Foods Ingredients and increased emissions related to expanding production capacity at our production site in Bahrain. These factors were partly offset by increased purchase of biogas certificates.

Scope 3 emissions per kg milk and whey amounted to 1.21 kg, unchanged compared to last year. In 2021, emissions specifically from Arla's owners amounted to 1.15 kg CO_2e per kg of owner milk, on par with last year.

Read more about the progress towards our sustainability target in our ESG report.

CALCIUM SAVINGS
(EURm)



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PERFORMANCE OVERVIEW / CONTINUED

Strong financial position in 2021
Leverage measures our 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 2021, leverage improved to 2.6 compared to 2.7 last year.

Net interest-bearing debt, excluding pension liabilities, increased to EUR 2,221 million compared to EUR 2,180 million last year.

Cash flow from operating activities increased by 6 per cent to EUR 780 million, compared to EUR 731 million last year, mainly due to higher EBITDA.

Net working capital increased by EUR 131 million to EUR 810 million, representing an increase of 19.3 per cent compared to last year. The increase was due to deliberately reduced use of trade receivable finance programmes, higher prices and inventory values.

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.

Investments to enhance our new strategy
In 2021, our investments totalled EUR 566 million. The main focus of our investments was the execution of our key CAPEX projects. In Germany, the construction of a new powder tower in Pronsfeld proceeded well. In Bahrain, we extended our production site to encompass the entire production of Kraft® and Puck® products. In Denmark, we continued with the capacity increase of the mozzarella production at Branderup dairy as well as the construction of our new AFI Innovation Centre which opened in November 2021.

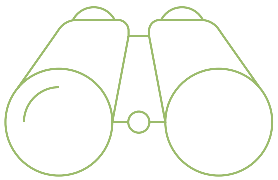
Apart from these large constructions we also invested significantly in improving and expanding our IT and digital assets and competencies.

Financial leverage development

FINANCIAL OUTLOOK

Our outlook for 2022
We expect inflation and volatility in the market to continue to impact our business well into 2022. Changes in consumer behaviours will be multifaceted and difficult to predict. We expect to see a slow-down in branded growth due to potential reduced buying power of consumers and normalisation of trends from Covid-19. Therefore, our guidance for branded volume growth is 0-2.5 per cent for 2022, with likely a slower start of the year. We expect revenue in the range of EUR 11.8-12.4 billion, the increase primarily driven by increased sales prices reflecting the historically high commodity prices.

Our new efficiency programme, Fund our Future is expected to deliver savings in the range of EUR 70-100 million, driven by the successful initiatives started during Calcium, supported by the new digitalization and automation projects launched in Fund our Future . For leverage, we lower our outlook to 2.5 - 2.9, driven by an expected strong cash flow. We expect our scope 1 and 2 CO_2e emissions to lower further compared to our 2015 baseline, despite production expansion in our new powder tower in Pronsfeld and in our international markets. Our scope 3 emissions per kg of milk and whey are also expected to reduce in 2022, however we acknowledge that sustainability projects on farm yield results with a time lag. These improvements will ensure that our farmers remain amongst the world's most climate efficient, and move us forward to reaching our 2030 emission reduction targets of 63 per cent scope 1 and 2 and 30 per cent scope 3 per kg of milk and whey.



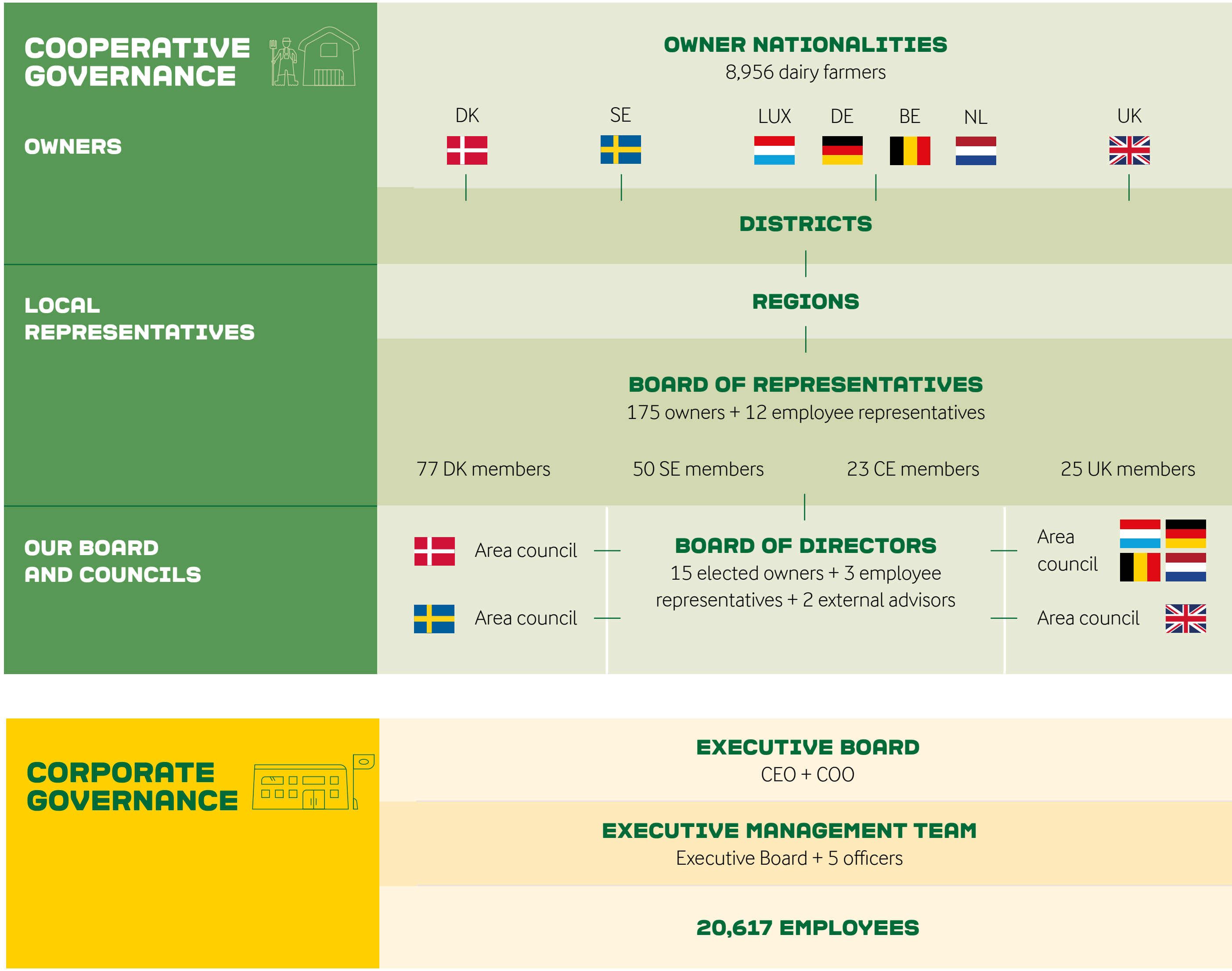
	OUTLOOK 2021*	ACHIEVEMENTS IN 2021	OUTLOOK FOR 2022
Strategic branded volume driven revenue growth	3 - 4%	4.5%	0 - 2.5%
Revenue (EURb)	10.6 - 11.0	11.2	11.8 - 12.4
Profit share	2.8 - 3.2%	3.0%	2.8 - 3.2%
Calcium/Fund our Future (EURm)	> 150	155**	70 - 100
Leverage	≤ 2.8	2.6	2.5 - 2.9
CO_2e emissions scope 1+2 vs. 2015		-25%	LOWER THAN LAST YEAR
CO_2e emission scope 3 per kg milk and whey vs. 2015		-7%	LOWER THAN LAST YEAR

** As announced at H1 2021.*
*** Excluding inflation. Targets in our next efficiency programme Fund our future are defined excluding inflation.*

GOVERNANCE

GOVERNANCE FRAMEWORK

Arla is a cooperative owned by 8,956 dairy farmers in seven countries. Ensuring that all of our owners are able to raise their voice and seek representation for their opinions is essential in a trustworthy and successful cooperative. To ensure this, Arla's cooperative governance works on democratic principles. Every second year, 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. The next election period is scheduled for spring 2022*.



** The 2021 elections were postponed to 2022 due to Covid-19.*

GOVERNANCE FRAMEWORK / CONTINUED

COOPERATIVE GOVERNANCE

The two main farmer owner representation and decision-making bodies of Arla are the 20-member Board of Directors (BoD) and the 187-member Board of Representatives (BoR). Their primary tasks are to develop the ownership base, safeguard the cooperative democracy, embed decisions and develop leadership competencies among farmer owners and set the overall strategic direction for Arla.

Owners
In 2021, 8,956 milk producers in Sweden, Denmark, Germany, the UK, Belgium, the Netherlands and Luxembourg were the joint owners of Arla. All cooperative owners have the opportunity to influence significant decisions. Last year, the cooperative had 9,406 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.

District councils
Each year, cooperative owners convene for a local annual assembly in their respective countries to ensure their democratic influence on Arla's decision-making. 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 of our cooperative governance comprising 187 members, of whom 175 are cooperative owners and 12 are employee representatives. Owner representatives are elected every other year. The next election is scheduled for 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 ensuring that Arla is managed in the best interest of the farmer owners. This responsibility involves strategic direction setting, monitoring the company's activities and asset management, maintaining the accounts satisfactorily and appointing the Executive Board. 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. 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.

** The 2021 elections were postponed to 2022 due to Covid-19.*

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 BoD, is responsible for managing the company, ensuring the proper long-term growth, driving the strategic direction, following up on targets 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, currently the Executive Vice President of our Europe segment.

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 five functional experts and one commercial leader. The functional experts cover the management areas of Finance, IT and Legal (CFO), Marketing and Innovation (CMO), Agriculture, Sustainability and Communications, 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 of all significant developments in their business areas and align on all cross-functional measures.

Employees
Arla has 20,617 full-time equivalents (FTE) globally, compared to 20,020 last year. Our employees are represented by three elected members on the BoD and 12 elected members on the BoR.

BOARD OF DIRECTORS

Our Board of Directors has a wealth of knowledge, consisting of 15 elected farmer owners, three employee representatives and two external advisors. In 2021 two Swedish farmer members, Heléne Gunnarson and Jan Erik Hansson resigned and handed over to Marita Wolf and Gustav Kämpe, also from Sweden. Manfred Graff was elected as the successor of Heléne Gunnarson as vice chairman.

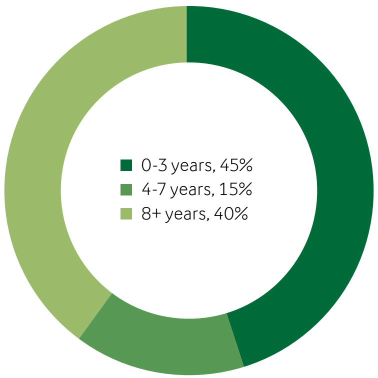
From left to right, starting from the first row: Walter Lausen, Steen Nørgaard Madsen, Manfred Graff, Jan Toft Nørgaard, Florence Rollet, Nana Bule, Marcel Goffinet, Inger-Lise Sjöström, Jonas Carlgren, Harry Shaw, Simon Simonsen, Jørn Kjær Madsen, Bjørn Jepsen, Johnny Rusell, René Lund Hansen, Ib Bjerglund Nielsen, Marita Wolf, Gustav Kämpe, Arthur Fearnall, Håkan Gillström

BOARD OF DIRECTORS / CONTINUED

COMPETENCIES AND DIVERSITY OF THE BOD

Despite their mostly similar background in agriculture and dairy, our Board of Directors (BoD) is equipped with a wide range of skills and expertise, which enables them to conduct first-class global governance. The competencies of the Board are evaluated every other year in a transparent process approved by the Board of Representatives. Based on the results of the evaluation, board members can enrol in different trainings to further strengthen their skillset.

Tenure



Gender

Male

87%

2020: 87%

Female

13%

2020: 13%

Member biographies

Jan Toft Nørgaard (1960)
Member since: 1998
Occupation: 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

Manfred Graff (1959)
Member since: 2012
Occupation: Dairy farmer
Internal positions: Vice Chairman of the Board, Chairman of the Arla Central Europe Area Council, Learning and Development Committee, Remuneration Committee
External positions: Member of the Board of German Milch NRW 2007, member of the Board of the German Federation of Cooperatives 2015

Nana Bule (1978)
Member since: 2019
Occupation: CEO of Microsoft Denmark and Iceland
External positions: Member of the Board of Energinet 2018, member of the Board of the Confederation of Danish Industry 2019

Jonas Carlgren (1968)
Member since: 2011
Occupation: 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 the UN High-Level Political Forum

Arthur Fearnall (1963)
Member since: 2018
Occupation: Dairy farmer
Internal positions: Chairman of the Arla UK Area Council, Global Appeals Committee

Håkan Gillström (1953)
Member since: 2015
Occupation: Dairy worker
External positions: Member of the Swedish workers' union

Marcel Goffinet (1988)
Member since: 2019
Occupation: Dairy farmer
Internal positions: Global Appeals Committee Preparatory Working Group
External positions: Chairman of the Board of Agra Ost Agriculture Research, Member of the municipal government of St.Vith, Member of the Bauernbund farmer association

BOARD OF DIRECTORS / CONTINUED

René Lund Hansen (1967)
Member since: 2019
Occupation: 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

Gustav Kämpe (1977)
(BoD) Member since: 2021
Occupation: Dairy farmer
External positions: Vice Chairman of Växa, member of the Board of the Swedish Dairy Association

Harry Shaw (1952)
Member since: 2013
Occupation: Despatch operator
External positions: Member of the British workers' union

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

Inger-Lise Sjöström (1973)
Member since: 2017
Occupation: Dairy farmer
Internal positions: Chairman of the Arla Sweden Area Council, Learning and Development Committee
External positions: Member of the Board of the Swedish Dairy Association 2017

Bjørn Jepsen (1963)
Member since: 2011
Occupation: 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
Occupation: Dairy farmer
Internal positions: Global Organic Committee

Jørn Kjær Madsen (1967)
Member since: 2019
Occupation: 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 (1968)
Member since: 2013
Occupation: Dairy production worker
External positions: Member of the Danish workers' union

Florence Rollet (1966)
Member since: 2019
Occupation: Senior advisor to Luxury Tech Funds

Steen Nørgaard Madsen (1956)
Member since: 2005
Occupation: Dairy farmer
Internal positions: Chairman of the Arla Denmark Area Council, 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

Johnnie Russell (1950)
Member since: 2012
Occupation: 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

Marita Wolf (1959)
(BoD) Member since: 2021
Occupation: Dairy farmer
Internal positions: Chairman of the organic committee, Sweden
External positions: Member of the Board of the Swedish Dairy Association, part of the District Court of Linköpings Tingsrätt

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 of the European and International commercial segments. The Executive Management Team is responsible for Arla's day-to-day business operations and for developing Group strategies.

David Boulanger (1970)

CSO, Executive Vice President, Supply Chain

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 of Danone's 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

Simon joined Arla in 2002 as UK Sales Director before becoming Senior Vice President of Sales and Marketing, where he played a major role in the significant transformation of the UK business. In 2016, Simon moved to the newly setup Europe Zone as Senior Vice President of 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 the UK, the Netherlands and Italy. Simon holds a 1st class Bsc Hons degree in Management Sciences from Loughborough University.

Simon is also:

- Member of the Board of Mengniu

Torben Dahl Nyholm (1981)

CFO and Executive Vice President, Finance, Legal IT and Strategy

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 and Trading, Chairman of Arla Foods Ingredients

Peder has been with Arla for 34 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)

COO, Executive Vice President of Europe, member of the Executive Board

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. He holds a Master's degree in Business Administration, Organisation and Management from the Aarhus University School of Business and Social Sciences.

Peter is also:

- Board member in AIM, the European Brands Association
- Member of 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)
- Member of the Board of the Toms group

Ola Arvidsson (1968)

CHRO, Executive Vice President, HR

Ola joined Arla in 2006 as Corporate HR Director, and has been Chief HR Officer of Arla since 2007. He came to Arla from Unilever, where he held various director positions across Europe and the Nordics, with his last position as Vice President of HR. Prior to Unilever, Ola served as an Officer in the Royal Combat Engineering Corps in the Swedish Army. 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 Confederation of Danish Industry

Hanne Søndergaard (1965)

CASO, Executive Vice President, Agriculture, Sustainability & Communication

Hanne has been with Arla for 33 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 Vice CEO of Arla UK before she in 2010 moved into a global marketing role as Senior Vice President of Brands and Categories. In 2016, she became CMO and Executive Vice President and joined Arla's Executive Management Team. In January 2021, Hanne became Executive Vice President of Agriculture, Sustainability and Communication. Hanne holds business degrees from the Aarhus University School of Business and Social Sciences and Harvard Business School.

Hanne is also:

- Member of the Board of Arla Fonden, of the Technical University of Denmark and of the Danish Climate Forest Foundation (Klimaskovfonden) established by the Ministry of Environment of Denmark

MANAGEMENT REMUNERATION

Arla's executive remuneration guidance is designed to encourage high performance and support value creation. The guidelines 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 guidance set by the Board of Directors (BoD) and reviewed regularly. The BoD is guided by the recommendations of the Remuneration Committee (RemCo), consisting of six board members, including the chairmanship. The RemCo works as a preparatory committee for the BoD as well as the Board of Representatives (BoR), with a special focus on the BoD, BoR and the Executive Board. It is also the Committee's responsibility to ensure that the remuneration guidance, practices and incentive programmes support the strategy of Arla and create value for the owners by enabling Arla to attract and retain the best qualified elected representatives, executives, directors and key employees. The RemCo meets four times a year.

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-term 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 achieving Arla's short-term 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)

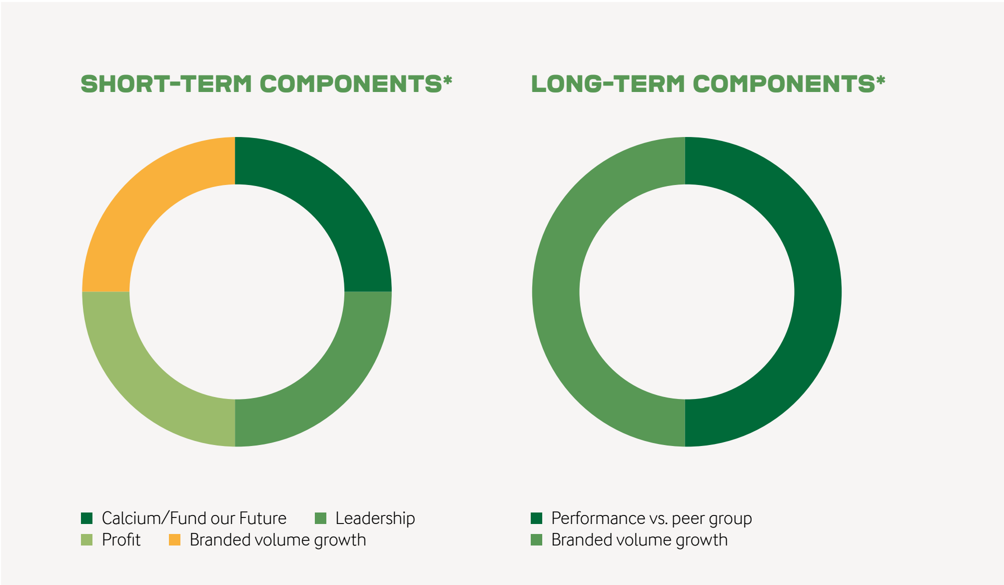
The remuneration of the BoD comprises a fixed fee and is not incentive-based. We believe this ensures that the Board is primarily focused on the cooperative's long-term interests. Beyond a minimal travel per diem, no additional compensation is paid for meeting attendance or committee service. The BoD's 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, refer to page 113.

Executive Board and
Executive Management Team (EMT)

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 RemCo. The EMT's remuneration is set by the CEO. For more details on specific amount, go to page 113.

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 all executives. The main components of the LTI are branded volume growth, and the group's performance versus a peer group (see graphs).



* The ratio of elements displayed here is only illustrative, as the weight of the elements differs across members of the EMT.

DIVERSITY AND INCLUSION

In Arla, we believe that diversity and inclusion are imperative to the well-being of our colleagues and success of our business as we know that a diverse and inclusive workforce will enable our innovation capability, higher engagement and increased business results. Our definition is broad as we look at both gender, nationality, generation but also ethnicity, diversity of thought and inclusion.

Our strategy

To secure a stronger leadership pipeline and improve opportunities for all to advance, we aim to build diverse and inclusive teams. All colleagues, regardless of background, culture, religion, gender etc., should feel that they can bring their authentic self to work and have a voice in Arla. In 2022, we will launch our new Diversity & Inclusion Strategy as an enabler to our Group Strategy, Future26. Our strategy will unfold our revised ambition towards '26, new global targets and how to work with and reach them.

People development

We will further build on our offerings with targeted training programmes to senior leaders, people managers and all colleagues regarding D&I awareness, unconscious bias and the like to further build and sustain an inclusive culture.

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 leaders to be recruited from a diverse pool of candidates. 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 supporting our internal D&I community

In 2017, we established a global 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. In 2021, we re-ignited the network and will further support and expand the network in 2022 and beyond.

Monitoring

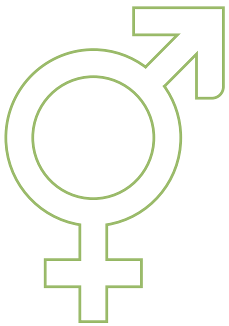
We are committed to reporting on our progress towards our long-term diversity and inclusion ambition and targets to our Executive Management Team and externally on a regular basis.

> "All colleagues, regardless of background, should feel that they can bring their authentic self to work and have a voice in Arla."

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*



Male

73%

2020: 73%

Female

27%

2020: 27%

** This is the gender ratio of the total workforce. Gender ratio in bluecollar workforce: female: 18%; male: 82%; and in white-collar workforce: female: 41%; male: 59%.*

Gender distribution in management

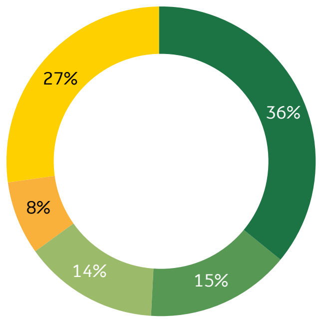
	Male		Female	
	2021	**2020**	**2021**	**2020**
EMT	86%	86%	14%	14%
BoD**	80%	80%	20%	20%
BoR	86%	84%	14%	16%
Director+ level	73%	74%	27%	26%

*** 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% female, 87% male.*

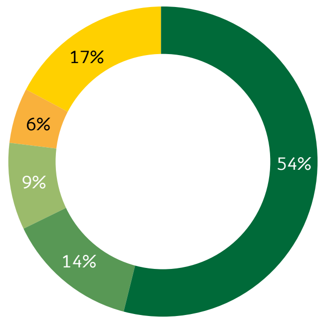
Total number of nationalities

118

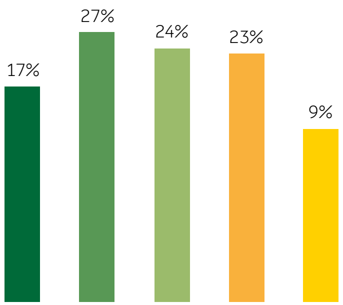
Split by nationalities



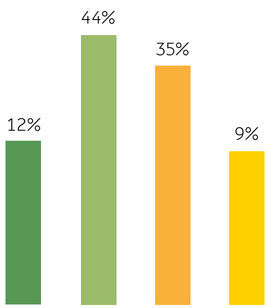
Nationality distribution at director+ level



Age distribution

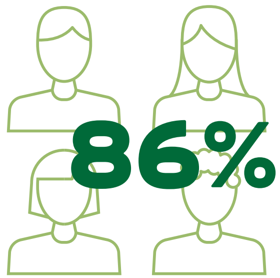


Age distribution at director+ level



<30 30-39 40-49 50-59 >60

Diversity in teams, age*



86%

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

Diversity in teams, nationality*

34%

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

Nationalities in the EMT

RISK AND COMPLIANCE

RISK MANAGEMENT

As a cooperative with cross-country ownership and global activities, Arla faces multiple risks and uncertainties that may threaten our ability to pay a competitive milk price to our owners and deliver the aspirations of our new strategy, Future26. Steering through 2021 with increasing demand from consumers for sustainably produced dairy products as well as upcoming climate-related regulations and requirements exemplifies why strong risk and compliance management is important.

Risk management

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

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 trends and 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 2021, the Board of Directors, as part of the Future26 strategy development, discussed opportunities and risks related to transformation of consumer behaviour, impact of EU environmental and climate regulations, and disruptive pace of change enabled by technology, such as e-commerce.

Risk identification

We identify 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.

Key changes in Arla's risk position in 2021

- Major global trends largely continued from 2020, with accelerated uncertainty around the economic landscape.
- Disruptive pace of change in consumer trends accelerated due to Covid-19. We responded to that challenge in our new strategy, Future 26, by defining how we are going to build our growth platforms.
- The likelihood of the EU issuing stricter environmental regulations has increased. This risk is also addressed as part of our new strategy, Future26, embedded within 'Lead sustainable diary' pillar.
- Risk of cyber crimes increased during 2021, therefore it was high on Arla's agenda.

To read more about Future26 go to page 11.

TYPES OF RISK

We differentiate risks 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.

RISK OVERVIEW – CRITICAL RISKS

Consumer trends

Impact
Constant transformation of consumer preferences is a given in the FMCG industry, but the fast pace and the volatility of these trends could significantly affect our sales. Currently two major trends shape the business: consumers are pushing for more sustainable products, and they are shopping for their groceries online more and more frequently

Mitigating actions
We continuously monitor consumer trends from shopping habits to flavour preferences, and cater for them whenever possible. As part of our our new Future26 strategy, we are developing more sustainable packaging and products, and working on significantly lowering our food waste. To capitalize the growing channel of online grocery shopping, in 2021, we continued to build on our partnerships across the grocery channel and invested in people and technology.

Climate-related regulations

Impact
As an agricultural business Arla is effected by climate from various perspectives. Changing weather patterns and forthcoming regulations and policies to mitigate climate change can both have a significant impact on our milk volumes and/or on our profitability. Particularly, the EU's climate and Farm to Fork strategies could define emission reduction requirements that we can only comply with by reducing volumes or by imposing significant cost on the business, or our farmer owners.

Mitigating actions
We are closely following the EU's climate and Farm to Fork strategy implementation and contribute with insights for constructive policy making. In anticipation of forthcoming emission reduction regulations, our new strategy, Future26 introduced ambitious climate targets to significantly lower our carbon footprint across our value chain. To achieve these targets we are working in close collaboration with our farmer owners, who in 2021 received detailed action plans for emission reduction, based on their current performance measured by our Climate Checks programme.

Information security and cyber attacks

Impact
We see a growing trend in crimeware targeting manufacturing companies, and also a sharp increase of attacks on our business partners, which keeps the risk of a major cyber-attack high. Such an attack could potentially damage our ability to manufacture, deliver and sell our products if critical supporting systems are disrupted.

Mitigating actions
In 2021, we continued to strengthen our processes around mitigating IT security vulnerabilities and deployed a broad framework of integrated tools, which gave us enhanced capabilities to identify threats and react promptly. We also observed significantly improved employee behaviour in cybersecurity awareness simulations and trainings.

RISK OVERVIEW – MAJOR RISKS

Global political and economic volatility

Impact

In recent years there has been significant instability in the global economic and political landscape, with Covid-19 significantly increasing general volatility .As a global company, Arla is exposed to these trends and events as they affect demand for dairy, international trade relations, the movement of goods and services, and have severe effect on exchange rates and commodity prices. In 2021, the economic impacts of Covid-19 exacerbated uncertainty, while the unprecedented inflation partly caused by the fast economic rebound challenged our margins and put a strain on our owners. Labour shortages and other supply chain disruptions, and the swings in demand between retail and supply chain also posed challenges to Arla this year. These turmoils are likely to continue into 2022 as well.

Mitigating actions

With Arla's broad international footprint and agile supply chain, we are set up to deal with the global political and economic volatility. To address the impacts of Covid-19 in particular, a dedicated crisis management team worked with various planning scenarios throughout 2021. This also enabled us to adapt quickly when inflation hit. From a supply chain perspective, accurate forecast was key. With regard to utilities and ingredients, hedging principles are part of planning to accommodate inflation.

Quality, health and safety risks

Impact

We have a complex and long value chain, with thousands of employees producing a large variety of products. Ensuring that our products are safe to consume and are appropriately labelled, and keeping our employees safe and healthy are key to the success of Arla. Major product quality and/or food safety issues may lead to a loss of brand reputation and decreased trust in our products. Furthermore, downgrade of products may lead to financial losses. During the past two years the pandemic posed a risk to the health of our employees, and increased absence due to falling ill/the need to isolate challenged our ability to deliver products.

Mitigating actions

Food safety and compliance with health and safety regulations is a top priority across our supply chain and commercial business. We are constantly improving our quality and food safety management programmes which are driven from a central QEHS department. In 2021 we focused on further implementation of the Arla QEHS Manual and Arla Food Safety Mandatory standards, as well as obtaining food safety certification from a third party. Regarding Covid-19, we conducted risk assessments at all offices and production locations and applied adequate measures, including social distancing, increased frequency of cleaning, possibility of working from home, limitation on travel, etc. to avoid spreading the virus.

OUR WORK WITH CONTROLS AND COMPLIANCE

To be a compliant company and prevent fraud is a key business priority for Arla. We are committed to acting with integrity, respect and in a transparent way, according to principles set in our Code of Conduct. We recognise that our reputation and success are dependent on the behaviour of our employees, thus we take violations of the Code of Conduct seriously.

Policy Framework

We continuously work on improving our corporate policies to reflect local legislations and 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.

In 2021, we published our Grievance Policy, as an integrated part of our new whistle-blower system. The system was updated and simplified in response to the new EU directive on the protection of persons who report breaches of Union law. Concerns now can be raised by reporting to relevant managers or through the whistle-blower system, where we offer anonymous reporting by applying strict principles of confidentiality and ensure that no retaliatory action will be taken against the person who reports the violation.

To comply with the new Danish regulations concerning corporate reporting, we also developed our Data Ethics Policy, involving several stakeholders from across the business. The policy aims to establish a high standards for data ethics that Arla aspires to adhere to, and to emphasize our commitment to a responsible use of data. As per the policy, when we decide to use data as part of our business, we are applying the guiding principles for data ethics focusing on: (a) Human dignity (b) Responsibility (c) Equality and fairness and (d) Progressiveness. The policy will be published in 2022 with an awareness campaign and training of relevant employees.

Internal controls

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

In 2021, we progressed on our internal control framework and monitoring of our procedures to avoid negligence and misconduct across business processes.

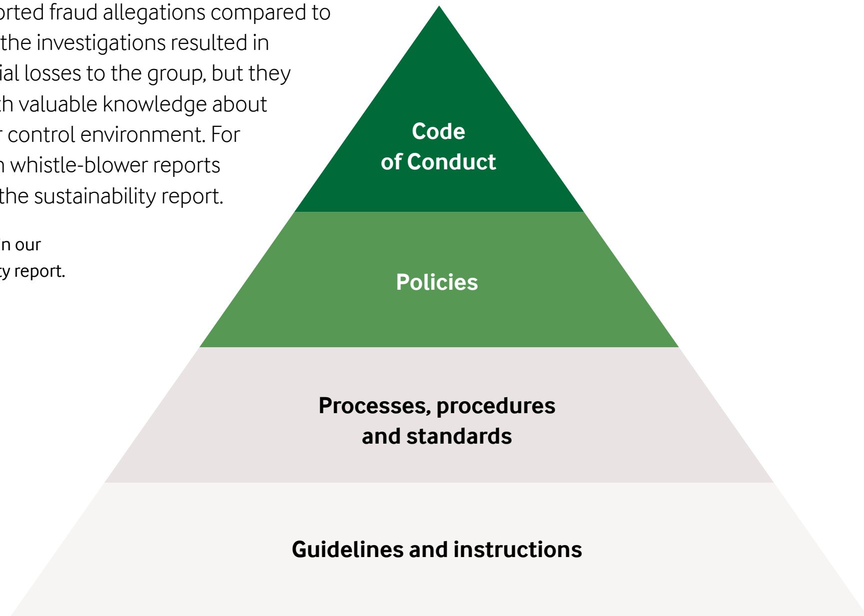
In 2022, we will expand our control environment and reporting with climate related financial disclosures in line with our strategic focus on sustainability amd new external reporting requirements.

Investigations

Openness and trust are among our core values and incorporated into our Code of Conduct. If employees or our stakeholders believe that our Code of Conduct has been violated, we encourage them to report these violations.

In 2021, we saw an insignificant increase in the number of reported fraud allegations compared to 2020. None of the investigations resulted in material financial losses to the group, but they provided us with valuable knowledge about the state of our control environment. For more details on whistle-blower reports please refer to the sustainability report.

Read more in our sustainability report.

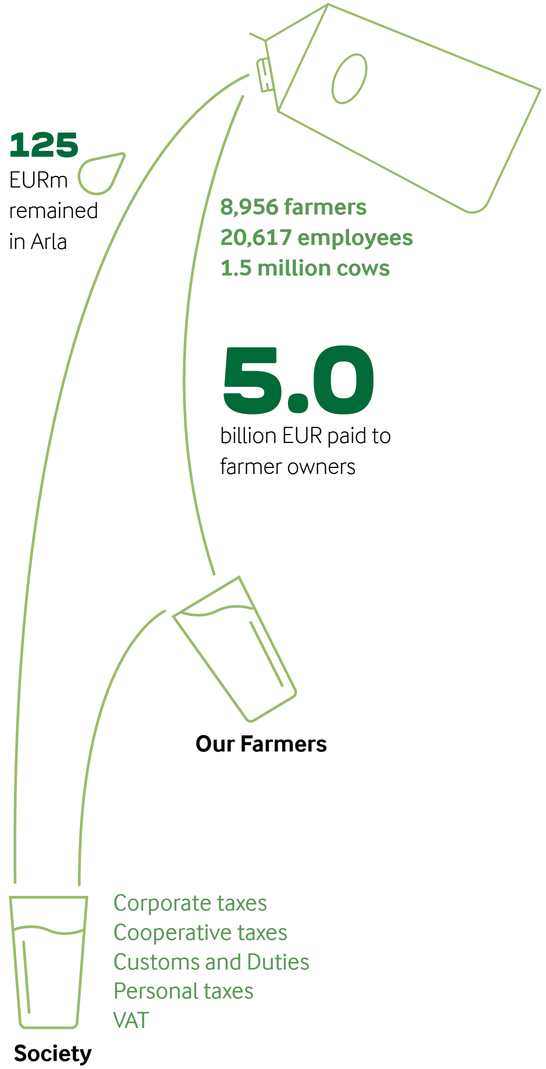


Our governance framework

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

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 number 16 – 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 and the general public 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 Interna tional 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, tax controls, 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.

Transactions between Arla companies are determined and documented in accordance with OECD's Transfer Pricing Guidelines to ensure we operate on market terms.

Value generation

In 2021, Arla generated a total value of approximately EUR 5.6 billion* from the milk supplied. Milk from our farmer owners generated EUR 5.0 billion in milk payments , while other farmers received milk payments of EUR 461 million leaving EUR 125 million in Arla. As a result, the majority of the taxes are paid at farm level subject to local tax rules.

Moreover, the value generated by our activities further cascades into societies via various types of tax payments, both direct and indirect taxes that are either born or collected by the Arla group

It is our ambition to continuously increase transparency and reporting details on our total tax contributions in the countries and societies in which we operate and, in this respect, implement the EU Directive on public country-by-country reporting by 2024 at the latest.

CONSOLIDATED FINANCIAL STATEMENTS

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PRIMARY STATEMENTS

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INCOME STATEMENT

(EURm)	Note	2021	2020	Development, %
Revenue	1.1	11,202	10,644	*5*
Production costs	1.2	-8,822	-8,301	*6*
Gross profit		**2,380**	**2,343**	*2*
Sales and distribution costs	1.2	-1,573	-1,483	*6*
Administration costs	1.2	-427	-439	*-3*
Other operating income	1.3	110	61	*80*
Other operating costs	1.3	-75	-52	*44*
Share of net profit/loss in joint ventures and associates	3.3	53	28	*89*
Earnings before interest and tax (EBIT)		**468**	**458**	*2*
Specification:				
EBITDA		948	909	*4*
Depreciation, amortisation and impairment	1.2	-480	-451	*6*
Earnings before interest and tax (EBIT)		**468**	**458**	*2*
Financial income	4.2	14	7	*100*
Financial costs	4.2	-75	-79	*-5*
Profit before tax		**407**	**386**	*5*
Tax	5.1	-61	-34	*79*
Profit for the year		**346**	**352**	*-2*
Allocated as follows:				
Owners of Arla Foods amba		332	345	*-4*
Non-controlling interests		14	7	*100*
Total		**346**	**352**	*-2*

COMPREHENSIVE INCOME

(EURm)	Note	2021	2020
Profit for the year		**346**	**352**
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit schemes	4.7	-3	5
Tax on remeasurements of defined benefit schemes		10	4
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	4.4	39	41
Fair value adjustments of certain financial assets		-1	-3
Adjustments related to foreign currency translation		127	-84
Tax on items that may be reclassified to the income statement		-1	-
Other comprehensive income, net of tax		**171**	**-37**
Total comprehensive income		**517**	**315**
Allocated as follows:			
Owners of Arla Foods amba		503	308
Non-controlling interests		14	7
Total		**517**	**315**

PROFIT APPROPRIATION

(EURm)	2021	2020
Profit for the year	346	352
Non-controlling interests	-14	-7
Arla Foods amba's share of net profit for the year	**332**	**345**
Profit appropriation:		
Supplementary payment for milk	203	219
Interest on contributed individual capital	4	4
Total supplementary payment	**207**	**223**
Transferred to equity:		
Reserve for special purposes	83	81
Contributed individual capital	42	41
Total transferred to equity	**125**	**122**
Appropriated profit	**332**	**345**

Profit appropriation for 2021

Performance price
39.7 EUR-cent/kg

Standard prepaid milk price
37.0 EUR-cent/kg

Profit for the year
332* EURm
2.65 EUR-cent/kg

Retainment		EUR-cent/kg
Common capital (2/3)	**83** EURm	0.67
Individual capital (1/3)	**42** EURm	0.33
	125 EURm	1.00

Supplementary payment		
Supplementary payment	**203** EURm	1.62
Interest on individual capital	**4** EURm	0.03
	207 EURm	1.65

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

PROFIT APPROPRIATION

The proposed supplementary payment for 2021 is EUR 207 million, including interest. This corresponds to 1.65 EUR-cent/kg of owner milk. Interest on the carrying value of contributed individual capital amounted to EUR 4 million. Contributed individual capital carried an interest of 1.50 per cent in 2021.

In addition, EUR 125 million, equalling 1.00 EUR-cent/kg of owner milk, is transferred to equity and split into 1/3 to individual capital (contributed individual capital), amounting to EUR 42 million, and 2/3 to common capital (reserve for special purposes), amounting to EUR 83 million.

BALANCE SHEET

(EURm)	Note	2021	2020	Development, %
Assets				
Non-current assets				
Intangible assets and goodwill	3.1	946	931	*2*
Property, plant, equipment and right of use assets	3.2	3,072	2,915	*5*
Investments in associates and joint ventures	3.3	530	470	*13*
Deferred tax	5.1	21	29	*-28*
Pension assets	4.7	69	40	*73*
Other non-current assets		30	28	*7*
Total non-current assets		**4,668**	**4,413**	*6*
Current assets				
Inventory	2.1	1,248	1,080	*16*
Trade receivables	2.1	1,007	811	*24*
Derivatives	4.5	74	57	*30*
Other receivables	2.1	285	424	*-33*
Securities	4.5	434	420	*3*
Cash and cash equivalents		97	126	*-23*
Total current assets		**3,145**	**2,918**	*8*
Total assets		**7,813**	**7,331**	*7*

(EURm)	Note	2021	2020	Development, %
Equity and liabilities				
Equity				
Common capital		2,062	1,968	*5*
Individual capital		542	513	*6*
Other equity accounts		46	-118	*-139*
Proposed supplementary payment to owners		207	223	*-7*
Equity attributable to the owners of Arla Foods amba		**2,857**	**2,586**	*10*
Non-controlling interests		53	53	*0*
Total equity		**2,910**	**2,639**	*10*
Liabilities				
Non-current liabilities				
Pension liabilities	4.7	245	247	*-1*
Provisions	5.2	24	21	*14*
Deferred tax	5.1	64	64	*0*
Loans	4.3	2,113	1,964	*8*
Total non-current liabilities		**2,446**	**2,296**	*7*
Current liabilities				
Loans	4.3	628	695	*-10*
Trade and other payables	2.1	1,445	1,212	*19*
Provisions	5.2	18	25	*-28*
Derivatives	4.5	86	66	*30*
Other current liabilities		280	398	*-30*
Total current liabilities		**2,457**	**2,396**	*3*
Total liabilities		**4,903**	**4,692**	*4*
Total equity and liabilities		**7,813**	**7,331**	*7*

EQUITY

(EURm)	Common capital		Individual capital				Other equity accounts					
	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 currency translation adjustments	Total equity excluding non-controlling interests	Non-controlling interests	Total equity including non-controlling interests
Equity at 1 January 2021	**878**	**1,090**	**302**	**65**	**146**	**223**	**-53**	**9**	**-74**	**2,586**	**53**	**2,639**
Supplementary payment for milk	-	-	-	-	-	203	-	-	-	203	-	203
Interest on contributed individual capital	-	-	-	-	-	4	-	-	-	4	-	4
Reserve for special purposes	-	83	-	-	-	-	-	-	-	83	-	83
Contributed individual capital	-	-	42	-	-	-	-	-	-	42	-	42
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	14	14
Profit for the year	**-**	**83**	**42**	**-**	**-**	**207**	**-**	**-**	**-**	**332**	**14**	**346**
Other comprehensive income	7	-	-	-	-	-	39	-1	126	171	-	171
Total comprehensive income	**7**	**83**	**42**	**-**	**-**	**207**	**39**	**-1**	**126**	**503**	**14**	**517**
Transactions with owners	1	-	-11	-4	-4	-	-	-	-	-18	-	-18
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	-6	-6
Supplementary payment related to 2020	-	-	-	-	-	-227	-	-	-	-227	-	-227
Foreign currency translation adjustments	3	-	1	-	5	4	-	-	-	13	-8	5
Total transactions with owners	**4**	**-**	**-10**	**-4**	**1**	**-223**	**-**	**-**	**-**	**-232**	**-14**	**-246**
Equity at 31 December 2021	**889**	**1,173**	**334**	**61**	**147**	**207**	**-14**	**8**	**52**	**2,857**	**53**	**2,910**
Equity at 1 January 2020	**885**	**1,009**	**271**	**68**	**159**	**127**	**-94**	**12**	**10**	**2,447**	**47**	**2,494**
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
Profit for the year	**-**	**81**	**41**	**-**	**-**	**223**	**-**	**-**	**-**	**345**	**7**	**352**
Other comprehensive income	9	-	-	-	-	-	41	-3	-84	-37	-	-37
Total comprehensive income	**9**	**81**	**41**	**-**	**-**	**223**	**41**	**-3**	**-84**	**308**	**7**	**315**
Transactions with owners	-	-	-11	-4	-7	-	-	-	-	-22	-	-22
Transactions with non-controlling interests	-20	-	-	-	-	-	-	-	-	-20	2	-18
Supplementary payment related to 2019	-	-	-	-	-	-127	-	-	-	-127	-	-127
Foreign currency translation adjustments	4	-	1	1	-6	-	-	-	-	-	-3	-3
Total transactions with owners	**-16**	**-**	**-10**	**-3**	**-13**	**-127**	**-**	**-**	**-**	**-169**	**-1**	**-170**
Equity at 31 December 2020	**878**	**1,090**	**302**	**65**	**146**	**223**	**-53**	**9**	**-74**	**2,586**	**53**	**2,639**

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 unallocated to individual members and consists of the capital account and the reserve for special purposes. The capital account represents a strong foundation for the cooperative's equity, as the non-impairment clause, described 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 currency translation 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 37 PER CENT

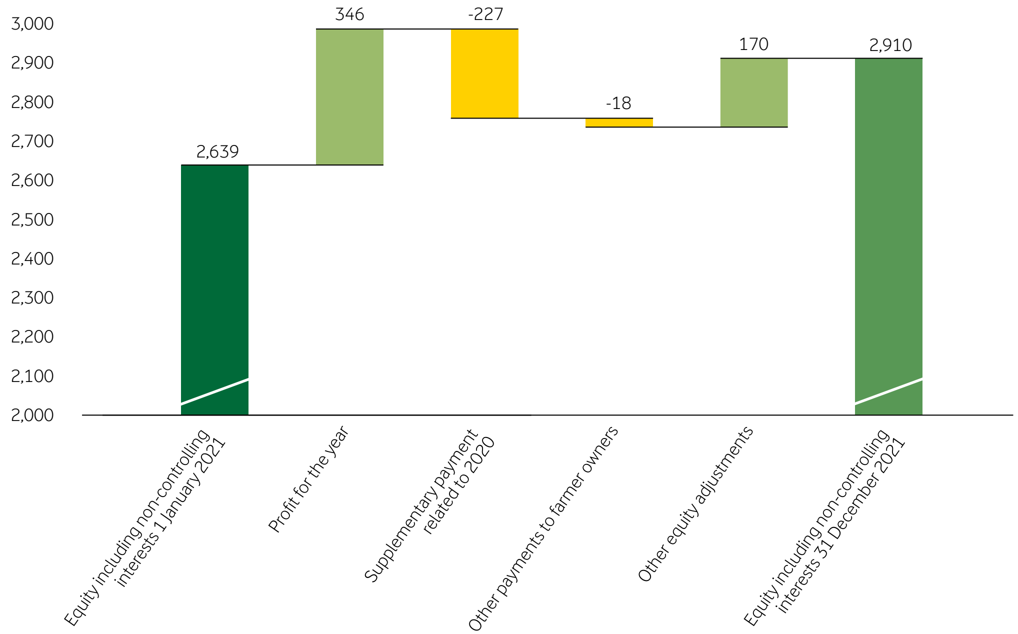
During 2021 equity increased by EUR 271 million compared to last year and totalled EUR 2,910 million at 31 December 2021.

Transactions with farmer owners
A supplementary payment related to 2020 totalling EUR 227 million was paid out in March 2021. Additionally, EUR 20 million was paid out to owners resigning or retiring from the cooperative, while an amount of EUR 2 million was paid in. The Board of Directors proposed to pay EUR 207 million in March 2022 as a supplementary payment including interest on individual capital instruments for 2021. Furthermore, it is expected that EUR 21 million will be paid out in 2022 to owners resigning or retiring.

Other equity adjustments
Other equity adjustments of EUR 170 million related to other comprehensive income of EUR 171 million, transactions with non-controlling interests of EUR -6 million and foreign exchange rate adjustments of EUR 5 million. Other comprehensive income included income and expenses as well as gains and losses that are excluded from the income statement and often not realised at the balance sheet date. The net income of EUR 171 million was due to positive value adjustments on net assets measured in foreign currencies, positive value adjustments on hedging instruments and remeasurement of pension assets and liabilities.

The equity share of 37 per cent is calculated as equity excluding non-controlling interests at EUR 2,857 million divided by total assets of EUR 7,813 million.

Development in equity
(EURm)



EQUITY / CONTINUED

Accounting policies and regulations according to Articles of Association and IFRS

Common capital
Recognised in 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 equity instruments issued to owners. Furthermore, the capital account is impacted by agreed contributions from new owners of the cooperative.

Recognised in the *reserve for special purposes* is the annual profit appropriation to common capital. It may, upon the Board of Director's proposal, be applied by the Board of Representatives for the full or partial offsetting of material extraordinary losses or impairment in accordance with article 20.1(iii) of the Articles of Association.

Individual capital
Individual capital instruments are regulated in article 20 of the Articles of Association and the general membership terms.

Equity instruments issued as *contributed individual capital* relate to amounts transferred as part of the annual profit appropriation. The individual balances carry interest at CIBOR 12 months + 1.5 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 owner 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 derivatives classified as and meeting the conditions for hedging of future cash flows where the hedged transaction has not yet been realised.

Reserve for fair value adjustments through OCI comprises the fair value adjustments of mortgage credit bonds classified as financial assets measured at fair value through other comprehensive income.

Reserve for foreign currency translation adjustments comprises foreign currency translation differences arising during the translation of the financial statements of foreign companies, including value adjustments relating to assets and liabilities that constitute part of the group's net investment and value adjustments relating to hedging transactions securing the group's net investment.

Non-impairment clause
Under the Articles of Association, no payment may be made by Arla Foods amba to owners that impairs the sum of the capital account and equity accounts prescribed by law and IFRS. The non-impairment clause is assessed on the basis of the most recent annual report presented under IFRS. Individual capital 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 is recognised as part of the consolidated results and equity, respectively, but is listed separately.

On initial recognition, non-controlling interests are measured at either the fair value of the equity interest or the proportional share of the fair value of the acquired companies' identified assets, liabilities and contingent liabilities. The measurement of non-controlling interests is selected on a transactional basis.

Milk payment to owners
The on-account settlement of owner milk is recognised as a production cost in the income statement.

The supplementary payment is based on the result for the year as part of the profit appropriation. The supplementary payment is recognised as a reserve on the equity statement until approved by the Board of Representatives, based on a recommendation by the Board of Directors.

CASH FLOW

(EURm)	Note	2021	2020
EBITDA		948	909
Reversal of share of results in joint ventures and associates	3.3	-53	-28
Reversal of other operating items without cash impact		-80	53
Change in net working capital	2.1	-90	4
Change in other receivables and other current liabilities		103	-137
Dividends received, joint ventures and associates		24	8
Interest paid		-45	-53
Interest received		8	3
Taxes paid	5.1	-35	-28
Cash flow from operating activities		**780**	**731**
Investment in intangible fixed assets	3.1	-45	-53
Investment in property, plant and equipment	3.2	-452	-478
Sale of property, plant and equipment	3.2	13	19
Operating investing activities		-484	-512
Acquisition of financial assets		-26	-5
Sale of financial assets		14	22
Sale of enterprises		14	7
Financial investing activities		2	24
Cash flow from investing activities		**-482**	**-488**

(EURm)	Note	2021	2020
Supplementary payment regarding the previous financial year		-227	-127
Transactions with owners		-18	-22
Transactions with non-controlling interests		-6	-18
New loans obtained	4.3.c	172	149
Other changes in loans	4.3.c	-147	-173
Payment of lease debt	4.3.c	-73	-66
Payment to pension plans	4.3.c	-31	-36
Cash flow from financing activities		**-330**	**-293**
Net cash flow		**-32**	**-50**
Cash and cash equivalents at 1 January		126	187
Exchange rate adjustment of cash funds		3	-11
Cash and cash equivalents at 31 December		**97**	**126**

	2021	2020
Free operating cash flow		
Cash flow from operating activities	*780*	*731*
Operating investing activities	*-484*	*-512*
Free operating cash flow	**296**	**219**
Free cash flow		
Cash flow from operating activities	*780*	*731*
Cash flow from investing activities	*-482*	*-488*
Free cash flow	**298**	**243**

CASH FLOW / CONTINUED

STRONG CASH FLOW FROM OPERATING ACTIVITIES TO SUPPORT HIGH INVESTMENTS

Cash flow from operating activities increased by 6.7 per cent to EUR 780 million compared to EUR 731 million last year, mainly driven by higher EBITDA. Increased prices resulted in more cash tied up in net working capital; however, this was offset by settlement of deferred VAT payments and duty declarations from last year.

Cash flow from investing activities amounted to EUR -482 million compared to EUR -488 million last year. The overall investment level was consistent with last year due to continuously high CAPEX investments amounting to EUR 452 million, compared to EUR 478 million last year.

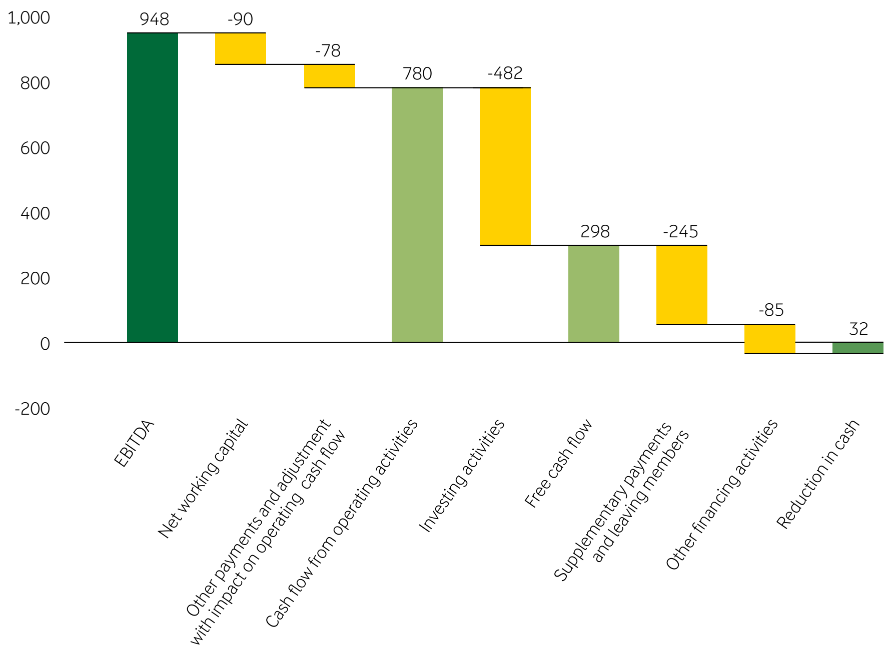
Cash flow from financing activities was EUR -330 million compared to EUR -293 million last year, comprising transactions with owners and other financing activities. Transactions with owners comprised supplementary payments of EUR 227 million in relation to the 2020 profit appropriation and further net payments of EUR 18 million. The net cash flow from other financing activities was EUR -85 million, representing a green bond issue in Sweden, offset by movements in interest-bearing debt positions.

Combined cash and cash equivalents at 31 December 2021 were EUR 97 million, compared to EUR 126 million last year. The movement was due to a net cash outflow of EUR 32 million during 2021 and exchange rate adjustments of cash funds of EUR 3 million. An insignificant amount of cash and cash equivalents at 31 December 2021 was deposited 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 profitability 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 consolidated financial statements are based on the group's monthly reporting procedures. Group entities are required to report using standard accounting principles in accordance with the International Financial Reporting Standards as adopted by the 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 that use similar measures. Definitions are provided in the Glossary and Note 1.4.

The group's general accounting principles are disclosed in Note 5.7, while accounting policies for the respective areas are explained in relation to the individual notes.

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 details on how the exposure is managed.

Applying materiality

Our focus is to present information that is considered of material importance to 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 readers 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 judgement in determining whether performance obligations are achieved. Estimates are based on historical experience and forecasted future sales. Refer to Note 1.1 for more details.

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, strategic ambitions and market data. The majority of goodwill is allocated to activities in the UK. Refer to Note 3.1.1 for more details.

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 associate. The classification is based on an assessment of the level of influence through board representation. Refer to Note 3.3 for more details.

Valuation of inventory

Arla uses a standard cost model and estimates are applied when assessing the historical cost price of milk, utilities and other production-related costs. Furthermore, 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 details.

Measurement of trade receivables

Allowance for doubtful trade receivable positions requires estimates. Losses on trade receivables recognised in the group are historically insignificant, which is also the case this year.

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 to benchmarks to ensure consistency on an annual basis and in compliance with best practice. For the UK the underlying pension liabilities are projected values for individuals covered by the schemes. The underlying values are updated on a triennial basis, most recently performed in 2019, reflecting changes in members' demographic data. Refer to Note 4.7 for more details.

Revenue and costs

1.1 REVENUE

REVENUE INCREASE DRIVEN BY PRICES

Revenue increased by 5.2 per cent to EUR 11,202 million, compared to EUR 10,644 million last year. The increase reflects general price increases and more retail sales of branded volumes both in Europe and internationally. Volume growth in food service and commodity price increases in Global Industry Sales also contributed to the revenue development.

Strategic branded sales volumes grew by 4.5 per cent, compared to 7.7 per cent last year, driven by the Arla® brand and milk-based beverages and other supported brands.

Europe is Arla's largest commercial segment, comprising 59.1 per cent of total revenue, compared to 60.2 per cent last year. Revenue in Europe increased to EUR 6,621 million compared to EUR 6,413 last year. The increase was driven by higher prices and stable volumes. The strategic branded revenue in Europe grew by 5.8 per cent despite volatility in the market. Branded sales accounted for 55.3 per cent of revenue compared to 53.0 per cent last year.

The International segment accounted for 18.8 per cent of total revenue, compared to 18.6 per cent last year. The share of branded sales was 86.0 per cent in International, consistent with last year.

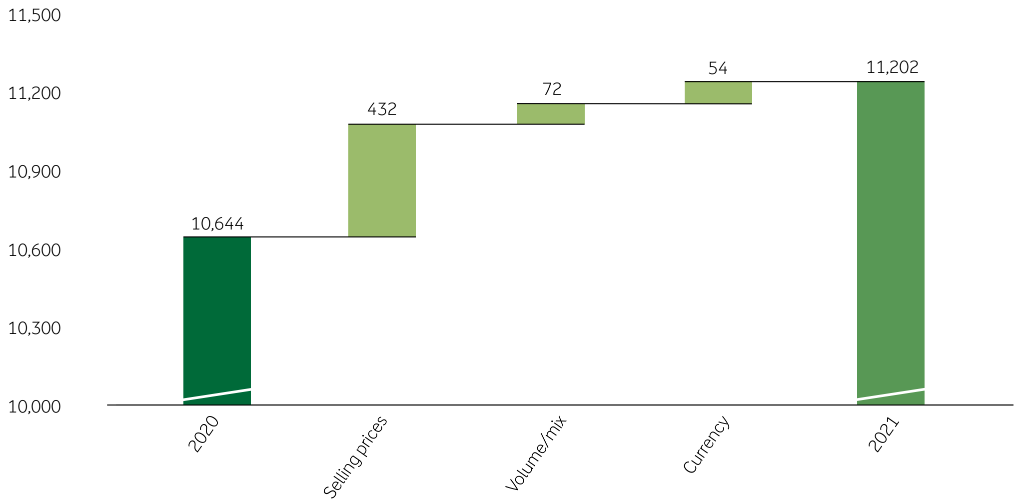
The revenue in International increased to EUR 2,101 million, compared to EUR 1,975 million last year, driven by prices and generally increased volumes, partly offset by foreign exchange movements in the US dollar.

Arla Foods Ingredients comprised 7.1 per cent of total revenue, compared to 6.7 per cent last year. Revenue increased to EUR 793 million compared to EUR 716 million last year. The increase was due to sales of value-added products within the ingredients segment.

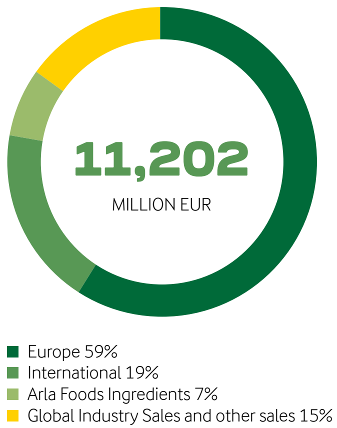
Global Industry Sales and other segments represented 15.0 per cent of total revenue and increased by 9.5 per cent to EUR 1,687 million compared to EUR 1,541 million last year. The increase was due to increased commodity prices during the year.

Revenue was positively impacted by foreign exchange rate movements of EUR 54 million, primarily driven by SEK and GBP.

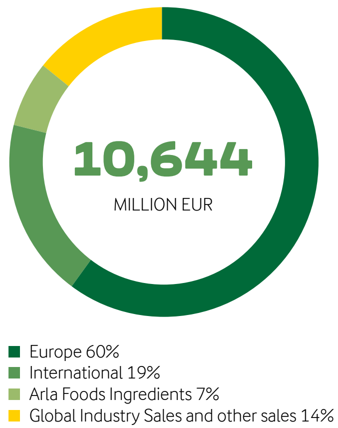
Development in revenue
(EURm)



Revenue split by commercial segment, 2021



Revenue split by commercial segment, 2020



Revenue and costs

1.1 REVENUE

Table 1.1.a Revenue split by country (EURm)	**2021**	**2020**	**Share of revenue in 2021**
United Kingdom	2,891	2,740	26%
Sweden	1,546	1,478	14%
Germany	1,301	1,267	12%
Denmark	1,082	1,031	10%
Netherlands	598	526	5%
China	419	368	4%
Saudi Arabia	342	352	3%
Finland	309	316	3%
USA	215	177	2%
UAE	206	201	2%
Other*	2,293	2,188	19%
Total	**11,202**	**10,644**	

**Other countries include, among others, Belgium, Canada, Oman, Spain, Nigeria, France, Australia.*

Table 1.1.a represents 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 28 to 35.

Table 1.1.b Revenue split by brand (EURm)	**2021**	**2020**
Arla®	3,359	3,116
Lurpak®	646	638
Puck®	383	427
Castello®	192	177
Milk-based beverage brands	293	232
Other supported brands	599	566
Strategic branded revenue	**5,472**	**5,156**
AFI	794	716
Non-strategic brands and other	4,936	4,772
Total	**11,202**	**10,644**

Accounting policies

Revenue is recognised when a contract exists with a customer for the production and transfer of dairy products across various product categories and geographical regions. Revenue 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 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 regard to a financing component in the contracts with customers is not required.

Uncertainties and estimates

Revenue, net of rebates, is recognised when goods are transferred to customers. Estimates are applied when measuring accruals for rebates and other sales incentives. The majority of rebates are calculated based on terms agreed with the customer. For some customer relationships, the final settlement of the rebate depends on future sales volumes 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 disclosures.

Revenue and costs

1.2 OPERATIONAL COSTS

INFLATION AND HIGHER COST OF RAW MILK

Operational costs were EUR 10,822 million, which is an increase of 5.9 per cent compared to last year. This development was mainly driven by higher milk costs, primarily to owners, and by inflation on other production and distribution-related costs, partly offset by Calcium savings.

Production costs increased by 6.3 per cent to EUR 8,822 million from EUR 8,301 million last year. Excluding costs relating to raw milk, production costs increased to EUR 3,599 million from EUR 3,459 million last year. The increase related to a more expensive production mix meeting the demand for more branded products and the effect of inflation resulting in higher costs of utilities, such as electricity and other production-related materials. Excluding the effect from inflation, Calcium savings amounted to EUR 133 million in 2021. Refer to pages 16-17 for more details on Calcium initiatives.

Sales and distribution costs increased by 6.1 per cent to EUR 1,573 million compared to EUR 1,483 million last year. Driver shortages in the UK and increased fuel prices were the main reasons. Research and development costs amounted to EUR 89 million, compared to EUR 72 million last year.

Administration costs decreased 2.7 per cent to EUR 427 million compared to EUR 439 million last year due to cost control and non-recurring one-offs in 2020, partly offset by salary increases.

Cost of raw milk
The cost of raw milk increased by 7.9 per cent to EUR 5,223 million compared to EUR 4,842 million last year. The increase was driven by higher milk prices.

Owner milk
Costs related to owner milk increased by EUR 398 million due to a higher average prepaid milk price.

Other milk
The cost of Other milk decreased by EUR 17 million due to lower volumes, partly offset by higher prices. Other milk consists of speciality milk and other contract milk acquired to meet local market demands.

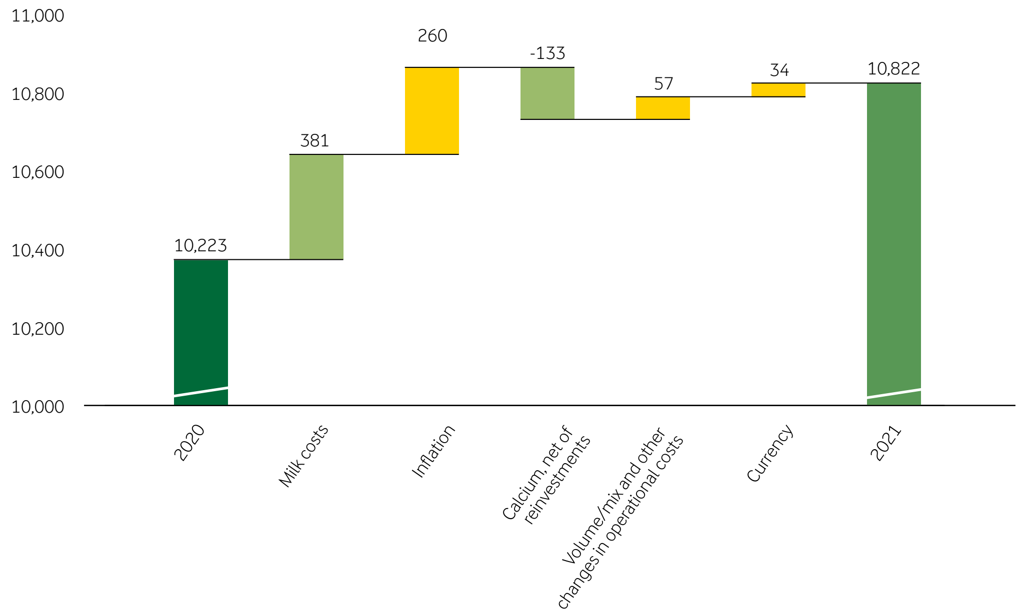
Staff costs and FTE
Staff costs increased by 1.1 per cent to EUR 1,360 million compared to EUR 1,345 million last year. Staff costs increased due to additional FTEs from insourcing activities and due to salary increases, partly offset by non-recurring items in 2020.

The total number of FTEs increased to 20,617 compared to 20,020 last year. Refer to the ESG section, Note 1.2, for further details on the FTE development.

Marketing spend
The marketing spend was consistent with last year and amounted to EUR 238 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 by 6.4 per cent to EUR 480 million compared to EUR 451 million last year. The increase was primarily due to higher CAPEX investments, including the powder production capacity in Germany, cheese production facilities in Bahrain and an expansion of the mozzarella production facilities in Denmark.

Development in operational costs
(EURm)



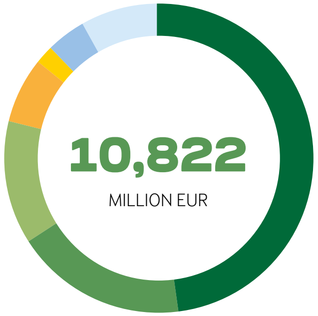
Revenue and costs

1.2 OPERATIONAL COSTS

Table 1.2.a Operational costs split by function and type (EURm)	**2021**	**2020**
Production costs	8,822	8,301
Sales and distribution costs	1,573	1,483
Administration costs	427	439
Total	**10,822**	**10,223**
Specification:		
Weighed-in raw milk	5,223	4,842
Other production materials*	1,959	1,860
Staff costs	1,360	1,345
Transport costs	718	640
Marketing costs	238	248
Depreciation, amortisation and impairment	480	451
Other costs**	844	837
Total	**10,822**	**10,223**

*Other production materials include packaging, additives, consumables, variable energy and changes in inventory.
**Other costs mainly include maintenance, utilities and IT.

Costs split by type, 2021



- Weighed-in raw milk 48%
- Other production materials* 18%
- Staff costs 13%
- Transport costs 7%
- Marketing costs 2%
- Depreciation, amortisation and impairment 4%
- Other costs** 8%

Costs split by type, 2020

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

Table 1.2.b Weighed-in raw milk	**2021**		**2020**	
	Mkg	EURm	Mkg	EURm
Owner milk	12,518	4,762	12,638	4,364
Other milk	1,128	461	1,231	478
Total	**13,646**	**5,223**	**13,869**	**4,842**

Table 1.2.c Staff costs (EURm)	**2021**	**2020**
Wages, salaries and remuneration	1,177	1,166
Pensions - defined contribution plans	83	83
Pensions - defined benefit plans	5	4
Other social security costs	95	92
Total	**1,360**	**1,345**
Staff costs relate to:		
Production costs	756	729
Sales and distribution costs	394	383
Administration costs	210	233
Total	**1,360**	**1,345**
Average number of full-time employees	20,617	20,020

Table 1.2.d Depreciation, amortisation and impairment (EURm)	**2021**	**2020**
Intangible assets, amortisation and impairment	74	70
Property, plant and equipment and RoU assets, depreciation and impairment	406	381
Total	**480**	**451**
Depreciation, amortisation and impairment relate to:		
Production costs	329	316
Sales and distribution costs	75	80
Administration costs	76	55
Total	**480**	**451**

Revenue and costs

1.2 OPERATIONAL COSTS

Accounting policies

Production costs
Production costs cover direct and indirect costs related to production, including volume movements in inventory and related inventory revaluation. Direct costs comprise purchase of milk from owners, inbound transport costs, packaging, additives, consumables, energy and variable salaries directly related to production. Indirect costs comprise other costs related to production of goods, including depreciation and impairment losses on production-related materials 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, sponsorships, research and development, depreciation and impairment losses are recognised as sales and distribution costs. Sales and distribution costs also include marketing expenses relating to investment in the group's brands, such as the development of marketing campaigns, 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 costs

1.3 OTHER OPERATING INCOME AND COSTS

POSITIVE HEDGING IMPACT

Other operating income and costs, net, amounted to EUR 35 million, compared to EUR 9 million last year. This was primarily attributable to positive effects from energy commodity hedges, negative effects from currency hedges, sale of fixed assets and other items that were not part of the regular dairy business.

Accounting policies

Other operating income and costs consist of items outside the regular course of dairy business activities, including items such as gains and losses relating to the settlement of disputes, 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, this item 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)

	2021	2020
Sale of electricity	28	24
Income from hedging instruments transferred from equity	36	14
Gain on disposal of intangible assets and PP&E	17	15
Other items	29	8
Other operating income	**110**	**61**
Cost related to sale of electricity	-24	-29
Cost of hedging instruments transferred from equity	-38	-12
Other items	-13	-11
Other operating costs	**-75**	**-52**

Revenue and costs

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

FINANCIAL COMMENTS

Arla's performance price is a key measure of the overall performance, expressing the value added to each kg of milk supplied by our farmer owners. The performance price is calculated as the standardised prepaid milk price included in production costs, plus Arla Foods amba's share of profit attributable to farmer owners, divided by the weighed-in milk volume in 2021. The performance price was 39.7 EUR-cent/kg owner milk, compared to 36.5 EUR-cent/kg owner milk last year.

Table 1.4.1 Performance price	2021			2020		
	EURm	Mkg	EUR-cent/ kg	EURm	Mkg	EUR-cent/ kg
Owner milk	4,762	12,518*	38.0	4,364	12,638*	34.5
Adjustment to standard milk (4.2% fat, 3.4% protein)			-1.0			-0.7
Arla Foods amba's share of profit for the year	332		2.7	345		2.7
Total		**12,518**	**39.7**		**12,638**	**36.5**

*The milk conversion factor from litre into kg was 1.02 for milk volumes until 30 June 2021. Effective from 1 July 2021, the milk conversion factor is 1.03. Historical figures were restated throughout the report according to the new conversion factor, thereby also restating the performance price for last year.

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

Strategic branded VDRG increased by 4.5 per cent in 2021 on top of the significant increase last year of 7.7 per cent. Continued high demand for branded products in the retail business was the main driver of the increase.

Table 1.4.2 Strategic branded volume-driven revenue growth (EURm)	2021	2020
Strategic branded revenue last year	5,156	4,867
Strategic branded volume-driven revenue growth	230	378
Price and exchange rate adjustments	86	-89
Strategic branded revenue	**5,472**	**5,156**
Strategic branded volume-driven revenue growth, %	4.5%	7.7%

Strategic branded VDRG is calculated as the volume growth of EUR 230 million divided by EUR 5,156 million and equals 4.5 per cent in 2021.

Note 1.4.3 Profit share

FINANCIAL COMMENTS

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

For 2021, the profit attributable to our farmer owners amounted to EUR 332 million compared to EUR 345 million last year. This corresponded to 3.0 per cent of revenue, or 2.7 EUR-cent per kilo of milk delivered, and was distributed to the supplementary payment and retainment as disclosed in the statement of profit appropriation.

Table 1.4.3 Profit share (EURm)	2021	2020
Revenue	11,202	10,644
Profit for the year	346	352
Profit relating to non-controlling interests	-14	-7
Profit attributable to farmer owners	332	345
Profit share	**3.0%**	**3.2%**

Profit share is calculated as EUR 332 million divided by EUR 11.202 million and equals 3.0 per cent in 2021.

Net working capital

2.1 NET WORKING CAPITAL, OTHER RECEIVABLES AND CURRENT LIABILITIES

NET WORKING CAPITAL POSITION DRIVEN BY HIGHER PRICES AND INVENTORY VOLUMES

Net working capital increased by EUR 131 million to EUR 810 million, representing an increase of 19.3 per cent compared to last year. This increase was due to deliberately reduced use of trade receivable finance programmes, higher prices and inventory values. We continuously strive to optimise our net working capital positions through initiatives such as increased use of global procurement agreements, optimisation of inventory levels, improved payment terms, as well as utilisation of finance programmes with customers and suppliers when relevant.

Inventory
Inventory increased by EUR 168 million to EUR 1,248 million, compared to EUR 1,080 million last year. The increase, corresponding to 15.6 per cent, was primarily driven by higher milk prices. Excluding currency effects, the carrying amount of inventory increased by EUR 132 million.

Trade receivables
Trade receivables increased by EUR 196 million to EUR 1,007 million, compared to EUR 811 million last year. Excluding currency effects, the carrying amount of trade receivables increased by EUR 172 million. This was driven mainly by increased selling prices and reduced 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 2021, 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.

During the Covid-19 pandemic and onwards, we have carefully monitored the development in trade receivables. We have not experienced any significant adverse developments in overdues, and the provision for expected losses increased by EUR 1 million to a level of EUR 15 million at 31 December 2021.

Trade and other payables
Trade and other payables increased by EUR 233 million to EUR 1,445 million, compared to EUR 1,212 million last year. Excluding currency effects, the carrying amount of trade and other payables increased by EUR 192 million. Continued utilisation of global contracts, focus on payment terms and use of supply chain finance programmes were the main reasons for the development.

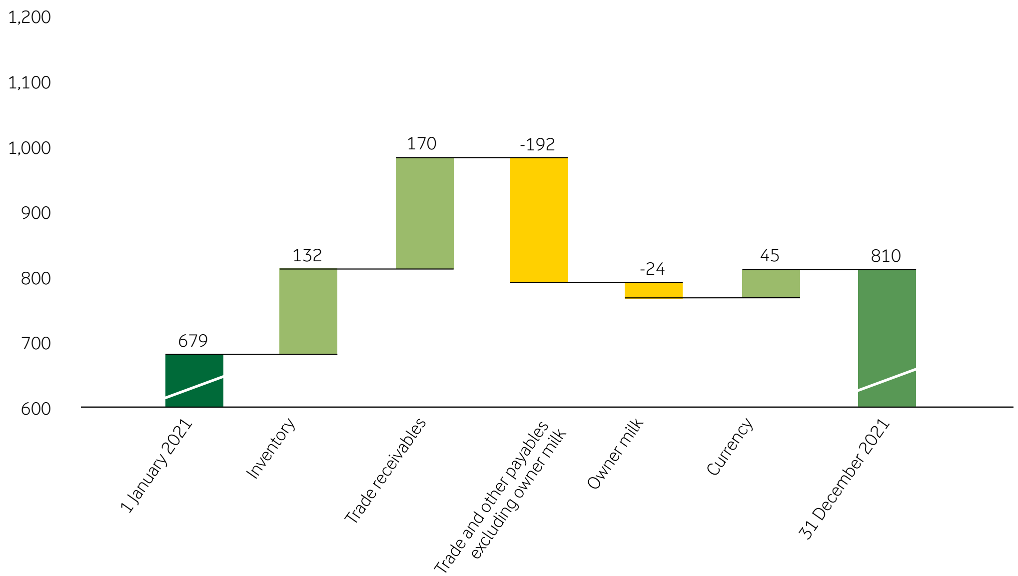
A number of Arla's strategic suppliers participate in supply chain finance programmes, where the supply chain finance provider and related financial institutions act as a funding partner. When suppliers participate in these programmes, the supplier has the option, at their own discretion and flexibility, to receive early payment from the funding partner based on invoices sent to Arla. This is conditioned by Arla's recognition and approval of received goods or services and an irrevocable acceptance to pay the invoice at the due date via the funding partner. The arrangement of early payment is an exclusive transaction between the supplier and the supply chain finance provider.

Supply chain finance programmes are applied on EUR 221 million of the total trade and other payables position, compared to EUR 183 million last year.

Extended payment terms are not embedded in the programmes themselves but agreed with vendors directly. The liquidity risk for Arla on termination of the programmes is limited. The payment terms for suppliers participating in the programmes are no more than 180 days. 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 decreased by EUR 139 million to EUR 285 million compared to EUR 424 million last year, mainly driven by postponed VAT claims from last year. Other current liabilities decreased by EUR 118 million to EUR 280 million, compared to EUR 398 million last year. This was due to the settlement of employee income tax payments from last year and settlement of holiday accruals.

Development in net working capital
(EURm)



Net working capital

2.1 NET WORKING CAPITAL, OTHER RECEIVABLES AND CURRENT LIABILITIES

Net working capital
(EURm)

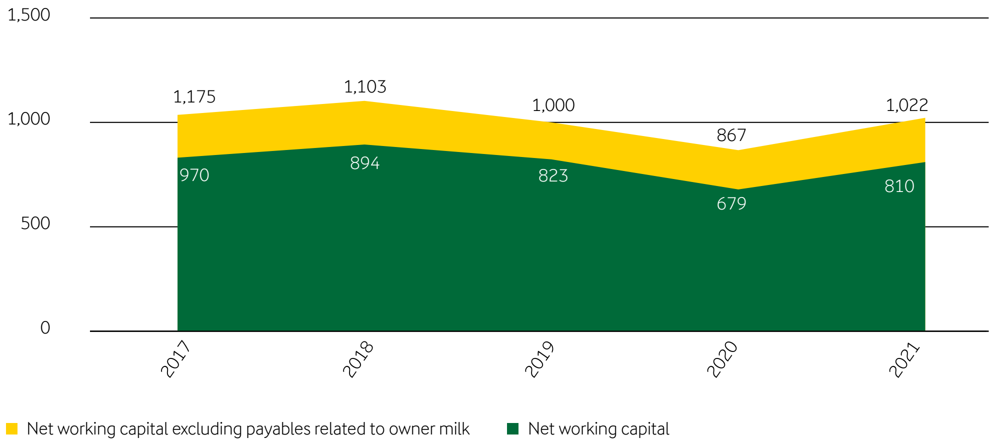


Table 2.1.a Net working capital
(EURm)

		Cash flow	Non-cash changes			
	1 January	Included in operating cash flow	Write-downs	Currency	Reclassi-fications	31 December
2021						
Inventory	1,080	135	-3	36	-	1,248
Trade receivables	811	171	-1	26	-	1,007
Trade and other payables	-1,212	-216	-	-17	-	-1,445
Total net working capital	**679**	**90**	**-4**	**45**	**-**	**810**
2020						
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
Total net working capital	**823**	**-4**	**-22**	**-57**	**-61**	**679**

Table 2.1.b Inventory
(EURm)

	2021	2020
Inventory before write-downs	1,269	1,119
Write-downs	-21	-39
Total inventory	**1,248**	**1,080**
Raw materials and consumables	274	265
Work in progress	382	319
Finished goods and goods for resale	592	496
Total inventory	**1,248**	**1,080**

Table 2.1.c Trade receivables
(EURm)

	2021	2020
Trade receivables before provision for expected losses	1,022	825
Provision for expected losses	-15	-14
Total trade receivables	**1,007**	**811**

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

	2021		2020	
	Gross carrying amount	Expected loss rate	Gross carrying amount	Expected loss rate
Not overdue	837	0%	682	0%
Overdue by less than 30 days	119	0%	93	0%
Overdue by between 30 and 89 days	38	3%	26	4%
Overdue by more than 90 days	28	50%	24	54%
Total trade receivables before provision for expected losses	**1,022**		**825**	

Historically, experienced loss rates on balances not overdue or overdue by 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 and commercial goods includes the purchase price plus delivery costs. The prepaid milk price to Arla's owners is used as the purchase price for owner milk.

The cost of work in progress and manufactured goods also includes an appropriate share of production overheads, including depreciation, based on the normal operating capacity of the production facilities.

Trade receivables
Trade receivables are recognised at the invoiced amount less expected losses in accordance with the simplified approach for amounts considered irrecoverable (amortised cost). Expected losses are measured as the difference between the carrying amount and the present value of anticipated cash flows.

Expected losses are assessed for major individual receivables or in groups at portfolio level, based on the receivables' age and maturity profile as well as historical records of losses. Calculated expected losses are adjusted for specific significant negative developments in geographical areas.

Trade 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 amortised 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 the number of days overdue adjusted for significant negative developments in certain geographical areas.

The financial uncertainty associated with the provision for expected losses is usually considered to be limited. However, if a customer's ability to pay were to deteriorate in the future, further write-downs may be necessary.

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

Finance programmes
The classification of trade receivable finance programmes and supply chain finance programmes is subject to judgement. The utilisation of these programmes is recognised in net working capital.

Capital employed

3.1 INTANGIBLE ASSETS

STABLE LEVEL OF INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill amounted to EUR 946 million, representing an increase of EUR 15 million compared to last year.

Goodwill
The carrying value of goodwill amounted to EUR 710 million, compared to EUR 667 million last year. This increase was due to exchange rate movements. Of the total carrying value of goodwill, EUR 498 million related to activities in the UK, compared to EUR 462 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 76 million, compared to EUR 81 million last year. The carrying amount primarily relates to the 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 amounts are recognised for these. Arla has the licence to manufacture, distribute and market Starbucks™ premium ready-to-drink coffee beverages under a long-term strategic licence agreement. Additionally, Arla holds a long-term licence agreement to manufacture, distribute and market Kraft™ branded cheese products in the MENA region. No values are recognised due to these licence agreements.

IT and other development projects
The carrying amount of IT and other development projects was EUR 160 million, compared to EUR 183 million last year. The group continued to invest in the development of IT. In 2021, 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, 2021

Goodwill 75%
Licences and trademarks 8%
IT and other development projects 17%

Intangible assets and goodwill, 2020

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

Table 3.1.a Intangible assets and goodwill (EURm)	Goodwill	Licence and trademarks	IT and other development projects	Total
2021				
Cost at 1 January	667	163	513	1,343
Exchange rate adjustments	43	3	2	48
Additions	-	-	45	45
Disposals	-	-	-2	-2
Cost at 31 December	**710**	**166**	**558**	**1,434**
Amortisation and impairment at 1 January	-	-82	-330	-412
Exchange rate adjustments	-	-1	-3	-4
Amortisation and impairment for the year	-	-7	-67	-74
Amortisation on disposals	-	-	2	2
Amortisation and impairment at 31 December	**-**	**-90**	**-398**	**-488**
Carrying amount at 31 December	**710**	**76**	**160**	**946**
2020				
Cost at 1 January	700	173	472	1,345
Exchange rate adjustments	-33	-2	1	-34
Additions	-	-	53	53
Disposals	-	-8	-13	-21
Cost at 31 December	**667**	**163**	**513**	**1,343**
Amortisation and impairment at 1 January	-	-83	-280	-363
Exchange rate adjustments	-	1	-1	-
Amortisation and impairment for the year	-	-8	-62	-70
Amortisation on disposals	-	8	13	21
Amortisation and impairment at 31 December	**-**	**-82**	**-330**	**-412**
Carrying amount at 31 December	**667**	**81**	**183**	**931**

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)

	2021	2020
UK	498	462
Finland	40	40
Sweden	22	22
Other	63	63
Europe total	**623**	**587**
MENA	78	72
International	**78**	**72**
Argentina	9	8
Arla Foods Ingredients	**9**	**8**
Total	**710**	**667**

3.1.1 Impairment test of goodwill

GOODWILL SUPPORTED BY FUTURE26 OUTLOOK

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 flows derived from forecasts and long-term strategic targets. Future cash flows and earnings targets are projected for individual cash-generating units, based on expected developments identified in the Future26 process as well as past experience. The impairment tests do not include revenue growth in the terminal value.

Procedure for impairment tests
Impairment tests of goodwill are based on an assessment of their value in use. Milk costs in the forecast are recognised at a milk price that corresponds to the price at the time the test was performed and longer-term. The key operational assumption is future profitability based on a combination of the impact from moving milk intake into value-add products and more profitable markets and operational efficiency initiatives.

Test results
There was no identified impairment of goodwill at year-end. Sensitivities to changes in milk prices and discount rates were calculated. The discount rate could rise up to 3 percentage points in the UK and 1 percentage point in Finland before goodwill could be at risk of being impaired. Goodwill allocated to other markets was tested applying similar assumptions. It is not likely that any reasonable change in those assumptions would lead to an impairment.

Table 3.1.1 Impairment tests
(EURm)

	Applied key assumptions	
	Discount rate, net of tax	Discount rate, before tax
2021		
UK	6.5%	7.2%
Finland	5.6%	6.0%
Sweden	6.1%	6.7%
Europe other	5.7%	6.3%
MENA	12.0%	13.7%
Arla Foods ingredients	6.3%	7.0%
2020		
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%

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 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 belongs.

An impairment loss on other non-current assets is recognised in the income statement under production costs, selling and distribution costs or administration costs, respectively. Impairment recognised can only be reversed to the extent that the assumptions and estimates that led to the impairment have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Uncertainties and estimates

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 anticipations of future free cash flows and assumptions on discount rates.

Anticipated future free cash flows

The anticipated future free cash flows are based on current forecasts and long-term 2026 targets derived from the Future26 process. These are determined at cash-generating unit 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 subject to judgement by nature. They include expectations regarding revenue growth, EBIT margins and capital expenditure. The assumptions include moving milk intake into value-add products and more profitable markets and operational efficiency 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.

Discount rates

A discount rate, namely weighted average cost of capital (WACC), is applied for specific cash-generating units based on assumptions regarding interest 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

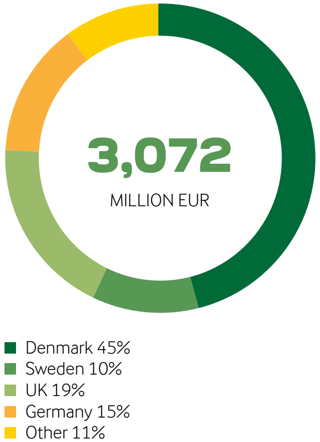
3.2 PROPERTY, PLANT AND EQUIPMENT

Expanding production capacities

Arla's main property, plant and equipment are located in Denmark, the UK, Germany and Sweden. The carrying amount increased to EUR 3,072 million compared to EUR 2,915 million last year. The increase amounted to EUR 157 million, driven by high CAPEX investment levels and currencies.

Key investments in 2021 included continued expansion of the powder production capacity in Germany, further investments in the production facilities in Bahrain, a new AFI innovation center and expansion of the mozzarella production capacity in Denmark.

Property, plant and equipment by country, 2021



Property, plant and equipment by country, 2020

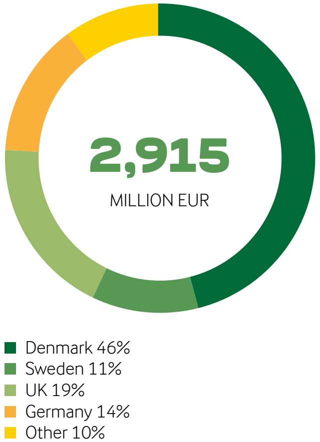


Table 3.2.a Property, plant and equipment
(EURm)

	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Assets under construc-tion	Total
2021					
Cost at 1 January	1,770	3,471	724	453	6,418
Exchange rate adjustments	38	45	20	11	114
Additions	104	133	53	231	521
Transferred from assets under construction	100	169	12	-281	-
Disposals	-27	-46	-32	-1	-106
Reclassifications	2	28	5	-	35
Cost at 31 December	**1,987**	**3,800**	**782**	**413**	**6,982**
Depreciation and impairment at 1 January	-764	-2,219	-520	-	-3,503
Exchange rate adjustments	-9	-29	-11	-	-49
Depreciation and impairment for the year	-78	-251	-77	-	-406
Depreciation on disposals	15	38	30	-	83
Reclassifications	-2	-28	-5	-	-35
Depreciation and impairment at 31 December	**-838**	**-2,489**	**-583**	**-**	**-3,910**
Carrying amount at 31 December	**1,149**	**1,311**	**199**	**413**	**3,072**
Right of use assets included in the carrying amount	141	8	81	-	230
2020					
Cost at 1 January	1,666	3,152	685	407	5,910
Exchange rate adjustments	-17	-13	-14	-2	-46
Additions	81	102	60	337	580
Transferred from assets under construction	66	195	28	-289	-
Disposals	-26	-23	-35	-	-84
Reclassifications	-	58	-	-	58
Cost at 31 December	**1,770**	**3,471**	**724**	**453**	**6,418**
Depreciation and impairment at 1 January	-705	-2,021	-474	-	-3,200
Exchange rate adjustments	1	5	4	-	10
Depreciation and impairment for the year	-73	-234	-74	-	-381
Depreciation on disposals	13	31	24	-	68
Depreciation and impairment at 31 December	**-764**	**-2,219**	**-520**	**-**	**-3,503**
Carrying amount at 31 December	**1,006**	**1,252**	**204**	**453**	**2,915**
Right of use assets included in the carrying amount	136	13	80		229

Capital employed

3.2 PROPERTY, PLANT AND EQUIPMENT

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

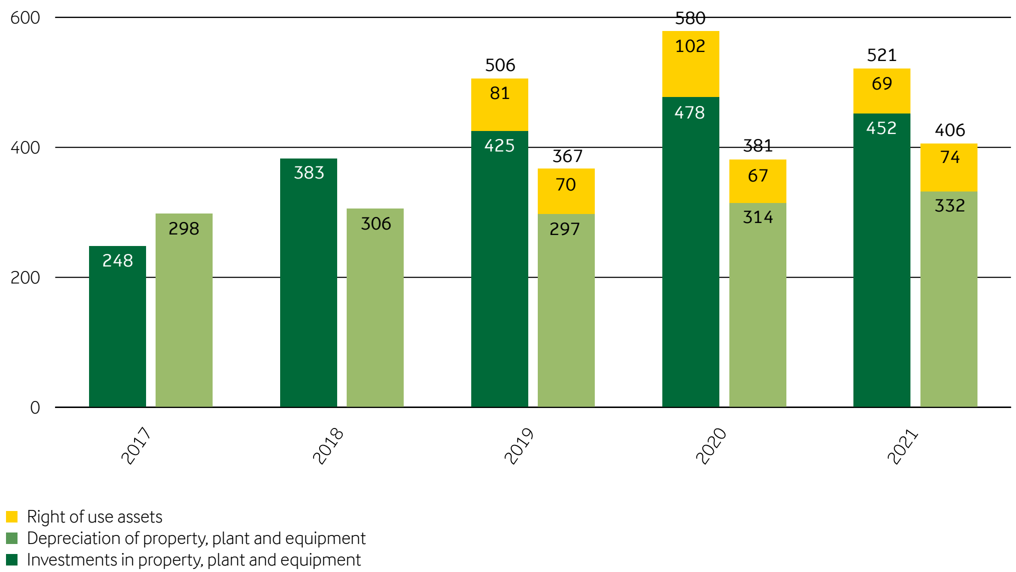


Table 3.2.b Estimated useful life in years
(EURm)

	2021	**2020**
Office buildings	50	50
Production buildings	20-30	20-30
Technical plant	5-20	5-20
Other fixtures and fittings, tools and equipment	3-7	3-7

Accounting policies

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

Cost
Cost comprises the acquisition price as well as costs directly associated with an asset until the asset is ready for its intended use. For self-constructed assets, cost comprises direct and indirect costs relating to materials, components, payroll and the borrowing costs from specific and general borrowing that directly concerns the construction of assets. If significant parts of an item of property, plant and equipment have different useful lives, they are recognised as separate items (major components) and depreciated separately. When component parts are replaced, any remaining carrying amount of replaced parts is removed from the balance sheet and recognised as an accelerated depreciation charge in the income statement. Subsequent expenditure items of property, plant and equipment are only recognised as an addition to the carrying amount of the item, when it is likely that incurring the cost will result in financial benefits for the group. Other costs such as general repair and maintenance are recognised in the income statement 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 amount of an item is lower than the residual value, or when an item is decommissioned. Changes during the depreciation period or in the residual value are treated as changes to accounting estimates, the effect of which is adjusted only in current and future periods. Depreciation is recognised in the income statement in production costs, selling and distribution costs or administration costs.

Uncertainties and estimates

Estimates are made in assessing the useful lives of items of property, plant and equipment that determine the period over which the depreciable amount of the asset is expensed in the income statement. The depreciable amount of an item of property, plant and equipment is a function of the asset's cost or carrying amount and its residual value. Estimates are made in assessing the amount that the group can recover at the end of the useful life of an asset. An annual review is performed to assess the appropriateness of the depreciation method, 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. Leases are typically agreed for a fixed duration, but may include an extension option. Significant right of use assets include office buildings and warehouses in Denmark, Germany, Sweden and the UK with remaining useful lives between 10 and 20 years.

Filling machinery and other technical plants represent another major right of use asset category. Filling machines typically have useful lives of seven years, whereas other technical plants are depreciated between one and seven years. Cars and trucks have on average useful lives of four and five years, respectively. In total, the group has approximately 4,000 leases.

Additions to right of use assets during the year amounted to EUR 69 million, compared to EUR 102 million last year. The total carrying amount of right of use assets was EUR 230 million, compared to EUR 229 million last year, as specified in table 3.2.1.a. Lease liabilities are specified in Note 4.3.

Table 3.2.1.a Right of use assets (EURm)	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Total
2021				
Carrying amount at 1 January	136	13	80	229
Additions	30	4	35	69
Disposals	-5	-7	-18	-30
Depreciation and amortisation for the year	-31	-9	-34	-74
Depreciation on disposals	5	6	16	27
Exhange rate adjustments	6	1	2	9
Carrying amount at 31 December	**141**	**8**	**81**	**230**
2020				
Carrying amount at 1 January	109	21	78	208
Additions	55	4	43	102
Disposals	-8	-8	-19	-35
Depreciation and impairment for the year	-23	-10	-34	-67
Depreciation on disposals	5	6	13	24
Exhange rate adjustments	-2	-	-1	-3
Carrying amount at 31 December	**136**	**13**	**80**	**229**

Table 3.2.1.b Amounts recognised in the income statement (EURm)	**2021**	**2020**
Expenses related to short-term and low-value leases	38	39
Interest expenses on lease liabilities	7	8
Total amounts recognised in the income statement	**45**	**47**
Payment of lease debt	73	67
Total cash outflow from right of use assets	**118**	**114**

Accounting policies

Leases 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 payments 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 have a lease term of less than one year. Low-value assets have an individual value of less than EUR 5 thousand.

Uncertainties and estimates

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

Capital employed

3.3 JOINT VENTURES AND ASSOCIATES

Financial comments

The share of the profit or loss in joint ventures and associates increased by 82 per cent to EUR 53 million compared to EUR 28 million last year, and relates primarily to the profit or loss 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 416 million, compared to EUR 343 million last year. The carrying amount of the investment in CDH includes goodwill amounting to EUR 149 million, compared to EUR 138 million last year driven by the development in HKD and CNY.

The fair value of the indirect share in Mengniu equals EUR 1,043 million, compared to EUR 1,024 million last year based on the official listed share price at 31 December 2021.

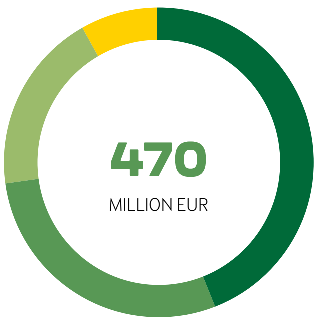
The investment in CDH is part of the China business unit and is currently managed in China, along with sales activities with similar characteristics. The need for impairment of the investment is tested at the China business unit level, using the expected future net cash flow. Impairment risks include substantial and long-term reductions in leading share 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 amount of the investment, there is no indication of impairment. Mengniu reported group revenue of EUR 9,664 million and a profit of EUR 445 million in 2020. 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 amount of joint ventures decreased to EUR 20 million compared to EUR 40 million last year. The decrease results from the sale of Biolac in November 2021. The remaining value primarily relates to the German joint venture ArNoCo. The carrying amount does not include goodwill.

Recognised value of associates and joint ventures, 2021

- Share of equity in CDH/Mengniu 50%
- Goodwill in CDH/Mengniu 28%
- Share of equity in immaterial associates 18%
- Share of equity in immaterial joint ventures 4%

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%

Table 3.3.a Associates and Joint ventures **Value of associates and joint ventures** (EURm)	**2021**	**2020**
Share of equity in COFCO Dairy Holdings Ltd.	267	205
Goodwill in COFCO Dairy Holdings Ltd.	149	138
Share of equity in immaterial associates	94	87
Recognised value of associates	**510**	**430**
Share of equity in immaterial joint ventures	20	40
Recognised value of associates and joint ventures	**530**	**470**

Table 3.3.b COFCO Dairy Holdings Ltd. **Disclosures of financial information*** (EURm)	**2021**	**2020**
Revenue	-	16
Net profit/loss	-23	16
Non-current assets	729	702
Dividends received	12	0
Ownership share	30%	30%
Group share of net profit/loss	36	21
Recognised value	416	343
Fair value based on listed share price	1,043	1,024

COFCO Dairy Holdings Ltd. has no other significant assets or liabilities.
** Based on latest available financial reporting*

Table 3.3.c Transactions with associates and joint ventures (EURm)	**2021**	**2020**
Sale of goods	56	109
Purchase of goods	68	68
Trade receivables*	13	30
Trade payables*	-5	-7

** Included in other receivables and other payables*

Capital employed

3.3 ASSOCIATES AND JOINT VENTURES

Accounting policies

Investments in which Arla has a significant but not controlling influence are classified as associates. Investments in which Arla has joint control are classified as joint ventures.

The proportionate share of the net profit or loss in associates and joint ventures is recognised in the consolidated income statement, after elimination of the proportionate share of unrealised inter-company profits or losses.

Investments in associates and joint ventures are recognised according to the equity method and measured at the proportionate share of the entities' net asset values, calculated in accordance with Arla's accounting policies. The proportionate share of unrealised inter-company profits and the carrying amount of goodwill is added, whereas the proportionate share of unrealised inter-company losses is deducted. Dividends received from associates and joint ventures reduce the value of the investment.

For investments held in listed companies, computation of Arla's share of profit and equity is based on the latest published financial information of the company, other publicly available information on the company's financial development, and the effect of revalued net assets.

Investments in associates and joint ventures with negative net asset values are measured at zero. If Arla has a legal or constructive obligation to cover a loss in the associate or joint venture, the loss is recognised under provisions. Any amounts owed by associates and joint ventures are written down to the extent that the amount owed is deemed irrecoverable.

An impairment test is performed when there are indications of impairment, such as significant adverse changes in the environment in which the equity-accounted investee operates, or a significant or prolonged decline in the fair value of the investment below its carrying amount.

Where the equity-accounted investment is considered to be an integral part of a cash-generating unit (CGU), the impairment test is performed at the CGU level, using expected future net cash flows of the CGU. An impairment loss is recognised when the recoverable amount of the equity-accounted investment (or CGU) becomes lower than the carrying amount. The recoverable amount is defined as the higher of value in use and fair value less costs to sell of the equity-accounted investment (or CGU).

Uncertainties and estimates

Significant influence is defined as the power to participate in financial and operating policy decisions of the investee but does not constitute control or joint control over those policies. Judgement is necessary in determining when a significant influence exists. When determining significant influence, factors such as representation on the Board of Directors, participation in policy-making, material transactions between the entities and interchange of managerial personnel are considered.

CDH and Mengniu
The group has a 30 per cent investment in CDH, which is considered an associate based on a cooperation agreement extending significant influence including the right to representation on the Board. 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 exercises a significant influence in Mengniu.

Lantbrukarnas Riksforbund, 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 a significant influence in 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 of LRF and both Arla and our Swedish owners are individual members of LRF.

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, while simultaneously achieving the highest possible milk price.

The group's comprehensive financial risk management strategy and system builds on a thorough understanding of the interaction between the group's operating activities and underlying financial risks. The overall framework for managing financial risks, being the treasury and funding policy, is approved by the Board of Directors and managed centrally 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.

4.1.1 Liquidity reserves

STRONG LIQUIDITY RESERVES

Liquidity reserves increased by EUR 483 million to EUR 965 million in 2021. Looking at the maturity profile of the group's debt and the forecasted cash flow, the liquidity reserves are considered strong and expected to decrease to an adequate level during 2022.

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.

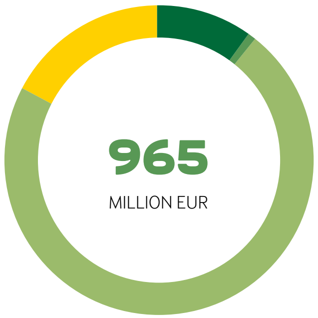
Supply chain finance programmes and trade receivables financing relating to customers form part of the group's liquidity management. Selected suppliers have access to the group's supply chain finance facilities, which allow those suppliers to benefit from the group's credit profile.

More than 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 the transferability of cash exist. However, the balances of cash deemed trapped are insignificant.

Table 4.1.1.a Liquidity reserves (EURm)	**2021**	**2020**
Cash and cash equivalents	97	126
Securities (free cash flow)	12	18
Unutilised committed loan facilities	689	326
Unutilised other loan facilities	167	12
Total	**965**	**482**

Liquidity reserves, 2021



- Cash and cash equivalents 10%
- Securities (free cash flow) 1%
- Unutilised committed loan facilities 72%
- Unutilised other loan facilities 17%

Liquidity reserves, 2020

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

Funding

4.1 FINANCIAL RISKS

Table 4.1.1.b Contractual expected non-discounted cash flows from gross financial liabilities
(EURm)

		Non-discounted contractual cash flows									
	Carrying amount	Total	2022	2023	2024	2025	2026	2027	2028	2029-2031	After 2031
2021											
Issued bonds	440	444	-	149	149	-	146	-	-	-	-
Mortgage credit institutions	1,033	1,040	11	11	12	87	50	55	61	249	504
Credit institutions	1,036	1,038	599	194	243	1	1	-	-	-	-
Lease liabilities	233	233	60	50	35	27	19	16	7	14	5
Other current liabilities	15	15	15	-	-	-	-	-	-	-	-
Interest expenses – interest-bearing debt	-	65	14	11	6	5	3	3	2	7	14
Trade and other payables	1,445	1,445	1,445	-	-	-	-	-	-	-	-
Derivative instruments	86	86	47	13	7	5	2	1	1	4	6
Total	**4,288**	**4,366**	**2,191**	**428**	**452**	**125**	**221**	**75**	**71**	**274**	**529**

		Non-discounted contractual cash flows									
	Carrying amount	Total	2021	2022	2023	2024	2025	2026	2027	2028-2030	After 2030
2020											
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 current liabilities	70	70	70	-	-	-	-	-	-	-	-
Interest expenses – 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
Total	**4,008**	**4,100**	**2,012**	**229**	**317**	**400**	**114**	**81**	**66**	**239**	**642**

Assumptions
The contractual cash flows are based on the following assumptions:
- The cash flows are based on the earliest possible date at which the group can be required to settle the financial liability
- The interest rate cash flows are based on the contractual interest rate. Floating interest payments have been determined using the current floating rate for each item at the reporting date

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 policy states the minimum average maturity threshold for net interest-bearing debt and sets limitations on debt maturing within the next 12- and 24-month periods. Unused committed facilities are taken into account when calculating average maturity.

Average maturity

	2021	2020	Policy Minimum	Policy Maximum
Average maturity, gross debt	5.8 years	5.0 years	2 years	-
Maturity < 1 year, net debt	0%	0%	-	25%
Maturity > 2 years, net debt	100%	84%	50%	-

How we act and operate
In addition to the treasury and funding policy, the Board of Directors has approved a long-term financing strategy, which defines the direction for financing of the group. This includes counterparties, instruments and risk appetite and describes future funding opportunities to be explored and implemented. The funding strategy is supported by members' long-term commitment to investing in the business. It is the group's objective to maintain its credit quality at a robust investment grade level.

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 13 million compared to last year due to negative transaction effects. Part of this exposure was hedged by costs in the same currency. Financial instruments such as trade receivables, trade payables and other items denominated in currencies other than the individual entities' functional currencies are also exposed to currency risks. The net effect from the revaluation of these financial instruments is recognised in financial income or financial costs. A net loss of EUR 28 million was recognised in financial costs compared to a loss of EUR 25 million last year. Exchange rate losses relate primarily to the devaluations of the Lebanese, Nigerian and Argentine currencies, which amounted to EUR 21 million.

To manage short-term volatility from currency fluctuations, derivatives are used to hedge the currency exposure. When settling the hedging instrument, a positive or negative amount is recognised in other income or other costs, respectively. A net loss of EUR 31 million was recognised in other costs compared to a gain of EUR 17 million last year. A loss from hedges will be expected in years where export currencies strengthen during the year and vice versa.

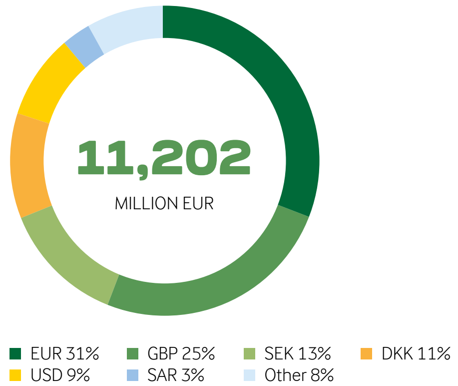
The group is exposed to translation effects from entities reporting in currencies other than EUR. The group is mainly exposed to translation of entities reporting in GBP, DKK, SEK, CNY and USD. Due to translation effects, revenue decreased by EUR 40 million compared to the revenue reported last year. Simultaneously, costs decreased by EUR 27 million compared to last year's reported costs. The group's financial position is similarly exposed, impacting the value of assets and liabilities reported in currencies other than EUR. The translation effect on net assets is recognised in other comprehensive income as foreign currency translation adjustments. In 2021, a net gain of EUR 132 million was recognised in other comprehensive income compared to a net loss of EUR 84 million last year.

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

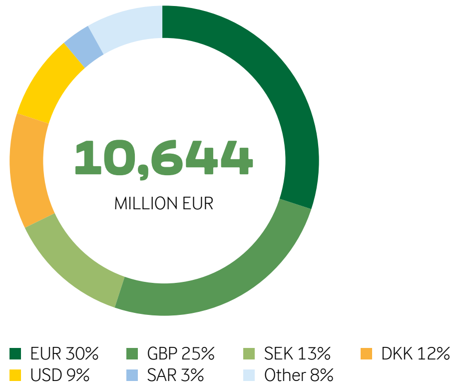
Compared to last year, the average rate of the USD weakened by 4 per cent, whereas the GBP and SEK strengthened by 3 per cent.

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 less efficient currency markets represented 4 per cent of the group's revenue in 2021.

Revenue split by currency, 2021



Revenue split by currency, 2020



Funding

4.1 FINANCIAL RISKS

Table 4.1.2.a Exchange rates

	Closing rate			Average rate		
	2021	**2020**	**Change**	**2021**	**2020**	**Change**
EUR/GBP	0.839	0.903	7.1%	0.860	0.889	3.3%
EUR/SEK	10.241	10.081	-1.6%	10.145	10.483	3.2%
EUR/DKK	7.437	7.441	0.1%	7.437	7.454	0.2%
EUR/USD	1.133	1.230	7.9%	1.182	1.140	-3.7%
EUR/SAR	4.253	4.616	7.9%	4.434	4.279	-3.6%

Table 4.1.2.b Currency exposure

	Balance sheet exposure				Potential accounting impact	
	Open positions	Hedging of future cash flows	External exposure	Sensitivity	Income statement	Other compre-hensive income
2021						
EUR/DKK	-86	278	192	1%	-1	3
USD/DKK*	44	-252	-207	5%	2	-13
GBP/DKK	25	-418	-393	5%	1	-21
SEK/DKK	12	-49	-37	5%	1	-2
SAR/DKK	9	-176	-167	5%	-	-9
2020						
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

**Incl. AED*

Risk mitigation

The group's external exposure is calculated as external financial assets and liabilities denominated in currencies other than the functional currency of each legal entity, plus any external derivatives converted at group level into currency risk against DKK, i.e. EUR/DKK, USD/ DKK etc. The same also applies to the group's net internal exposure. The aggregate of the group's external and internal currency exposure is the net exposure, which is outlined in Table 4.1.2.b.

Net foreign currency investments in subsidiaries, as well as instruments hedging those investments, are excluded.

Risk
According to the treasury and funding policy, the Treasury department can hedge:
- Up to 15 months of the net forecasted cash receipts and payables
- Up to 100 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 1.0 to 3.6.

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

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

	Carrying amount	Sensitivity	Potential accounting impact: Income statement	Potential accounting impact: Other comprehensive income
2021				
Financial assets	-536	1%	5	-1
Derivatives	-	1%	6	56
Financial liabilities	2,757	1%	-12	-
Net interest-bearing debt excluding pension liabilities	**2,221**		**-1**	**55**
2020				
Financial assets	-550	1%	6	-1
Derivatives	-	1%	5	42
Financial liabilities	2,730	1%	-13	-
Net interest-bearing debt excluding pension liabilities	**2,180**		**-2**	**41**

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 in comprehensive income. Profit exposure relates to net potential impairment of non-current assets. Other comprehensive income exposure relates to revaluation of net pension liabilities and interest hedging of future cash flows.

Fair value sensitivity
A change in interest rates will impact the fair value of the group's interest-bearing assets, interest rate derivative instruments and debt instruments measured on a 1 per cent increase in interest rates. A decrease in the interest rate would have the opposite effect.

Cash flow sensitivity
A change in interest rates will impact interest rate payments on the group's unhedged floating rate debt. Table 4.1.3 shows the one-year cash flow sensitivity, depicting a 1 per cent increase in interest rates at 31 December 2021. 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.

	2021	2020	Policy: Minimum	Policy: Maximum
Duration	3.6	2.6	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 derivatives to reduce risks related to fluctuations in the interest rate, and to manage the interest profile of the interest-bearing debt. By having a portfolio approach and using derivatives, the group can independently manage and optimise interest rate risk, as the interest rate profile can be changed without having to change the funding itself. This allows the group to operate in a fast, flexible and cost-efficient manner without changing underlying loan agreements.

The mandate from the Board of Directors provides the group with the opportunity to use derivatives, such as interest rate swaps and options, in addition to interest conditions embedded in the loan agreements. 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 to hedge commodity price risk. This secures full flexibility to change suppliers without having to take future hedging into consideration.

Hedging activities focus on the most significant risks, including electricity, natural gas and diesel. The total energy commodity spends, excluding taxes and distribution costs, amounted to approximately EUR 70 million at the start of the year, and with the prices at 31 December 2021 the total energy commodity spend has increased to EUR 350 million for 2022.

The purpose of hedging is to reduce volatility in energy-related costs. In 2021, hedging activities resulted in a gain of EUR 29 million compared to a loss of EUR 15 million last year. However, the gain in 2021 was more than offset by significantly higher physical energy costs. The result of hedging activities, classified as hedge accounting, is recognised in other income and costs.

At the end of 2021, 25 per cent of the energy spend for 2022 was hedged. A 25 per cent increase in commodity prices would negatively impact profit by approximately EUR 66 million. Conversely, other comprehensive income would be positively impacted by EUR 14 million.

Table 4.1.4 Hedged commodities
(EURm)

			Potential accounting impact	
	Sensitivity	Contract value	Income statement	Other comprehensive income
2021				
Diesel/natural gas	25%	15	-43	7
Electricity	25%	12	-23	7
		27	-66	14
2020				
Diesel/natural gas	25%	2	-7	6
Electricity	25%	-	-4	4
		2	-11	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 production and distribution costs.

Fair value sensitivity
A change in commodity prices will impact the fair value of the group's hedged commodity derivative instruments, measured through other comprehensive income and the unhedged energy consumption through the income statement. 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 opposite effect.

Policy
According to the treasury and funding policy, the forecasted consumption of electricity, natural gas and diesel can be hedged for up to 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 into financial derivative contracts, which are independent of the physical supplier contracts. Arla is also exploring other commodities relevant for financial risk management.

Arla's energy exposure and hedging are managed as a portfolio across energy type and country. Not all energy commodities can be effectively hedged by matching the underlying costs, but Arla aims to minimise the basic risk.

Dairy derivative markets in the EU, the US and New Zealand remain small but are evolving. The group has engaged in hedging activities for a small part of the group's dairy commodity trading volume. As the dairy derivative market develops, we expect this to play 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 2021, 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.

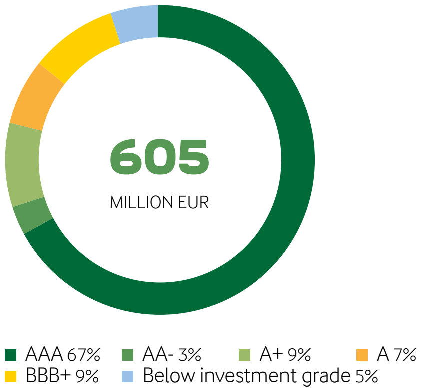
Further information on trade receivables is provided in Table 2.1.c.

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

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

To manage the financial counterparty risk, the group uses master netting agreements when entering into derivative contracts. Table 4.1.5 shows the counterparty exposure for those agreements covered by entering into netting agreements that qualify for netting in case of default.

External rating of financial counterparties, 2021



External rating of financial counterparties, 2020

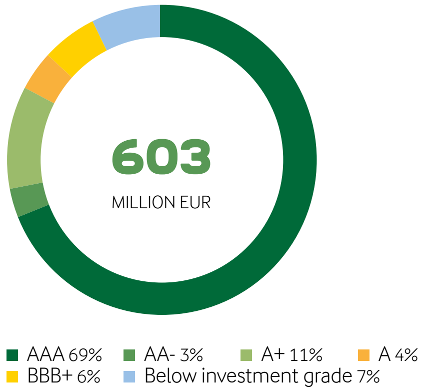


Table 4.1.5 External rating of financial counterparties
(EURm)

	Counterparty rating						
	AAA	AA-	A+	A	BBB+	Below investment grade	Total
2021							
Securities	402	-	-	-	32	-	434
Cash	5	17	14	7	24	30	97
Derivatives	-	1	39	33	0	1	74
Total	**407**	**18**	**53**	**40**	**56**	**31**	**605**
2020							
Securities	415	-	-	-	5	-	420
Cash	-	10	44	5	23	44	126
Derivatives	-	9	22	16	10	0	57
Total	**415**	**19**	**66**	**21**	**38**	**44**	**603**

Risk mitigation

Risk
Credit risks arise from operating activities and engagement with financial counterparties. Furthermore, a weak counterparty credit quality can reduce their ability to support the group going forward, thereby jeopardising the fulfilment of our group strategy.

Policy
Counterparties 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) to financial contracts and deposits must as a minimum have a long-term rating corresponding to A3 from Moody's, A- from S&P or A- from Fitch. If the group has only obtained credit 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 seeks the best coverage available. The group has determined that this is an acceptable risk given the 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 EXPENSES OFFSET BY HIGHER EXCHANGE RATE LOSSES

Net financial costs decreased by EUR 11 million to EUR 61 million mainly due to lower interest expenses, which were partly offset by higher exchange rate.

Net interest expenses amounted to EUR 40 million, representing a decrease of EUR 14 million compared to last year due to the expiry of old interest hedges and new interest rate hedges at attractive interest rates.

Average interest expenses, excluding interest related to pension assets and liabilities, were 1.8 per cent compared to 2.3 per cent last year. Interest cover increased to 23.7 compared to 17.0 last year.

Exchange rate losses relate primarily to the devaluation of the Lebanese, Nigerian and Argentine currencies, which amounted to EUR 21 million.

Table 4.2 Financial income and financial costs (EURm)	**2021**	**2020**
Financial income:		
Interest securities, cash and cash equivalents	7	2
Fair value adjustments and other financial income	7	5
Total financial income	**14**	**7**
Financial costs		
Interest on financial instruments measured at amortised cost	-45	-54
Net exchange rate losses	-28	-25
Interest on pension liabilities	-2	-2
Interest transferred to property, plant and equipment	7	8
Fair value adjustments and other financial costs	-7	-6
Total financial costs	**-75**	**-79**
Net financial costs	**-61**	**-72**

Accounting policies

Financial income and financial costs as well as capital gains and losses are recognised in the income statement at amounts that can be attributed to the year. Financial items comprise realised and unrealised value adjustments of securities and currency adjustments of financial assets and financial liabilities, as well as the interest portion of financial lease payments. Additionally, realised and unrealised gains and losses on derivatives not classified as hedging contracts are included. Borrowing costs from general borrowing, or loans that directly relate to the acquisition, construction or development of qualified assets are attributed to the costs of such assets and are therefore not included in financial costs.

Capitalisation of interest was performed by using an interest rate matching the group's average external interest rate in 2021. Financial income and financial costs relating to financial assets and financial liabilities were recognised using the effective interest method.

Funding

4.3 NET INTEREST-BEARING DEBT

INCREASED NET INTEREST-BEARING DEBT

Net interest-bearing debt, excluding pension liabilities, increased to EUR 2,221 million compared to EUR 2,180 million last year.

Pension liabilities decreased by EUR 2 million to EUR 245 million. Net interest-bearing debt, including pension liabilities, amounted to EUR 2,466 million compared to EUR 2,427 million last year. The UK pension scheme net assets were EUR 55 million compared to EUR 40 million last year. These assets are excluded from the calculation of pension liabilities, net interest-bearing debt and leverage.

Arla's leverage ratio was 2.6, a decrease of 0.1 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 increased by 0.8 years to 5.8 years. Average maturity is impacted by new facilities and offset by a lapse of time to maturity and the level of net interest-bearing debt.

The equity ratio increased to 37 per cent, compared to 35 per cent last year.

Funding
The group applies a diversified funding strategy to balance the liquidity and refinancing risk with the aim of achieving low financing costs. Major acquisitions or investments are funded separately.

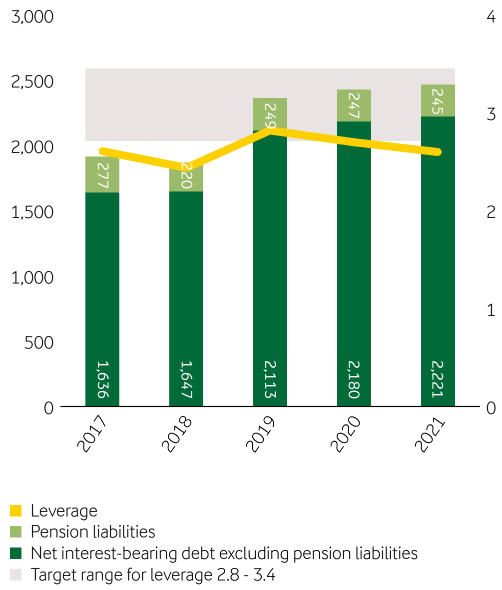
A diverse funding strategy includes diversification of markets, currencies, instruments, banks, lenders and maturities to secure broad access to funding and to ensure that the group is independent of one single funding partner or one single market. All funding opportunities are benchmarked against the three-month EURIBOR rate, and derivatives are applied to match the currency of our funding needs. The interest profile is managed with interest rate swaps independently of the individual loans.

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 2021.

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

During 2021, the group had a limited need for new funding. The most significant funding activities during the year were:
- Five-year EUR 400 million ESG-linked revolving credit multi-bank facility
- Five-year bond issue of SEK 1,500 million
- Seven-year EUR 100 million credit facility from European Investment Bank
- Arla has a commercial paper programme in Sweden denominated in SEK and EUR. The programme was unutilised at the end of the year due to a strong liquidity position. The average utilisation in 2021 was EUR 122 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 its debt. The group's long-term target range for leverage is between 2.8 and 3.4.

Leverage

2.6

2020: 2.7

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

	2021	2020
Long-term borrowings	2,113	1,964
Short-term borrowings	644	766
Securities, cash and cash equivalents	-531	-546
Other interest-bearing assets	-5	-4
Net interest-bearing debt excluding pension liabilities	**2,221**	**2,180**
Pension liabilities	245	247
Net interest-bearing debt including pension liabilities	**2,466**	**2,427**

Funding

4.3 NET INTEREST-BEARING DEBT

Table 4.3.b Borrowings
(EURm)

	2021	**2020**
Long-term borrowings		
Issued bonds	440	299
Mortgage credit institutions	1,021	1,033
Bank borrowings	478	455
Lease liabilities	174	177
Total long-term borrowings	**2,113**	**1,964**
Short-term borrowings		
Issued bonds	-	100
Commercial papers	102	-
Mortgage credit institutions	11	9
Bank borrowings	456	531
Lease liabilities	59	56
Other current liabilities	16	70
Total short-term borrowings	**644**	**766**
Total interest-bearing borrowings	**2,757**	**2,730**

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

		Cash flow	Non-cash changes				
	1 January	Included in financing activities	Additions	Reclasses	Foreign exchange move-ments	Fair value changes	31 December
2021							
Pension liabilities	247	-14	-	-	-4	16	245
Long-term borrowings	1,964	-	46	62	24	17	2,113
Short-term borrowings	766	-48	-	-62	-12	-	644
Total interest-bearing debt	**2,977**	**-62**	**46**	**-**	**8**	**33**	**3,002**
UK pension assets	-	-17	-	16	4	-1	-
Securities and other interest-bearing assets	-424	-12	-	-	-3	-	-439
Cash	-126	32	-	-	-3	-	-97
Net interest-bearing debt	**2,427**	**-59**	**46**	**16**	**6**	**32**	**2,466**

Long- and short-term borrowings payments of EUR -48 million (EUR 0 million and EUR -48 million, respectively) can be reconciled to the cash flow statement as new loans obtained (EUR 172 million), other changes in loans (EUR -147 million) and lease payments (EUR -73 million).

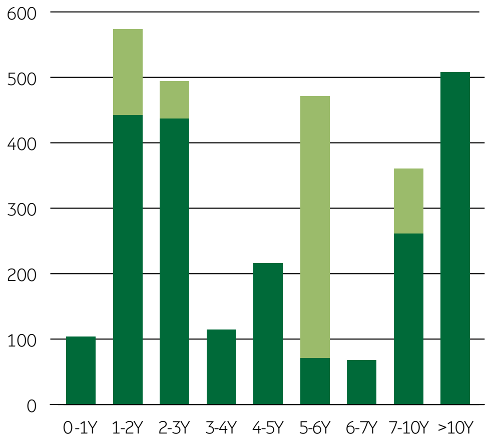
	1 January	Included in financing activities	Additions	Reclasses	Foreign exchange move-ments	Fair value changes	31 December
2020							
Pension liabilities	249	-10	-		7	1	247
Long-term borrowings	1,951	-	70	-84	5	22	1,964
Short-term borrowings	789	-90	-	84	-17	-	766
Total interest-bearing debt	**2,989**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

Long- and short-term borrowings payments of EUR 90 million (EUR 0 million and EUR 90 million, respectively) can be reconciled to the cash flow statement as new loans obtained of EUR 149 million, other changes in loans of EUR -173 million and lease payments of EUR -66 million.

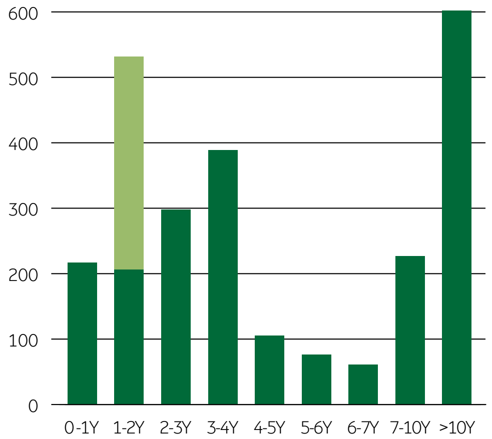
Funding

4.3 NET INTEREST-BEARING DEBT

Maturity of net interest-bearing debt excluding pension liabilities at December 2021
(EURm)

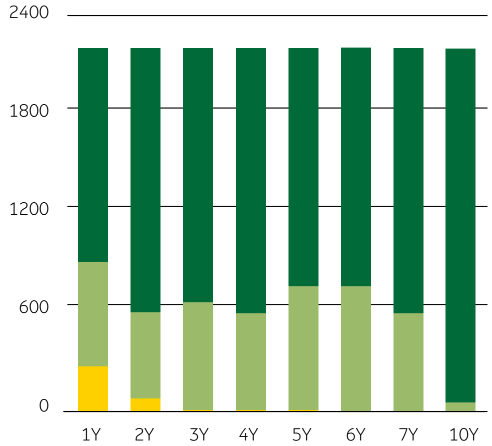


Maturity of net interest-bearing debt excluding pension liabilities at December 2020
(EURm)

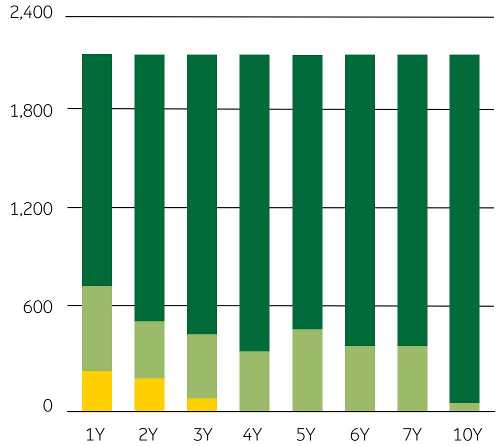


Unused committed facilities ■ Debt

Interest profile for net interest-bearing debt excluding pension liabilities at 31 December 2021
(EURm)



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



■ Floating ■ Fixed via swap ■ Fixed debt

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

2021	Total	2022	2023	2024	2025	2026	2027	2028	2029-2031	After 2031
DKK	873	20	26	55	94	56	55	61	202	304
SEK	572	109	153	152	4	150	4	-	-	-
EUR	592	5	207	108	4	3	4	4	55	202
GBP	43	7	8	6	5	4	4	3	4	2
Other	141	-37	48	116	7	3	4	-	-	-
Total	**2,221**	**104**	**442**	**437**	**114**	**216**	**71**	**68**	**261**	**508**

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	-	-	-
Total	**2,180**	**217**	**206**	**298**	**389**	**105**	**76**	**61**	**226**	**602**

Table 4.3.e Currency profile of net interest-bearing debt excluding pension liabilities
(EURm)
Disclosed before and after the effect of derivatives

2021	Original principal	Effect of swap	After swap
DKK	873	-	873
SEK	572	-586	-14
EUR	592	64	656
GBP	43	522	565
Other	141	-	141
Total	**2,221**	-	**2,221**

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
Total	**2,180**	**-**	**2,180**

Funding

4.3 NET INTEREST-BEARING DEBT

Table 4.3.f Interest rate risk excluding effect of hedging
(EURm)

2021	Interest rate	Average interest rate	Fixed for	Carrying amount	Interest rate risk
Issued bonds:					
Commercial papers	Fixed	0.16%	0-1 years	102	Fair value
SEK 750m maturing 03.07.2023	Floating	1.14%	1-2 years	74	Cash flow
SEK 750m maturing 03.07.2023	Fixed	1.51%	1-2 years	73	Fair value
SEK 750m maturing 03.04.2024	Fixed	1.58%	2-3 years	73	Fair value
SEK 750mmaturing 03.04.2024	Floating	0.91%	2-3 years	74	Cash flow
SEK 1,500m maturing 17.07.2026	Floating	0.60%	4-5 years	146	Cash flow
Total issued bonds		**0.89%**		**542**	
Mortgages credit institutions:					
Fixed-rate	Fixed	0.25%	1-2 years	97	Fair value
Floating-rate	Floating	0.26%	0-1 years	935	Cash flow
Total mortgage credit institutions		**0.26%**		**1,032**	
Bank borrowings:					
Fixed-rate	Fixed	0.02%	0-1 years	390	Fair value
Floating-rate	Floating	0.61%	0-1 years	544	Cash flow
Total bank borrowings		**0.36%**		**934**	
Other borrowings:					
Lease liabilities	Fixed	3.18%	0-20 years	233	Cash flow
Other borrowings	Floating	3.41%	0-1 years	16	Cash flow
Total other borrowings		**3.19%**		**249**	

2020	Interest rate	Average interest rate	Fixed for	Carrying amount	Interest rate risk
Issued bonds:					
SEK 500m maturing 31.05.2021	Floating	1.60%	0-1 years	50	Cash flow
SEK 500m maturing 31.05.2021	Fixed	1.88%	0-1 years	50	Fair value
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
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
Total issued bonds		**1.40%**		**399**	
Mortgages credit institutions:					
Fixed-rate	Fixed	0.37%	1-2 years	124	Fair value
Floating-rate	Floating	0.43%	0-1 years	918	Cash flow
Total mortgage credit institutions		**0.42%**		**1,042**	
Bank borrowings:					
Fixed-rate	Fixed	0.02%	0-1 years	404	Fair value
Floating-rate	Floating	0.77%	0-1 years	582	Cash flow
Total bank borrowings		**0.46%**		**986**	
Other borrowings:					
Lease liabilities	FIxed	3.38%	0-20 years	233	Cash flow
Other borrowings	Floating	3.69%	0-1 years	70	Cash flow
Total other borrowings		**3.45%**		**303**	

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 initial recognition at fair value plus transaction costs. The financial assets are subsequently measured at fair value with adjustments made in other comprehensive income and accumulated in the fair value reserve in equity.

Interest income, impairment and foreign currency translation adjustments of debt instruments are recognised in the income statement on a continuous basis under financial income and financial costs. In connection with the sale of financial assets classified at fair value through other comprehensive income, accumulated gains or losses, previously recognised in the fair value reserve, are recycled to financial income and financial costs.

Financial assets measured at fair value through profit or loss
Securities classified at fair value through the income statement consist primarily of listed securities which are monitored, measured and reported continuously, in accordance with the group's treasury and funding policy. Changes in fair value are recognised in the income statement under financial income and financial costs.

Liabilities
Debt to mortgage credit 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 leases are recognised under liabilities and 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 DERIVATIVES

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 the fair value adjustment is therefore recognised directly in the income statement.

Currency swaps are used as part of the daily liquidity management. The objective of the currency swaps is to match the timing of in- and outflow of foreign currency cash flows.

Table 4.4.b Value adjustment of hedging instruments
(EURm)

	2021	2020
Deferred gains and losses on cash flow hedges arising during the year	12	38
Value adjustments of hedging instruments reclassified to other operating income and costs	3	-5
Value adjustments of hedging instruments reclassified to financial items	24	8
Total value adjustment of hedging instruments recognised in other comprehensive income during the year	**39**	**41**

Table 4.4.a Hedging of future cash flows from highly probable forecast transactions
(EURm)

			Expected recognition in income statement				
	Carrying value	Fair value recognised in OCI	2022	2023	2024	2025	After 2025
2021							
Currency contracts	-17	-17	-17	-	-	-	-
Interest rate contracts	-24	-24	-8	-6	-	1	-11
Commodity contracts	27	27	26	1	-	-	-
Hedging of future cash flow	**-14**	**-14**	**1**	**-5**	**-**	**1**	**-11**

			Expected recognition in income statement				
	Carrying value	Fair value recognised in OCI	2021	2022	2023	2024	After 2024
2020							
Currency contracts	11	11	11	-	-	-	-
Interest rate contracts	-66	-66	-11	-10	-9	-8	-28
Commodity contracts	2	2	1	1	-	-	-
Hedging of future cash flow	**-53**	**-53**	**1**	**-9**	**-9**	**-8**	**-28**

Accounting policies

Derivatives are recognised from the trade date and measured in the financial statements at fair value. Positive and negative fair values of derivatives are recognised as separate items in the balance sheet.

Fair value hedging
Changes in the fair value of derivatives which meet the criteria for hedging the fair value of recognised assets and liabilities, are recognised alongside changes in the value of the hedged asset or the hedged liability for the portion that is hedged.

Cash flow hedging
Changes in the fair value of derivatives that are classified as hedges of future cash flows and effectively hedge changes in future cash flows, are recognised in other comprehensive income as a reserve for hedging transactions under equity until the hedged cash flows impact the income statement. The reserve for hedging instruments under equity is presented net of tax. The cumulative gains or losses from hedging transactions that are retained in equity are reclassified and recognised under the same item as the basic adjustment for the hedged item. The accumulated change in value recognised in other comprehensive income is recycled to the income statement once the hedged cash flows affect the income statement or are no longer likely to be realised. For derivatives that do not meet the criteria for classification as hedging instruments, changes in fair value are recognised as they occur in the income statement, under financial income and costs.

Funding

4.5 FINANCIAL INSTRUMENTS

Table 4.5.a Categories of financial instruments (EURm)	**2021**	**2020**
Derivatives	22	38
Shares	9	9
Financial assets measured at fair value through the income statement	**31**	**47**
Securities	434	420
Financial assets measured at fair value through other comprehensive income	**434**	**420**
Currency instruments	2	14
Interest rate instruments	22	1
Commodity instruments	28	4
Derivative assets used as hedging instruments	**52**	**19**
Trade receivables	1,007	811
Other receivables	285	424
Cash	97	-
Financial assets measured at amortised cost	**1,389**	**1,235**
Derivatives	44	19
Financial liabilities measured at fair value through the income statement	**44**	**19**
Currency instruments	19	3
Interest rate instruments	22	42
Commodity instruments	1	2
Derivative liabilities used as hedging instruments	**42**	**47**
Long-term borrowings*	2,113	1,964
Short-term borrowings*	644	766
Trade payables and other payables	1,445	1,212
Financial liabilities measured at amortised cost	**4,202**	**3,942**

**Including lease liabilities*

Table 4.5.b Fair value hierarchy – carrying amount (EURm)	Level 1	Level 2	Level 3	Total
2021				
Bonds	434	-	-	434
Shares	9	-	-	9
Derivatives	-	74	-	74
Total financial assets	**443**	**74**	**-**	**517**
Issued bonds	-	440	-	440
Mortgage credit institutions	1,032		-	1,032
Derivatives	-	86	-	86
Total financial liabilities	**1,032**	**526**	**-**	**1,558**
2020				
Bonds	420	-	-	420
Shares	9	-	-	9
Derivatives	-	57	-	57
Total financial assets	**429**	**57**	**-**	**486**
Issued bonds	-	399	-	399
Mortgage credit institutions	1,042	-	-	1,.042
Derivatives	-	66	-	66
Total financial liabilities	**1,042**	**465**	**-**	**1,507**

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 archieve a lower interest rate compared to current market interest rates on mortgage debt. The mortgage bonds are measured at fair value through other comprehensive income.

The proceeds from these bonds create a repurchase obligation which is recognised in short-term borrowings.

In addition to mortgage bonds, the group holds other securities with a carrying amount of EUR 5 million.

Table 4.6 Transfer of financial assets
(EURm)

	Carrying value	Notional amount	Fair value
2021			
Mortgage bonds	398	394	398
Repurchase liabilities	-385	-387	-385
Net position	**13**	**7**	**13**
2020			
Mortgage bonds	409	405	409
Repurchase liabilities	-398	-397	-398
Net position	**11**	**8**	**11**

Funding

4.7 PENSION LIABILITIES

NET PENSION LIABILITIES DOWN EUR 31 MILLION FROM PREVIOUS YEAR

The group's pension assets and liabilities consist primarily of defined benefit plans in Sweden and the UK.

The group also operates defined contribution plans for employees. For these defined contribution plans, the group is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit plans. The benefits that employees receive are dependent on the contribution paid, investment returns, and the form of benefit chosen at retirement.

Pension plans in Sweden
The recognised net pension liability in Sweden was EUR 225 million at 31 December 2021, an increase of EUR 4 million compared to the previous year.

The defined benefit plan does not currently require the group to make further cash contributions. These pension plans are contribution-based plans, guaranteeing a defined benefit pension at retirement. The plan assets are legally structured as a trust, and the group has control over the operation of the plan and the associated investments.

These pension plans do not include a risk-sharing element between the group and the plan participants.

Pension plans in the UK
The recognised net pension asset in the UK was EUR 69 million at 31 December 2021, an increase of EUR 29 million compared to the previous year. The increase can mainly be attributed to contributions to the plan by Arla of EUR 17 million during the year and actuarial gains of EUR 54 million, offset by a reduction in the fair value of plan assets of EUR 46 million.

The defined benefit plan in the UK is a defined benefit final salary scheme. The plan is closed to both new entrants and future accruals. The plan is a registered pension scheme, and the assets are held in legally separate, trustee-administered funds. The trustees of the plan are required by law to act in the best interests of the plan participants while at the same time administering the plan in accordance with the purpose for which the trust was created, and is responsible for drawing up the investment, funding and governance policies. A representative of the group attends trustee meetings to provide the group's view on the investment strategy, but the ultimate power lies with the trustees.

During the reporting period, the trustees of the plan entered into a buy-in policy with Aviva Life & Pensions UK Limited that provides insurance for 25 per cent of the pension liabilities. According to the policy, payments that are exactly equal to the benefits paid to the insured population, are made to the plan. This has removed all investment, interest rate, inflation and longevity risks in respect of these members. The value of the annuity policy is determined using the disclosed assumptions used for valuing the liabilities and is equal to the accounting liabilities of the insured pensioner population.

Employer contributions are determined based on 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 carried out as at 31 December 2023. The most recent full actuarial valuation of the plan was carried out as at 31 December 2019. The valuation indicated that, on the agreed funding basis, the plan had a deficit of GBP 22 million. To meet this deficit, the group agreed to pay annual contributions of GBP 13 million until March 2021. The next valuation will be carried out as at 31 December 2022.

The results of the 2019 actuarial valuation have been used and updated for IAS19 'Employee benefits' purposes by a qualified independent actuary. The plan exposes the group to inflation risk, interest rate risk and market investment risk, as well as longevity risk.

Defined contribution plans are in place for other employees. Contributions are made both by Arla and the employee at a rate determined by Arla.

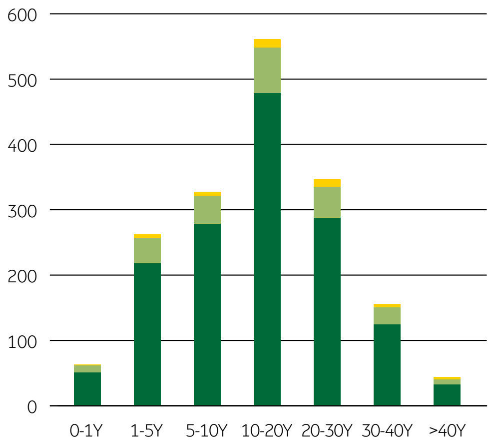
Table 4.7.a Pension liabilities recognised in the balance sheet
(EURm)

	Sweden	UK	Other	Total
2021				
Present value of funded liabilities	235	1,473	44	1,752
Fair value of plan assets	-13	-1,542	-26	-1,581
Deficit of funded plans	**222**	**-69**	**18**	**171**
Present value of unfunded liabilities	3	-	2	5
Net pension liabilities recognised in the balance sheet	**225**	**-69**	**20**	**176**
Specification of total liabilities:				
Present value of funded liabilities	235	1,473	44	1,752
Present value of unfunded liabilities	3	-	2	5
Total liabilities	**238**	**1,473**	**46**	**1,757**
Presented as:				
Pension assets	-	-69	-	-69
Pension liabilities	225	-	20	245
Net pension liabilities	**225**	**-69**	**20**	**176**
2020				
Present value of funded liabilities	231	1,456	49	1,736
Fair value of plan assets	-13	-1,496	-29	-1,538
Deficit of funded plans	**218**	**-40**	**20**	**198**
Present value of unfunded liabilities	3	-	6	9
Net pension liabilities recognised in the balance sheet	**221**	**-40**	**26**	**207**
Specification of total liabilities:				
Present value of funded liabilities	231	1,456	49	1,736
Present value of unfunded liabilities	3	-	6	9
Total liabilities	**234**	**1,456**	**55**	**1,745**
Presented as:				
Pension assets	-	-40	-	-40
Pension liabilities	221	-	26	247
Net pension liabilities	**221**	**-40**	**26**	**207**

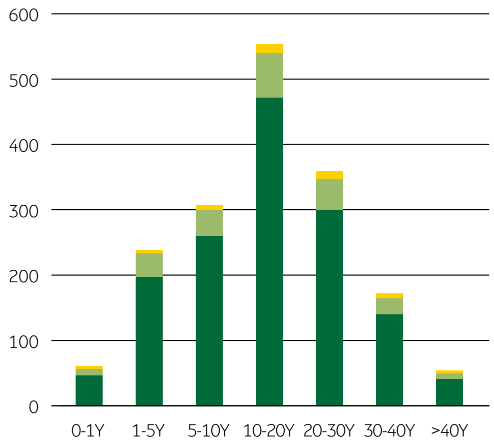
Funding
4.7 PENSION LIABILITIES

Table 4.7.b Development in pension liabilities (EURm)	**2021**	**2020**
Present value of liabilities at 1 January	1,745	1,708
Current service cost	5	4
Interest cost	23	30
Actuarial gains and losses from changes in financial assumptions (OCI)	-44	153
Actuarial gains and losses from changes in demographic assumptions (OCI)	-	-17
Benefits paid	-74	-63
Foreign currency translation adjustment	102	-70
Present value of pension liabilities at 31 December	**1,757**	**1,745**

Maturity of pension liabilities, at 31 December 2021
(EURm)



Maturity of pension liabilities, at 31 December 2020
(EURm)



UK Sweden Other

Table 4.7.c Development in fair value of plan assets (EURm)	**2021**	**2020**
Fair value of plan assets at 1 January	1,538	1,475
Interest income	21	28
Return on plan assets, excluding amounts included in net interest on the net defined benefit liability	-47	141
Contributions to plans	17	26
Benefits paid	60	-53
Foreign currency translation adjustments	112	-79
Fair value of plan assets at 31 December	**1,581**	**1,538**
Actual return on plan assets:		
Calculated interest income	21	28
Return excluding calculated interest	-47	141
Actual return	**-26**	**169**

The group expects to contribute EUR 13 million to the plan assets in 2022 and EUR 48 million in 2023-2026.

Table 4.7.d Specification of plan assets (EURm)	**2021**	**%**	**2020**	**%**
Liability hedge portfolio	289	18	485	32
Annuity policies	321	20	-	-
Debt vehicles	440	28	434	28
Bonds	168	11	208	14
Equity instruments	52	3	116	8
Properties	134	8	126	8
Infrastructure	74	5	69	4
Other assets	103	7	100	7
Fair value of plan assets at 31 December	**1,581**	**100**	**1,538**	**100**

Funding
4.7 PENSION LIABILITIES

Plan asset investment

Plan assets generate returns that are used to satisfy the plan liabilities. They are not necessarily intended to be realised in the short term. The trustees invest in different categories of assets and with different allocations among those categories, according to the plan investment principles.

Currently, the plan investment strategy is to maintain a balance of growth assets (equities, property and infrastructure), income assets (comprising credit investments and corporate bonds) and matching assets (comprising a liability hedge portfolio and a buy-in annuity policy), with a weighting towards matching assets. There are no direct investments in the group.

Part of the investment objective is to minimise fluctuations in the plan's funding levels due to changes in the value of the liabilities. This is primarily achieved using a Liability Driven Investment (LDI) portfolio, the main goal of which is to align movements in the value of the assets with movements in the liabilities caused by changes in market conditions. The plan has hedging that covers the majority of interest rate and inflation movements, as measured based on the trustees' funding assumptions which use a discount rate derived from gilt yields.

LDI primarily involves the use of government bonds. Derivatives such as interest rate and inflation swaps are also used. There are no annuities or longevity swaps in the LDI portfolios. The value of the LDI assets is determined based on the latest market bid price for the underlying investments, which are traded daily on liquid markets.

Table 4.7.e Assumptions for the actuarial calculations	**2021**	**2020**
	%	**%**
Discount rate assumptions		
Discount rate, Sweden	1.7	1.3
Discount rate, UK	1.9	1.4
Inflation assumptions		
Inflation (CPI), Sweden	2.1	1.5
Inflation (CPI), UK	2.7	2.1
Mortality assumptions		
Life expectancy at age 65 for a:		
Male in the UK	21.0	20.9
Female in the UK	23.0	23.0
Male in Sweden	22.0	22.0
Female in Sweden	24.0	24.0

Table 4.7.f Sensitivity of pension liabilities to key assumptions
(EURm)

	2021	**2021**	**2020**	**2020**
Impact on pension liabilities at 31 December	+	-	+	-
Discount rate +/- 10bps	-26	26	-28	28
Expected salary increases +/- 10bps	2	-2	3	-3
Life expectancy +/- 1 year	82	-82	84	-84
Inflation +/- 10 bps	16	-16	17	-17

Funding

4.7 PENSION LIABILITIES

Table 4.7.g Recognised in the income statement (EURm)	**2021**	**2020**
Current service costs	5	4
Administration costs	-	-
Recognised as staff costs	**5**	**4**
Interest costs on pension liabilities	23	30
Interest income on plan assets	-21	-28
Recognised as financial costs	**2**	**2**
Total amount recognised in the income statement	**7**	**6**

Table 4.7.h Recognised in other comprehensive income (EURm)	**2021**	**2020**
Remeasurements of defined benefit plans		
Actuarial gains and losses on liabilities from changes in financial assumptions (OCI)	44	-153
Actuarial gains and losses on liabilities from changes in demographic assumptions (OCI)	-	17
Return on plan assets, excluding amounts included in net interest on the net defined benefit liability	-47	141
Total amount recognised in other comprehensive income	**-3**	**5**

Accounting policies

Pension liabilities and similar non-current liabilities
The group has post-employment pension plan arrangements with a significant number of current and former employees. The post-employment pension plan agreements take the form of defined 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. Contributions to defined contribution plans are expensed in the income statement as incurred.

Defined benefit plans
Defined benefit plans are characterised by the group's obligation to make specific payments from the date the plan member is retired, depending on, for example, the member's seniority and final salary. The group is subject to the risks and rewards associated with the uncertainty whether the return generated by the assets will meet the pension liability, which are affected by assumptions concerning mortality and inflation.

The group's net liability is the amount presented in 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 liability 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 defined benefit liability 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 net position.

Other areas

5.1 TAX

CURRENT AND DEFERRED TAX

Tax in the income statement
Tax costs increased to EUR 61 million compared to EUR 34 million last year, primarily due to an increase in deferred tax costs.

Current income tax
Cost related to current income taxes increased to EUR 44 million compared to EUR 35 million last year, mainly due to adjustments to current taxes of previous years, partially offset by deferred tax movements from previous years.

Deferred tax
Net deferred tax liabilities amounted to EUR 43 million, representing an increase of EUR 8 million compared to last year. Out of the net movements, EUR 17 million impacted the income statement and EUR 9 million in offsetting movements impacted the balance sheet. The impact of changes in tax rates and laws is primarily a result of the UK income tax rate change announced and enacted in 2021.

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 21 million relating to property, plant and equipment and tax losses carried forward.

Table 5.1.a Tax recognised in the income statement
(EURm)

	2021	2020
Current income tax		
Current income tax on net/profit for the year relating to:		
Cooperative tax	10	9
Income tax	28	26
Adjustment for current tax of previous years	6	-
Total current income tax costs	**44**	**35**
Deferred tax		
Change in deferred tax for the year	10	-
Adjustment for deferred tax of previous years	-4	-2
Impact of changes in tax rates and laws	11	1
Total deferred tax costs/income	**17**	**-1**
Total tax costs in the income statement	**61**	**34**

Table 5.1.b Calculation of effective tax rate
(EURm)

	2021 %	2021 EURm	2020 %	2020 EURm
Profit before tax				386
Tax applying the statutory Danish income tax rate	22.0	89	22.0	85
Effect of tax rates in other jurisdictions	-2.0	-8	-1.8	-7
Effect of companies subject to cooperative taxation	-4.9	-20	-8.8	-34
Tax-exempt income, less non-deductible expenses	-1.5	-6	-0.5	-2
Impact of changes in tax rates and laws	2.7	11	0.2	1
Adjustment for tax cost of previous years	0.5	2	-0.5	-2
Other adjustments	-1.8	-7	-1.8	-7
Total	**15.0**	**61**	**8.8**	**34**

Table 5.1.c Deferred tax assets and liabilities
(EURm)

	2021	2020
Net deferred tax asset/(liability) at 1 January	-35	-38
Deferred tax recognised in the income statement	-6	2
Deferred tax recognised in other comprehensive income	9	4
Impact of change in tax rates	-11	-1
Foreign currency translation adjustments	-	-2
Net deferred tax asset/(liability) at 31 December	**-43**	**-35**
Deferred tax, by gross temporary difference		
Intangible assets	-7	-9
Property, plant and equipment	29	22
Provisions, pension liabilities and other assets	-33	-21
Tax losses carried forward	7	9
Other	-39	-36
Total deferred tax, by gross temporary difference	**-43**	**-35**
Recognised in the balance sheet as:		
Deferred tax assets	21	29
Deferred tax liabilities	-64	-64
Total	**-43**	**-35**

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 offsetting against taxable income. The assessment is performed on an annual basis and is based on the budgets and business plans for future years.

The group recognised deferred tax assets in respect of tax losses carried forward in the amount of EUR 7 million. Temporary differences on which deferred tax assets have not been recognised totalled EUR 32 million, which is on a level similar to last year. Unrecognised deferred tax assets relate to tax losses carried forward.

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 income taxation. Cooperative taxation is based on the capital of the cooperative, while 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 tax paid on account. Current tax liabilities are disclosed as part of Other current liabilities.

Deferred tax
Deferred tax is measured in accordance with the balance sheet liability method for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognised 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 by applying tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Changes in deferred tax assets and liabilities due to changes in the tax rate are recognised in the income statement except for items recognised in other comprehensive income.

Deferred tax assets, including the value of tax losses carried forward, are recognised under other non-current assets at the value at which they are expected to be used, either by elimination in the tax 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.

5.2 PROVISIONS

PROVISIONS

Provisions amounted to EUR 42 million in 2021, compared to EUR 46 million last year. Provisions primarily relate to provisions for insurance incidents that have occurred, but have not yet been settled.

Uncertainties and estimates

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

Table 5.2 Provisions (EURm)	Insurance provisions	Restructuring provisions	Other provisions	Total 2021	Total 2020
2021					
Provisions at 1 January	20	10	16	46	32
New provisions during the year	1	-	9	10	19
Used during the year	-7	-7	-	-14	-5
Total provisions 31 December	**14**	**3**	**25**	**42**	**46**
Non-current provisions	4	-	20	24	21
Current provisions	10	3	5	18	25
Total provisions 31 December	**14**	**3**	**25**	**42**	**46**

5.3 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

FEES PAID TO EY

The fees to auditors are attributable to EY.

Table 5.3 Fees to auditors appointed by the Board of Representatives (EURm)	**2021**	**2020**
Statutory audit	1.6	1.5
Other assurance engagements	0.3	0.2
Tax assistance	0.4	0.6
Other services	0.5	0.4
Total fees to auditors	**2.8**	**2.7**

Other areas

5.4 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 most recently 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 same terms as apply to the other owners. Similarly, individual capital instruments are issued to the BoD on the same terms as apply to other owners.

The Executive Board consists of Chief Executive Officer Peder Tuborgh and Chief Commercial Officer, Europe, Peter Giørtz-Carlsen. Principles applied for the remuneration of the Executive Board are described on page 47.

Table 5.4.a Management remuneration
(EURm)

	2021	2020
Board of Directors		
Wages, salaries and remuneration	1.3	1.3
Total	**1.3**	**1.3**
Executive Board		
Fixed compensation	2.4	2.4
Pension	0.3	0.3
Short-term variable incentives	0.8	1.4
Long-term variable incentives	2.9	4.7
Total	**6.4**	**8.8**

The above table includes accrued amounts related to the respective reporting period. The amounts are based on reported key figures together with estimates of performance compared to peers, which means that the final future payout may differ.

Table 5.4.b Transactions with the Board of Directors
(EURm)

	2021	2020
Purchase of raw milk	27.4	26.5
Supplementary payment regarding previous years	1.4	0.8
Total	**28.8**	**27.3**
Unsettled milk deliveries recognised in trade and other payables	2.6	1.5
Individual capital instruments	2.9	2.6
Total	**5.5**	**4.1**

Refer to Note 3.3 for information on transactions with associates and joint ventures.

5.5 CONTRACTUAL COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Arla's contractual obligations and commitments amounted to EUR 370 million compared to EUR 364 million last year. The development was caused by increased surety and guarantee obligations and less commitments relating to property, plant and equipment purchase agreements.

Contractual obligations and commitments consisted of surety and guarantee obligations, IT licences, short-term and low-value leases and commitments relating to property, plant and equipment purchase agreements.

The group provided security upon property for mortgage debt based on the Danish Mortgage Act with a nominal value of EUR 1,040 million, compared to EUR 1,061 million last year.

The group is party to a small number of lawsuits, disputes and other claims. The management assesses that the outcome of these will not have a material impact on the group's financial position beyond what has already been recognised in the financial statements.

5.6 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

5.7 GENERAL ACCOUNTING POLICIES

Basis for preparation
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 Statements Act for large companies in class C. 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 9 February 2022 and presented for approval by the Board of Representatives on 23 February 2022.

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.

Consolidated financial statements
The consolidated financial statements are prepared as a compilation of the parent company's and the individual subsidiaries' financial statements, in line with the group's accounting policies. Revenue, costs, assets and liabilities, along with items included in the equity of subsidiaries, are aggregated and presented on a line-by-line basis. 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 amba (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 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 loss 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 has transactions in a foreign currency, it will record the transaction in its functional currency using the transaction date rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate applicable at the reporting date. Exchange rate differences are recognised in the income statement under financial items. Non-monetary items, for example property, plant and equipment, which are measured based on historical cost in a foreign currency, are translated into the functional currency upon initial recognition.

Translation of foreign operations
The assets and liabilities of consolidated entities, including the share of net assets and goodwill of joint ventures and associates with a functional currency other than EUR, are translated into EUR using the year-end exchange rate. The revenue, costs and share of the net profit or loss for the year are translated into EUR using the average monthly exchange rate if this does not differ materially from the transaction date rate. Exchange rate differences are recognised in other comprehensive income and accumulated in the translation reserve.

On partial divestment of associates and joint ventures, the relevant proportional amount of the cumulative foreign currency translation adjustment reserve is transferred to the net profit or loss for the year, along with any gains or losses related to the divestment. Any repayment of outstanding balances considered part of the net investment is not in itself considered to be a partial divestment of the subsidiary.

Adoption of new or amended IFRS
The group has implemented all new standards and interpretations effective in the EU from 2021.

Future implementations
The IASB has issued a number of new or amended and revised accounting standards and interpretations which are not yet applicable. Arla will adopt these new standards when they become mandatory. No material impact is expected from that.

Other areas

5.8 GROUP CHART

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Ingredients Group P/S	Denmark	DKK	100
Arla Foods Ingredients Energy A/S	Denmark	DKK	100
Arla Foods Ingredients Japan KK	Japan	JPY	100
Arla Foods Ingredients Inc.	USA	USD	100
Arla Foods Ingredients Korea, Co. Ltd.	Korea	KRW	100
Arla Foods Ingredients Trading (Beijing) Co. Ltd.	China	CNY	100
Arla Foods Ingredients S.A.	Argentina	USD	100
Arla Foods Ingredients Comércio de Produtos Alimentícios Ltda.	Brazil	BRL	100
Arla Foods Ingredients Singapore Pte. Ltd.	Singapore	SGD	100
Arla Foods Ingredients S.A. de C.V.	Mexico	MZN	100
Arla Foods Holding A/S	Denmark	DKK	100
Arla Foods W.L.L.	Bahrain	BHD	100
Arla Oy	Finland	EUR	100
Massby Facility & Services Ltd. Oy	Finland	EUR	60
Osuuskunta MS tuottajapalvelu **	Finland	EUR	37
Arla Foods Distribution A/S	Denmark	DKK	100
Cocio Chokolademælk A/S	Denmark	DKK	50
Arla Foods International A/S	Denmark	DKK	100
Arla Foods UK Holding Limited	UK	GBP	100
Arla Foods UK Farmers Joint Venture Co. Ltd.	UK	GBP	100
Arla Foods UK plc	UK	GBP	100
Arla Foods GP Limited	UK	GBP	100
Arla Foods Finance Limited	UK	GBP	33
Arla Foods Limited	UK	GBP	100
Arla Foods Hatfield Limited	UK	GBP	100
Arla Foods Limited Partnership	UK	GBP	100
Yeo Valley Dairies Limited	UK	GBP	100
Arla Foods Cheese Company Limited	UK	GBP	100
Arla Foods Ingredients UK Limited	UK	GBP	100
MV Ingredients Limited *	UK	GBP	50
Arla Foods UK Property Co. Limited	UK	GBP	100
Arla Foods B.V.	Netherlands	EUR	100
Arla Foods Comércio, Importacâo e Exportacão de Productos Alimenticios Ltda.	Brazil	BRL	100
Arla Foods Ltd.	Kingdom of Saudi Arabia	SAR	75

	Country	Group equity interest
Arla Foods amba	**Denmark**	**%**
AF A/S	Denmark	100
Arla Foods Finance A/S	Denmark	100
Kingdom Food Products ApS	Denmark	100
Ejendomsanpartsselskabet St. Ravnsbjerg	Denmark	100
Arla Insurance Company (Guernsey) Limited	Guernsey	100
Arla Foods Energy A/S	Denmark	100
Arla Foods Trading A/S	Denmark	100
Arla DP Holding A/S	Denmark	100
Arla Foods Investment A/S	Denmark	100
Arla Senegal SA.	Senegal	100
Tholstrup Cheese A/S	Denmark	100
Arla Foods Belgien AG	Belgium	100
Arla Foods Ingredients (Deutschland) GmbH	Germany	100
Arla CoAr Holding GmbH	Germany	100
ArNoCo GmbH & Co. KG *	Germany	50
Arla Biolac Holding GmbH	Germany	100
Arla Foods Kuwait Company WLL	Kuwait	49
Arla Kallassi Foods Lebanon S.A.L.	Lebanon	50
Arla Foods Qatar WLL	Qatar	40
AFIQ WLL	Bahrain	51
Arla Foods Trading and Procurement Ltd.	Hong Kong	100
Aishichenxi Dairy Products Import & Export Co. Ltd. **	China	50
Wuhan ASCX Dairy Co. Ltd.	China	50
Arla Foods Sdn. Bhd.	Malaysia	100
Arla Foods Corporation	Philippines	100
Arla Foods Limited	Ghana	100
Arla Global Dairy Products Ltd.	Nigeria	100
Arla Global Development Company Ltd.	Nigeria	99
TG Arla Dairy Products LFTZ Enterprise	Nigeria	50
TG Arla Dairy Products Ltd.	Nigeria	100
Arla For General Trading Ltd.	Iraq	51

Other areas

5.8 GROUP CHART

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods AB	Sweden	SEK	100
Svenska Bönders Klassiska Ostar AB	Sweden	SEK	100
Arla Gefleortens AB	Sweden	SEK	100
Årets Kock Aktiebolag	Sweden	SEK	67
Arla Foods Russia Holding AB	Sweden	SEK	100
Arla Foods LLC	Russia	RUB	80
Arla Foods Inc.	USA	USD	100
Arla Foods Production LLC	USA	USD	100
Arla Foods Transport LLC	USA	USD	100
Arla Foods Deutschland GmbH	Germany	EUR	100
Arla Foods Verwaltungs GmbH	Germany	EUR	100
Arla Foods Agrar Service GmbH	Germany	EUR	100
Arla Foods LLC	Russia	RUB	20
Team-Pack Vertriebs-Gesellschaft für Verpackungen mbH	Germany	EUR	100
Dofo Cheese Eksport K/S °	Denmark	DKK	100
Dofo Inc.	USA	USD	100
Aktieselskabet J. Hansen	Denmark	DKK	100
J.P. Hansen USA Incorporated	USA	USD	100
AFI Partner ApS	Denmark	DKK	100
Andelssmør A.m.b.a.	Denmark	DKK	98
Arla Foods AS	Norway	NOK	100
Arla Foods Bangladesh Ltd.	Bangladesh	BDT	51
Arla Foods Dairy Products Technical Service (Beijing) Co. Ltd.	China	CNY	100
Arla Foods FZE	UAE	AED	100
Arla Foods Hellas S.A.	Greece	EUR	100
Arla Foods Inc.	Canada	CAD	100

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Logistics GmbH	Germany	EUR	100
Hansa Verwaltungs und Vertriebs GmbH (In liquidation)	Germany	EUR	100
Arla Foods Mayer Australia Pty, Ltd.	Australia	AUD	51
Arla Foods Mexico S.A. de C.V.	Mexico	MXN	100
Arla Foods S.A.	Spain	EUR	100
Arla Foods France S.a.r.l	France	EUR	100
Arla Foods S.R.L.	Dominican Republic	DOP	100
Arla Foods SA	Poland	PLN	100
Arla Global Shared Services Sp. Z.o.o.	Poland	PLN	100
Arla National Food Products LLC	UAE	AED	49
Arla National Food Products Company LLC	Oman	OMR	67
Cocio Chokolademælk A/S	Denmark	DKK	50
Marygold Trading K/S °	Denmark	DKK	100
Mejeriforeningen	Denmark	DKK	89
PT. Arla Indofood Makmur Dairy Import	Indonesia	IDR	50
PT. Arla Indofood Sukses Dairy Manufacturing.	Indonesia	IDR	100
COFCO Dairy Holdings Limited **	British Virgin Islands	HKD	30
Svensk Mjölk Ekonomisk förening	Sweden	SEK	75
Lantbrukarnas Riksförbund upa **	Sweden	SEK	24
Jörd International A/S	Denmark	DKK	100
Ejendomsselskabet Gjellerupvej 105 P/S	Denmark	DKK	100
Svenska Osteklassiker AB	Sweden	SEK	68
Komplementarselskabet Gjellerupvej 105 ApS	Denmark	DKK	100
PT Arla Foods Indonesia	Indonesia	IDR	100
Arla Foods Arinco A/S	Denmark	DKK	100

* Joint ventures ** Associates

° According to section 5 of the Danish Financial Statements Act, the company does not prepare a statutory report.

In addition, the group owns a number of entities without material commercial activities.

Financial statements of the parent company

Under section 149 of the Danish Financial Statements Act, these consolidated financial statements represent an extract of Arla's complete annual report. In order to make this report more manageable and user-friendly, we publish consolidated financial statements that do not include financial statements of the parent company, Arla Foods amba. The annual report of the parent company is an integrated part of the full annual report and is available on www. arlafoods.com. Profit sharing and supplementary payments from the parent company are set out in the equity section of the consolidated financial statements. The full annual report contains the statement 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 2021. 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 2021 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 2021.

In our opinion, the 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, 9 February 2022

Peder Tuborgh CEO	Peter Giørtz-Carlsen Executive Board Member	Jan Toft Nørgaard Chairman	Manfred Graff Vice Chairman
René Lund Hansen	Jonas Carlgren	Arthur Fearnall	Gustav Kämpe
Marita Wolf	Bjørn Jepsen	Steen Nørgaard Madsen	Walter Lausen
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 2021, 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 2021 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 2021 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 the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Statement on the Management's review
Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with 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, 9 February 2022
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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

TABLE OF CONTENTS

ESG PERFORMANCE REVIEW

NOTES

ASSURANCE REPORT

SUSTAINABILITY PERFORMANCE AT A GLANCE

ENVIRONMENTAL DATA

CO_2e emission reduction*, **SCOPE 1 AND 2**

25%
2020: 24%

Baseline: 2015, Science Based Target 2030: 63%

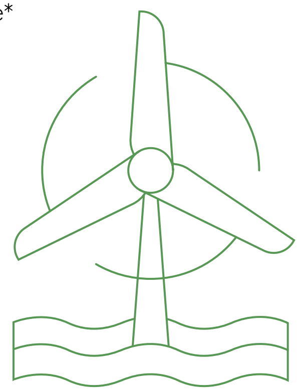
CO_2e emission reduction, **SCOPE 3** per kg of milk and whey

7%
2020: 7%

Baseline: 2015, Science Based Target 2030: 30%

Renewable energy share*

33%



2021	33%
2020	31%

ANIMAL WELFARE

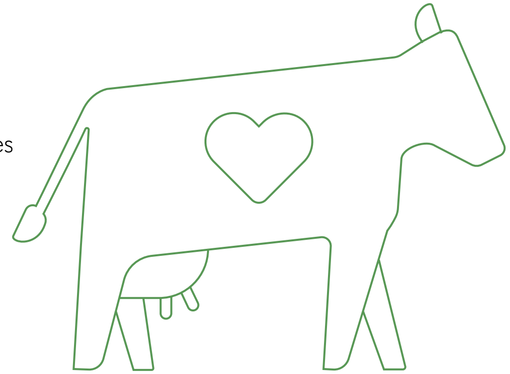
Share of audited farmers without major issues

98.4%
No major cleanliness issues

99.8%
No major body condition issues

100.0%
No injury issues

99.5%
No major mobility issues



Ratios calculated based on 3,337 Arlagården® audits performed in 2021 corresponding to 37% of Arla's active farmers

SOCIAL DATA

Accident frequency/
per 1 million working hours

4.3

2021	4.3
2020	5.2
2019	6.0

Food safety
Number of recalls

0

2021	0
2020	1
2019	4

Full-time equivalents

20,617

2021	20,617
2020	20,020
2019	19,174

Share of females
at director level or above

27%

2021	27%
2020	26%
2019	26%

**Market based accounting*

COMMITTED TO TRANSPARENT ACTION

Hanne Søndergaard
EVP, Chief Agriculture, Sustainability and Communications Officer

Dairy is an important part of many people's diets around the world, providing high quality proteins and nutrition, through a wide range of tasty, versatile and affordable products. The global dairy industry also helps to support the livelihoods of hundreds of millions of people and our farmers play an important role in the stewardship of the land.

At Arla, we have been working with sustainability for many years, and our farmers are amongst the most climate efficient globally, with 1.15 kg of CO_2e emissions per kg of milk.* In 2021, we raised our climate ambition to support the 1.5°C global warming target of the Paris agreement, committing ourselves to lowering our scope 1 and 2 emissions by 63 per cent by 2030*. I am pleased that these plans have been approved by the Science Based Targets initiative.

Being science-based and data driven is fundamental to our approach, as we believe that to lower our carbon footprint we first have to be sure we measure it correctly. I am proud to say that we are the first large dairy company to receive reasonable assurance on our complete ESG data, including scope 3 emissions, presented in this report.

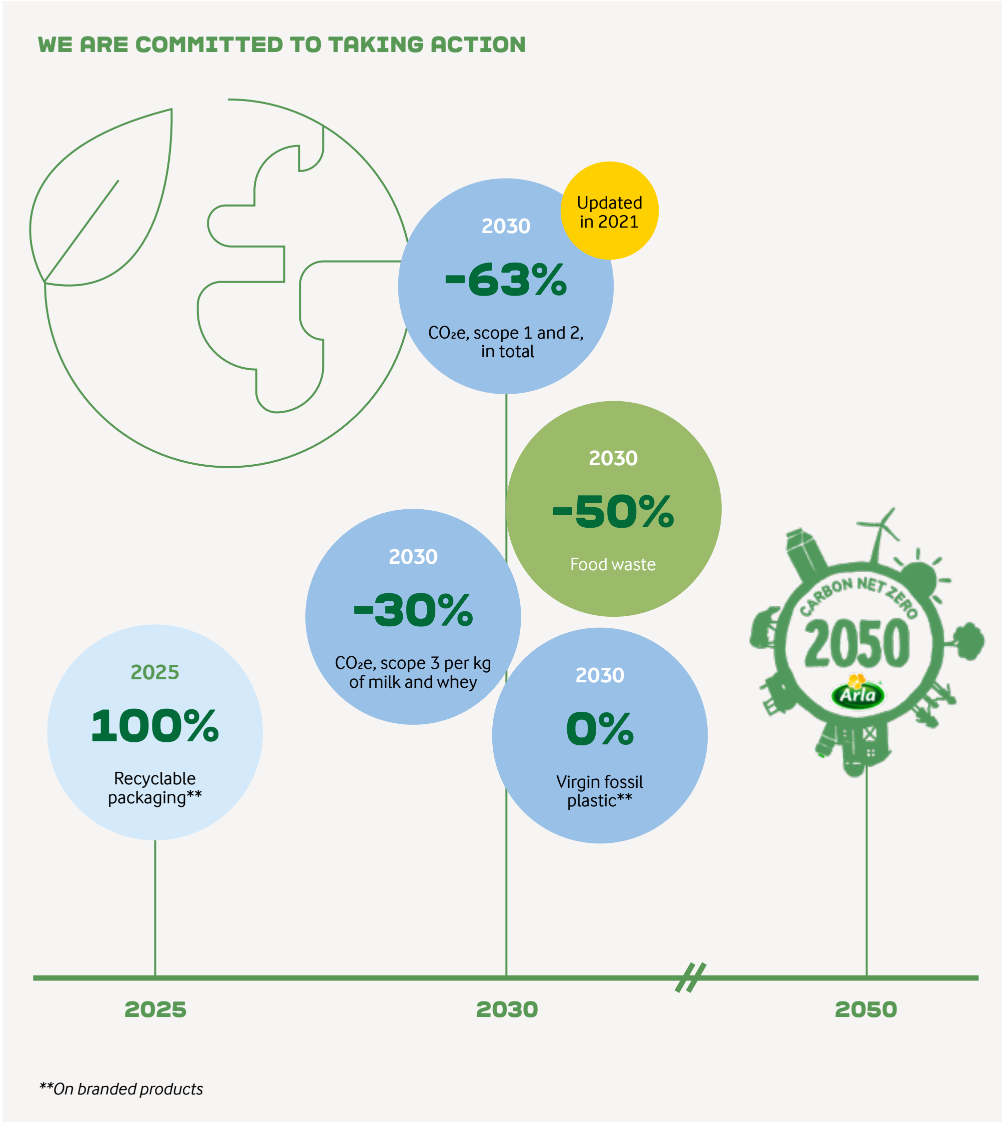
Taking concrete action and being innovative forerunners is another key element of our value creation and sustainability. In 2021, we established 24 pilot farms to explore regenerative dairy farming practices and create data-driven proof points of their impact on nature and climate. In Sweden and the UK, we opened innovation farms that will serve as hubs for cutting-edge trials in collaboration with farmers, researchers, customers and industry stakeholders.

Our sustainability commitments and targets cover our whole value chain from the farm up, and are a key part of our new five-year business strategy, Future26, launched at the end of 2021.

> "Data transparency, accuracy and credibility are prerequisites for our success on the sustainability journey"

Making sustainability core to our business strategy ensures that it gets the right focus and investment that will be needed to drive change and impact in the years ahead and enable us to deliver on our vision.

Having grown up on a dairy farm, I have spent my whole working life at Arla Foods and feel immensely privileged to be given the role as our first Chief Agriculture and Sustainability Officer. I look forward to sharing our progress with you and reporting on it through this and future ESG reports.



* *FAO and GDP. 2018. Climate change and the global dairy cattle sector – The role of the dairy sector in a low-carbon future.*

FIVE-YEAR OVERVIEW

Five-year ESG overview	ESG note	2021	2020	2019	2018	2017
Environmental data						
CO_2e emissions						
CO_2e reduction scope 1 and 2 (baseline: 2015)		-25%	-24%	-12%	-4%	-5%
CO_2e reduction scope 3 per kg of milk and whey (baseline: 2015)		-7%	-7%	-7%	-7%	-6%
CO_2e scope 1 (mkg)		447	474	463	490	492
CO_2e Scope 2 – market-based (mkg)		286	277	399	456	438
CO_2e scope 3 (mkg)		19,050	18,625	18,387	18,553	18,671
Total CO_2e (mkg)	1.1	**19,783**	**19,376**	**19,249**	**19,499**	**19,601**
CO_2e scope 2 – location-based (mkg)		*243*	*237*	*274*	*263*	*313*
Total CO_2e – location-based (mkg)		*19,740*	*19,336*	*19,124*	*19,306*	*19,476*
CO_2e scope 3 per kg of milk and whey (kg)		1.20	1.21	1.21	1.20	1.22
CO_2e reduction (scope 1 and 2) – location-based		*-20%*	*-16%*	*-14%*	*-12%*	*-6%*
Energy mix						
Renewable energy share (%) – market-based	1.2	33%	31%			
Renewable energy share (%) – location-based	*1.2*	*32%*	*35%*	*33%*	*27%*	*24%*
Waste and water						
Solid waste (tonnes)	1.3	33,500	32,975	33,713	34,600	32,608
Water consumption (thousand m3)	1.4	18,860	18,663	18,059	18,084	18,670
Animal welfare						
Somatic cell count (thousand cells/ml)	1.5	191	194	196	198	194
Share of audited farmers with no major cleanliness issues	1.5	98.4%				
Share of audited farmers with no major mobility issues	1.5	99.5%				
Share of audited farmers with no major injury issues	1.5	100%				
Share of audited farmers with no major body condition issues	1.5	99.8%				
Social data						
Full-time equivalents (average)	2.1	20,617	20,020	19,174	19,190	18,973
Total share of females (%)	2.2	27%	27%	27%	27%	26%
Share of females at director level or above (%)	2.2	27%	26%	26%	23%	22%
Share of females in Executive Management Team (%)	2.2	14%	14%	29%	29%	29%
Gender pay ratio, white-collar (male to female)	2.3	1.03	1.05	1.05	1.06	-
Employee turnover (%)	2.4	13%	10%	12%	12%	11%
Food safety – number of recalls	2.5	0	1	4	2	10
Accident frequency (per 1 million working hours)	2.6	4.3	5.2	6.0	7.9	9.3
Governance data						
Share of females, Board of Directors (%)*	3.1	13%	13%	13%	13%	12%
Board meeting attendance (%)	3.2	98%	99%	96%	99%	99%

** Including all board members, those elected by the general meeting, employee representatives and external advisors, the share of females was 20 per cent as of 31 December 2021.*

Environmental figures

1.1 GREENHOUSE GAS EMISSIONS ($CO_{2}e$)

OUR FARMERS REMAIN AMONGST MOST CLIMATE EFFICIENT

To follow up on Arla's contribution to climate change and the progress towards our emission targets, our greenhouse gas emissions (expressed as CO_2 equivalents, CO_2e) are calculated annually. CO_2e is categorised into three scopes according to the methodology of the Greenhouse Gas Protocol Corporate Standard (GHG protocol). In line with Arla's Science Based Targets, the group does not account for carbon credits.

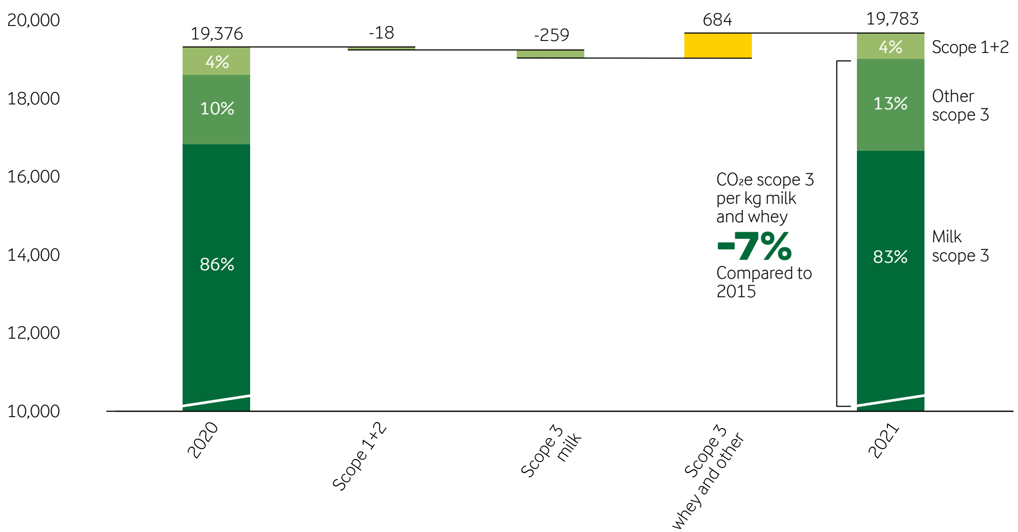
Since 2015, scope 1 and scope 2 CO_2e emissions decreased by 25 per cent well in progress to reach our updated scope 1 and 2 science-based reduction target of 63 per cent by 2030.

Scope 3 emissions per kg milk and whey amounted to 1.20 kg, unchanged compared to last year. In 2021, emissions specifically from Arla's owners amounted to 1.15 kg CO_2e per kg of owner milk, on a par with last year.

Emissions related to packaging and transport increased mainly due to expanded production in our international markets. According to our Science Based Target, scope 3 emissions per kg of milk and whey should be reduced by 30 per cent by 2030. In 2021 the reduction was 7 per cent compared to 2015 and on par with last year, showing that our farmers are amongst the most climate efficient globally.

In 2021, total CO_2e emissions increased to 19,783 million kg compared to 19,376 million kg last year The development is explained by an increase in externally purchased whey in Arla Foods Ingredients and increased emissions related to expanding production capacity at our production site in Bahrain. These factors were partly offset by increased purchase of biogas certificates.

CO_2e emission development
(mKG)



ESG Table 1.1 Greenhouse gas emissions (mkg)	**2021**	**2020**	**2019**	**2018**	**2017**
CO_2e reduction scope 1 and 2 market-based (baseline: 2015)	-25%	-24%	-12%	-4%	-5%
CO_2e reduction scope 3 per kg milk and whey (baseline: 2015)	-7%	-7%	-7%	-7%	-6%
CO_2e scope 1					
Operations	368	381	366	400	408
Transport	79	93	97	90	84
CO_2e scope 1	**447**	**474**	**463**	**490**	**492**
CO_2e scope 2					
CO_2e scope 2 – market-based*	**286**	**277**	**399**	**456**	**438**
CO_2e scope 3**					
Purchased goods and services (category 1):					
Milk***	16,386	16,645	16,524	16,548	16,809
Whey	1,751	1,133	1,032	1,162	1,002
Packaging	417	396	384	383	384
Purchased goods and services (category 1)	18,554	18,174	17,940	18,093	18,195
Fuel and energy-related activities (category 3)	125	120	110	108	105
Upstream transport and distribution (category 4)	347	306	312	326	345
Waste generated in operations (category 5)	24	25	25	26	26
CO_2e scope 3	**19,050**	**18,625**	**18,387**	**18,553**	**18,671**
Total CO_2e	**19,783**	**19,376**	**19,249**	**19,499**	**19,601**
CO_2e Scope 2 – location-based	*243*	*237*	*274*	*263*	*313*
Total CO_2e – location-based	*19,740*	*19,336*	*19,124*	*19,306*	*19,476*

** In 2020, Arla switched to market-based reporting, read more on page 125.*
*** Scope 3 emissions from categories 2, 6, 7, 8, 9, 12, 13 and 15 are immaterial to Arla's scope 3 emissions and are therefore not included in the emission figures in ESG Table 1.1. The categories mentioned individually account for less than 0.6 per cent of the Arla's scope 3 emissions. Categories 10, 11 and 14 are not applicable to Arla due to the nature of the products and the Arla business model.*
**** The milk conversion factor from litre into kg was 1.02 for milk volumes until 30 June, 2021. Effective from 1 July 2021, the milk conversion factor is 1.03. Historical figures for owner milk was re-statet to the new conversion factor.*

Environmental figures

1.1 GREENHOUSE GAS EMISSIONS (CO_2e)

Accounting policies

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

The potency of the different gases is taken into consideration according to the following calculations (based on the IPCC* Fifth Assessment Report, Climate Change 2013):

1 kg of carbon dioxide (CO_2) = 1 kg of CO_2e
1 kg of methane (CH_4) = 28 kg of CO_2e
1 kg of nitrous oxide (N_2O) = 265 kg of CO_2e

The majority of Arla's emissions are methane from digestion and manure storage, nitrous oxide from fertilizer and manure usage.

Greenhouse gas emissions are categorised into three scopes according to where they appear across the value chain, and what control the company has over them.

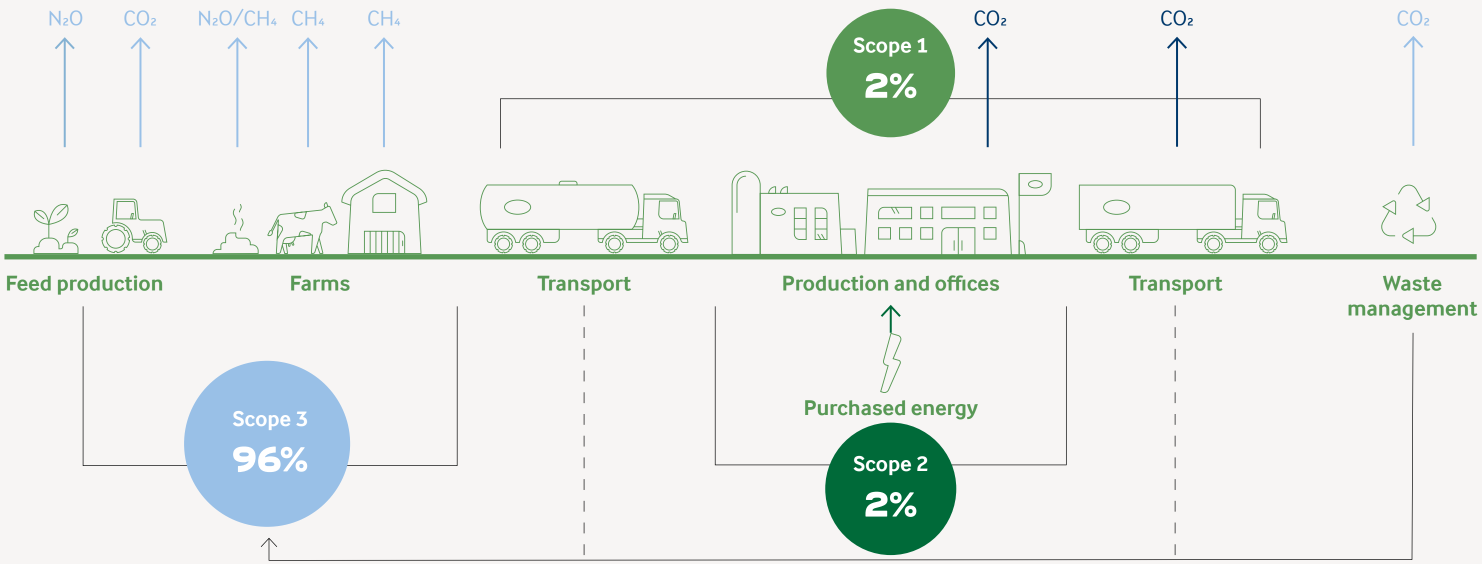
Scope 1 – All direct emissions
Scope 1 emissions relate to activities under the group's control. This includes transport using Arla's vehicles, and direct emissions from Arla's production facilities. Scope 1 emissions are calculated in accordance with the methodology set out in the GHG protocol by applying 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 GHG protocol by applying emission factors to Arla-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 – Other indirect emissions
Scope 3 emissions relate to emissions from sources that Arla does not directly own or control. They cover emissions from purchased goods and services (e.g. raw milk purchased from owners and contract farmers, whey, packaging and transport purchased from suppliers), but also waste processing from sites. Scope 3 emissions are, in line with the GHG protocol, calculated by applying emission factors to Arla-specific activity data.

WHERE DO OUR EMISSIONS COME FROM?



According to the 2021 quantification of Arla's climate impact, scope 1 and 2 emissions accounted for 2 and 2 per cent of total emissions, respectively. Scope 3 emissions accounted for 96 per cent of Arla's 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 83 per cent of total emissions.

* 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 ($CO_{2}e$)

Accounting policies *(continued)*

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

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. Biogenic emissions are not currently disclosed in the ESG section but will be disclosed from 2022. 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. Emission factors are unchanged compared to 2020 due to changes in delivery time from Sphera. Farm-level emission factors are obtained from 2.-0 LCA Consultants. For non-owner milk, emission factors were unchanged at 2015 levels.

Scope 3 – Emissions on farm

Scope 3 emissions from raw milk are calculated in accordance with the International Dairy Federation's guideline for the carbon footprint of dairy products (IDF 2015). The tool used for calculating the carbon footprint from milk is based on an attributional life-cycle assessment (LCA) that has been developed during the last decade in collaboration with 2.-0 LCA Consultants, a Danish consultancy firm formed by academics. For detailed descriptions of methodology, please refer to Schmidt and Dalgaard (2021). Farm-level emission factors are also obtained from 2.-0 LCA Consultants. Non-owner milk emissions are calculated by multiplying milk volume with emission factors based on national inventory data and not Arla specific data. The calculations are based on an earlier version of the farm tool following IDF 2010 (Dalgaard R, Schmidt J, Cenian K, 2016).

Emissions related to raw milk include emissions both on and off farm. The emissions relate to the cow's digestion, feed production and purchase, manure storage, energy usage, capital goods and peat soils. Emissions related to feed include fertilizer for home-grown feed and purchased feed, and transport of purchased feed. Manure storage can result in methane and nitrous oxide emissions. The amount of emissions varies depending on how manure is covered and whether it is used for biogas production. Peat soils are wetland with a high $CO_{2}e$ content. When soils are drained and used in crop production CO_2 and N_2O are released. The emission figure related to raw milk presented in this report is a weighed average emission per kg of milk, calculated based on validated climate data from farms where the data has been validated by external climate experts, multiplied by the fat and protein adjusted milk intake. Farms visited by external climate experts are statistically representative of all Arla farms.

Uncertainties and estimates

In 2021, 93 per cent of Arla's active farmer owners, covering 98 per cent of Arla's owner milk volume, submitted a detailed Climate Check questionnaire (farmers receive an incentive of 1.0 EUR-cent/kg of milk to complete the survey). Their answers were validated by external climate experts. This report includes only externally validated data which at year end 2021, accounted for 77 per cent of Arla's active farmers.

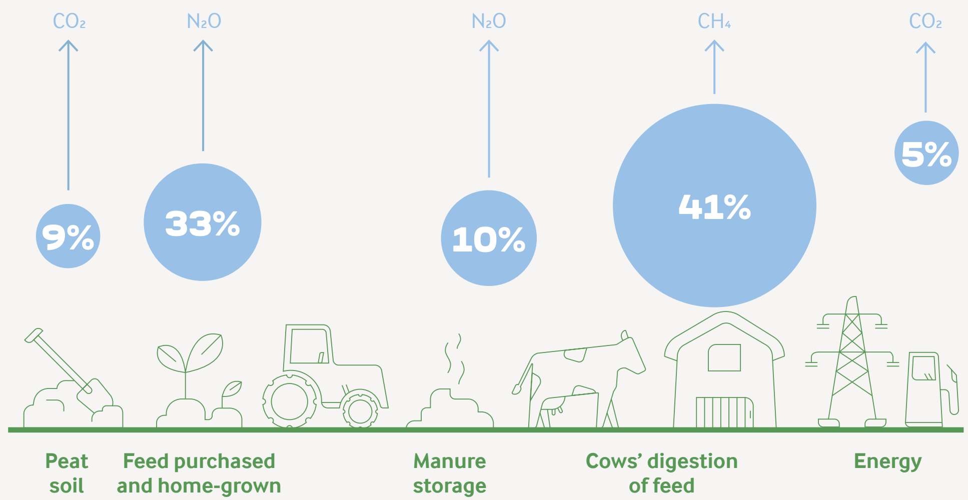
Farmer owners complete the Climate Check once a year based on data from their most recent financial year. This could vary from farm to farm, as some have financial years running from January to December, while others run from July to June. Therefore, the figures presented are not necessarily based on farm data covering the same period. The majority of data, 61 per cent, relates to the period 1 January 2020 to 31 December 2020 while 14 per cent relates to earlier periods.

An uncertainty analysis has been carried out to understand the biggest areas of uncertainty related to self-reported farm emission data. The analysis was centred around four key levers; herd, feed, crops and manure handling, and addressed the parameters with the highest impact on the emissions on farm. The analysis concluded that data could be manipulated, in worst case up to 10-12 per cent, but only if the farmer had a starting point of high emissions and claimed to change from no biogas treatment to full biogas treatment of slurry. Smaller farmers and farmers using extensive grazing systems are not always measuring the amount of feed that the cows eat or the dry matter content of the grass on the fields. To enable these farmers to report, the system contains a model which calculates feed consumption based on herd size and milk yield. Reporting on peat soils is a developing field and still subject to higher uncertainty than other areas. Due to it's relatively high climate impact uncertainties related to peat soils could have significant impact on the total reported greenhouse gas figure. The risk of errors and data manipulation is minimised by external climate advisors validating the data, and also by a systematic statistical process conducted by Arla to filter outliers. All outliers are flagged to the climate advisors, who may go back to the farmer to investigate. Numbers are only released for reporting after thorough investigation.

The methodology used to calculate emissions on farm is developing over time. Currently, factors that potentially lower total net emissions, such as carbon sequestration on farm and direct land use change, are not included. IDF 2015 suggest that direct land use change should be included in the calculations.

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.

WHERE DO OUR EMISSIONS COME FROM ON FARM?



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

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.

The renewable energy share increased to 33 per cent in 2021 compared to 31 per cent last year. The ratio was positively impacted by the purchase of additional green electricity and biogas in Denmark.

In 2020, the accounting method for renewable energy was changed from location-based to market-based accounting. Between 2016 and 2019, Arla purchased a number of green certificates without accounting for these in the figures, therefore only 2020-2021 figures are disclosed in ESG Table 1.2.

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 renewable energy use is divided by the group's total energy use.

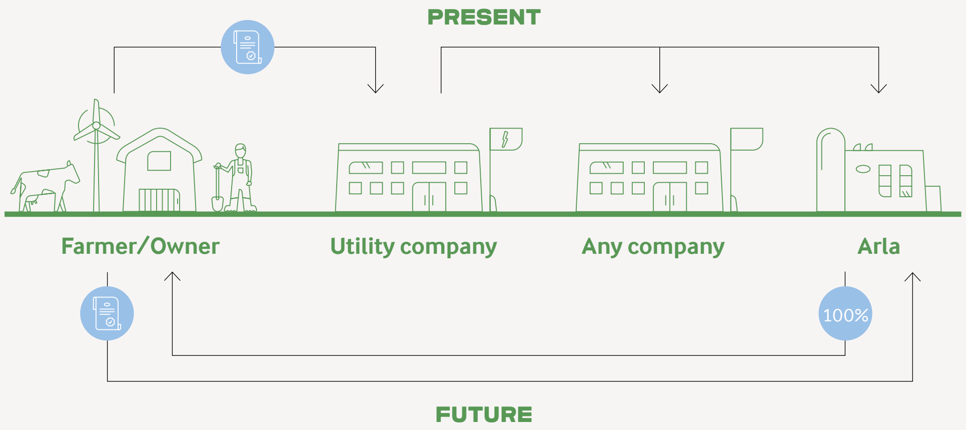
Some Arla sites produce and sell excess energy, i.e. electricity and heat. The energy sold was not deducted in the calculation of the renewable energy share. The data presented in ESG Table 1.2 is collected monthly from Arla's sites. Data for energy consumption is primarily based on invoice information 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.

ESG Table 1.2 Energy purchased for production (thousand MWh)	**2021**	**2020**	**2019**	**2018**	**2017**
Non-renewable sources:					
Natural gas, fuel oil and gas oil	1,773	1,816	-	-	-
Electricity	634	626	-	-	-
District heating	19	5	-	-	-
Non-renewable sources	2,426	2,447			
Renewable sources:					
Biogas and biomass	563	559	-	-	-
District heating	210	119	-	-	-
Electricity	421	432	-	-	-
Renewable sources	1,194	1,110			
Total energy purchased for production	**3,620**	**3,557**	**-**	**-**	**-**
Renewable energy share, market-based*	**33%**	**31%**	**-**	**-**	**-**
Renenewable energy share, location-based	*32%*	*35%*	*33%*	*27%*	*24%*

** 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.*

THE GREEN POWER LOOP PRESENT AND FUTURE

One way of securing green electricity for our operations is by buying Guarantees of Origin (GO) certificates directly from our farmer owners. This will secure our farmers a better price for their power and provide Arla access to additional certificates.



Environmental figures

1.3 WASTE

SOLID WASTE INCREASED

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 2021, solid waste increased to 33,500 tonnes compared to 32,975 tonnes last year mainly driven by expanded production capacity in Bahrain.

Currently, Arla discloses only solid waste in ESG Table 1.3. which is only a small part of Arla's total waste. Other waste types are product waste and sludge. Arla is working to further improve the food waste reporting accuracy and efficiency with the aim of including food waste in the ESG reporting.

ESG Table 1.3 Solid waste (tonnes)	**2021**	**2020**	**2019**	**2018**	**2017**
Recycled waste	21,640	21,402	21,651	20,233	19,699
Waste for incineration with energy recovery	8,679	8,991	10,011	12,546	11,088
Waste for landfill	1,921	1,204	988	933	897
Hazardous waste	1,260	1,378	1,063	888	924
Total	**33,500**	**32,975**	**33,713**	**34,600**	**32,608**

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. Arla collects data monthly from all sites where we have control.

Uncertainties and estimates

Solid waste information is retrieved from external waste handlers monthly and reported by the sites. In 2021, data collection for Denmark and Sweden was automatised. For the other countries, the source remains manual entries by sites which increases the risk of errors. Relevant controls are in place to mitigate the risk of errors.

Environmental figures

1.4 WATER

WATER CONSUMPTION SLIGHTLY UP

Providing access to clean water is an important part of Arla's environmental ambition, and as such, reducing water usage and enhancing water cleansing technologies at production sites is a key focus area.

In 2021, water consumption in Arla increased by 1 per cent compared to last year, driven by expanded production capacity in Bahrain and increased mozzarella production in Denmark.

ESG Table 1.4 water consumption thousand m^3	**2021**	**2020**	**2019**	**2018**	**2017**
Water purchased externally	11,057	10,918	10,589	10,484	10,862
Water from internal boreholes	7,803	7,745	7,470	7,600	7,808
Total	**18,860**	**18,663**	**18,059**	**18,084**	**18,670**

Accounting policies

The water consumption covers all water purchased from external suppliers and water from internal boreholes at production sites, warehouses and logistics terminals. External borehole water includes water purchased from external suppliers before internal treatment. Internal borehole water relates to boreholes on sites measured before internal treatment.

Uncertainties and estimates

Water consumption data is based on monthly manual input from sites. The externally purchased water is checked against supplier data, while internal borehole water is retrieved from manual meter readings.
To mitigate the risk of manual errors, data go through thorough internal validation at the site and centrally at Arla.

Environmental figures

1.5 ANIMAL WELFARE

ANIMAL WELFARE JOURNEY ON TRACK

Animal welfare is a key priority for our farmer owners, and for Arla as a company. Arla is committed to reporting on the most important measures to describe and improve animal welfare. Our animal welfare KPIs include somatic cell count, which is a good indicator of disease and stress in cows, and four indicators connected to the physical appearance and well-being of cows. The indicators are body condition, cleanliness, mobility and injuries. These indicators were developed based on scientific research into the most common dairy cattle issues.

Animal welfare on farm is externally audited at least once every three years by a world-leading quality assurance and audit firm, SGS, specialising in animal welfare. The percentage of audited farms was 37 per cent in 2021 corresponding to 3,337 audits.The results of the audit can trigger a follow-up audit either if there are major issues or if there are several minor issues. In case of repeated animal welfare breaches, Arla stops milk collection from the non-compliant farm, and in rare, extreme cases terminates the membership. During 2020, the audit process was upgraded and harmonised across all owner countries to ensure that auditors follow the same procedure and standards everywhere. Therefore, only 2021 data is reported.

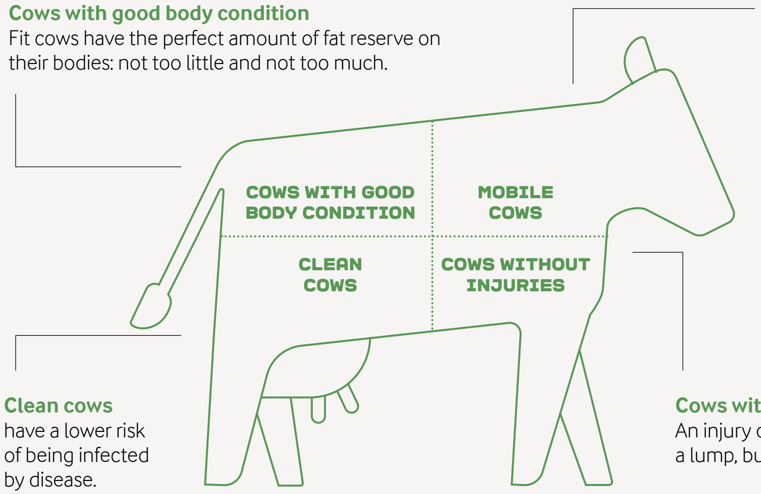
The average somatic cell count across Arla geographies fell by 2 per cent to 191 thousand cells/ml, the lowest level for more than five years.

FOUR CORE ANIMAL WELFARE INDICATORS

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.

Mobile cows
walk without any problems, and have no pain in their legs and hooves.



Clean cows
have a lower risk of being infected by disease.

Cows without injuries
An injury on a cow can be a lump, bump, ulcer or sore.

Ratio calculated based on 3,337 Arlagården® audits performed in 2021.

ESG Table 1.5 Animal welfare indicators	2021	2020	2019	2018	2017
Somatic cell count (thousand cells/ml)	191	194	196	198	194
Share of audited farmers with no major cleanliness issues	98.4%	-	-	-	-
Share of audited farmers with no major mobility issues	99.5%	-	-	-	-
Share of audited farmers with no major injury issues	100.0%	-	-	-	-
Share of audited farmers with no major issues related to body condition	99.8%	-	-	-	-

Accounting policies

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

Audit on farms and animal-based indicators
Animal welfare conditions on all Arla farms are regularly audited. An audit entails a thorough check-up of the herd and the farm from all relevant animal welfare perspectives. Audits include basic audits (performed every three years), spot checks, start-up visits, attention and special attention audits. Audited farmers are defined as the percentage of owners who received at least one audit in 2021. One owner could potentially receive more than one audit per year if the farmer owns more than one farm or if the farmer receives both a basic audit and a spot check audit. Follow-up audits are not included in the figure.

Animal-based indicators evaluated by auditors
The KPIs reported in Table 1.5 relate to the share of audited farmers with no major issues reported within each category. When an auditor visits the farm, a sample of the herd is selected. The sample size varies with the herd size. The auditor scores the cows in the sample for the four core welfare indicators on a scale of 0-2, where 0 means no issues identified, 1 means minor issues and 2 means major issues. The results are reported to Arla. If the auditors find more than 5 per cent of the sampled cows too thin, more than 25 per cent too dirty, more than 15 per cent lame or more than 10 per cent injured, they report it as a major animal welfare incident to Arla.

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.

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

Social figures

2.1 FULL-TIME EQUIVALENTS

FTES INCREASED DUE TO INSOURCING AND INTERNATIONAL EXPANSION

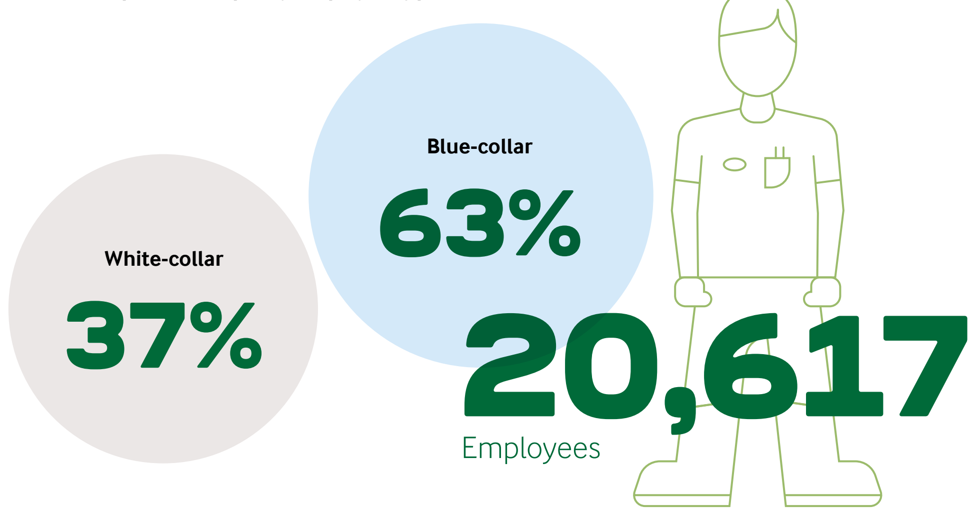
People are crucial to Arla's success, so it is imperative to know how the group deploys these resources across geographies and time. The number of employees is measured in full-time equivalents (FTEs). The total number of FTEs increased by 3.0 per cent compared to last year. A key driver was insourcing of administrative tasks in UAE and Oman and expansion of production capacity in Bahrain to enable increased demand and the move of production lines from Denmark and Saudi Arabia. The increase in FTEs in Denmark can be ascribed to expansion in Arla Foods Ingredients and insourcing of IT and marketing activities.

Over the last five years, the FTE level increased on average 2 per cent per year. The numbers show a shift from our core European markets to Poland and 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.

ESG Table 2.1 Full-time equivalents

	2021	2020	2019	2018	2017
Denmark	7,565	7,350	7,258	7,264	7,069
UK	3,616	3,761	3,407	3,387	3,477
Sweden	3,076	3,114	2,977	3,001	3,029
Germany	1,590	1,632	1,681	1,759	1,809
Saudi Arabia	974	970	952	965	1,009
Poland	582	529	511	463	433
North America	501	479	477	502	496
The Netherlands	349	351	339	327	320
Finland	364	336	319	325	325
Other countries	2,000	1,498	1,253	1,197	1,006
Full-time equivalents	**20,617**	**20,020**	**19,174**	**19,190**	**18,973**

Full-time equivalents split by employee type, 2021



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.

Social figures

2.2 GENDER DIVERSITY

SHARE OF FEMALES IN MANAGEMENT INCREASED

A diverse workforce is key to Arla's success. 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.

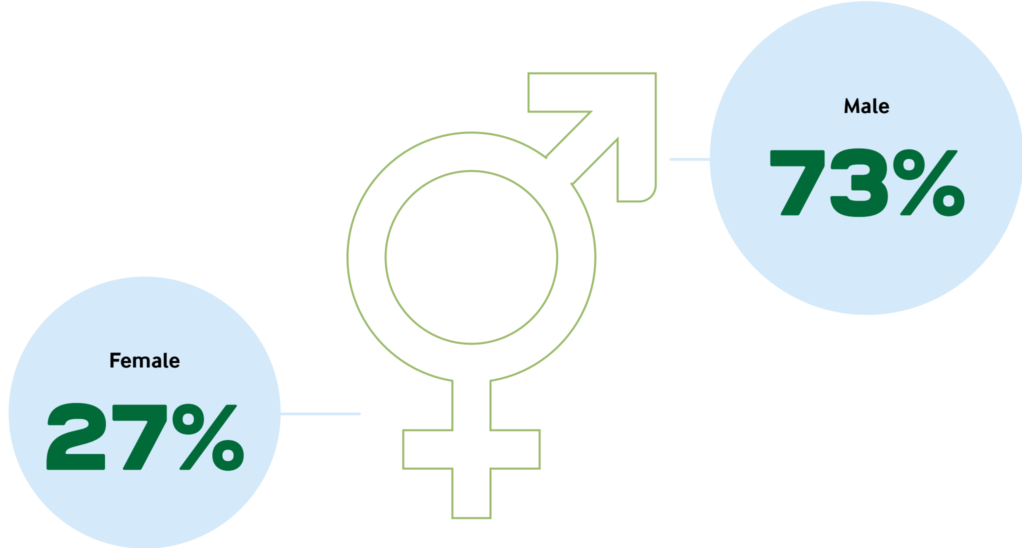
Arla's goal is to create a workplace with a diverse workforce promoting equal opportunities regardless of background, culture, religion, gender etc. Diversity, inclusion and anti-harassment policies are in place to handle issues in a structured manner and a whistle-blower platform enables employees to 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 2021, the female share of FTEs remained unchanged from last year at 27 per cent. Read more about how Arla works with diversity on page 55.

Gender diversity (in management)
27 per cent of positions at director level or above were held by women, which was a small increase compared to last year.

Gender diversity (in Executive Management Team)
14 per cent of the Executive Management Team members were women, unchanged compared to last year.

Gender diversity for all employees, 2021



ESG Table 2.2.a Gender diversity for all employees (all employees)	**2021**	**2020**	**2019**	**2018**	**2017**
Total share of females	27%	27%	27%	27%	26%

ESG Table 2.2.b Gender diversity in management (diversity in management)	**2021**	**2020**	**2019**	**2018**	**2017**
Share of females at director level or above	27%	26%	26%	23%	22%

ESG Table 2.2.c Gender diversity in Executive Management Team	**2021**	**2020**	**2019**	**2018**	**2017**
Share of females in Executive Management Team (EMT)	14%	14%	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 2021. 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 2021.

Social figures

2.3 GENDER PAY RATIO

GAP BETWEEN MALE AND FEMALE SALARY DECREASED

Paying equal salaries for the same job regardless of gender is a basic requirement for an ethical and responsible company. At 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.

Gender pay ratio is an indicator of where women are placed in the company hierarchy. Arla targets complete equitable treatment between genders, which would be represented by a gender pay ratio of 1.0. In 2021, the median male salary at Arla was 3 per cent higher than the median female salary, a decrease compared to 5 per cent last year.

ESG Table 2.3 Gender pay ratio	2021	2020	2019	2018
Gender pay ratio	1.03	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 pensions and other benefits are not included.

Uncertainties and estimates

The ESG reporting guidelines issued by CFA Society Denmark and Nasdaq recommend including the total workforce as well as bonus and pension in the equation. However, due to data limitations only the gender pay ratio for the white-collar workforce is disclosed. It is estimated that including blue-collar employees in the gender pay ratio would reduce the gap, as males are overrepresented in the blue-collar workforce.

Social figures

2.4 EMPLOYEE TURNOVER

EMPLOYEE TURNOVER UP DUE TO COVID

Attracting and retaining the right people are imperative to the success of Arla's business. Employee turnover shows the fluctuation in the workforce. Arla aim for a stable turnover and recognise that some turnover is needed to remain competitive and innovative.

Employee turnover increased to 13 per cent compared to 10 per cent last year. The development was driven by an increase in voluntary turnover to 10 per cent from 6 per cent last year. The increase was slightly higher than the level for previous years, likely impacted by the Covid-19 situation and the unusually low voluntary turnover in 2020. The involuntary turnover decreased slightly to 3 per cent compared to 4 per cent last year.

ESG Table 2.4 Employee turnover	2021	2020	2019	2018	2017
Voluntary turnover	10%	6%	8%	8%	8%
Involuntary turnover	3%	4%	4%	4%	3%
Total turnover	**13%**	**10%**	**12%**	**12%**	**11%**

Accounting policies

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 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

ZERO PRODUCT RECALLS IN 2021

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 the most important indicators towards consumers, signalling that Arla's products are produced and labelled according to the highest quality standards.

In 2021, no product recalls occurred, while last year there was one. 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 products (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	2021	2020	2019	2018	2017
Number of recalls	0	1	4	2	10

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.

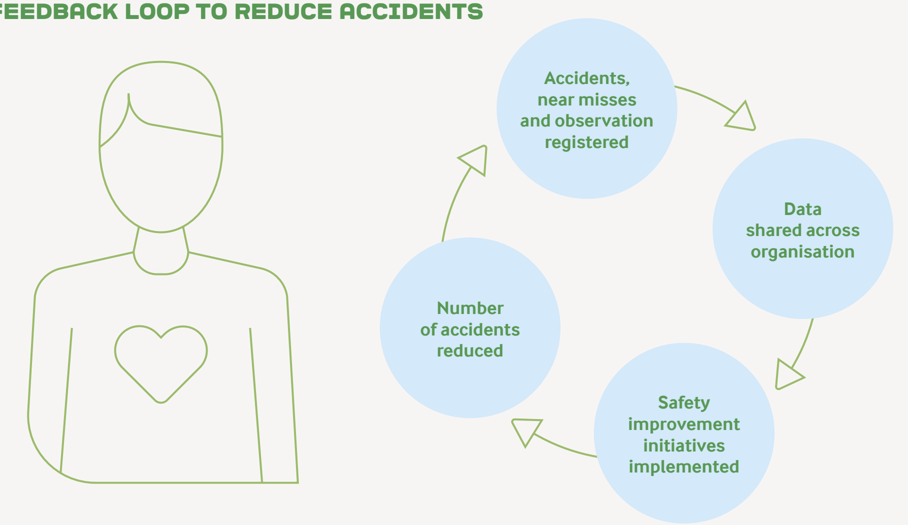
2.6 ACCIDENTS

ACCIDENTS REMAINS KEY PRIORITY

Arla has a comprehensive 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 4.3 compared to 5.2 last year. The decrease is seen across both logistic and production especially in Denmark, Sweden and Finland, but also at international sites. The development is a result of continued focus on safety awareness through cornerstone.

FEEDBACK LOOP TO REDUCE ACCIDENTS



ESG Table 2.6 Accidents (per 1 million working hours)	2021	2020	2019	2018	2017
Accident frequency	4.3	5.2	6.0	7.9	9.3

Accounting policies

An LTA is a workplace injury sustained by an employee while completing work activities that result in the loss of one 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 – both Arla employees and agency workers undertaking an Arla job – sustaining injury or illness related to the workplace are required to report it to their team leader or manager as soon as reasonably practical, regardless of severity.

Most site employees 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. 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 at 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 2021, 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 2021, Arla set a new four-year target to achieve a female representation on the Board of Directors of at least 20 per cent. In 2021, the target was not achieved.

ESG Table 3.1 Gender diversity on Board of Directors	2021	2020	2019	2018	2017
Share of females on the Board of Directors	13%	13%	13%	13%	12%

Accounting policies

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

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 2021, board attendance remained at the same level last year. Information on board members can be found on pages 42-44.

ESG Table 3.2 Board meeting attendance	2021	2020	2019	2018	2017
Number of meetings	12	10	10	13	9
Attendance	98%	99%	96%	99%	99%

Accounting policies

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

The current Board of Directors consists of 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 environmental, social and governance (ESG) report is based on ongoing monthly and annual reporting procedures. The consolidation principles are based on operational control 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
When presenting the ESG report, management focuses on presenting information that is considered of material importance to Arla's stakeholders, or which is recommended to be reported by relevant professional groups or authorities.

During 2021, we updated our materiality analysis, which is now based on the concept of double materiality. This means that we are exploring the impact Arla has on stakeholders in relation to social, environmental or economic issues, as well as the impact of these issues on Arla's business.

Each topic in the materiality matrix (see graphic) represents a wider agenda and underlying issues, which are identified from relevant ESG/sustainability frameworks, and qualified through insights from Arla's strategy process. Based on input from different expert groups within the Arla value chain, a draft matrix was prepared and sent out to a wider group of selected external and internal stakeholders for further comments and dialogue. The external stakeholders include top 20 customers, elected farmer owners, NGOs and financial institutions in Denmark, Sweden, the UK and Central Europe.

The 2021 update showed that food safety is still the top priority for both external and internal stakeholders. Other areas, which are still highly prioritised are animal care and greenhouse gas emissions.

The above priorities are reflected throughout the annual report: Animal welfare (page 26 and the CSR report), governance principles (pages 46-56) and diversity policies (page 55) are reported at length, while in the ESG report, data and accounting policies related to Arla's greenhouse gas emissions (Note 1.1), animal welfare (Note 1.5), food safety (Note 2.5), waste (Note 1.3) and diversity (Notes 2.2 and 2.3) are presented, making Arla's business more transparent and accountable.

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 eg. recyclability in packaging, the necessary steps to improve data tracking and collection have been initiated. In the coming years, plans are to widen the scope of reporting to fully comply with best practice in ESG reporting.

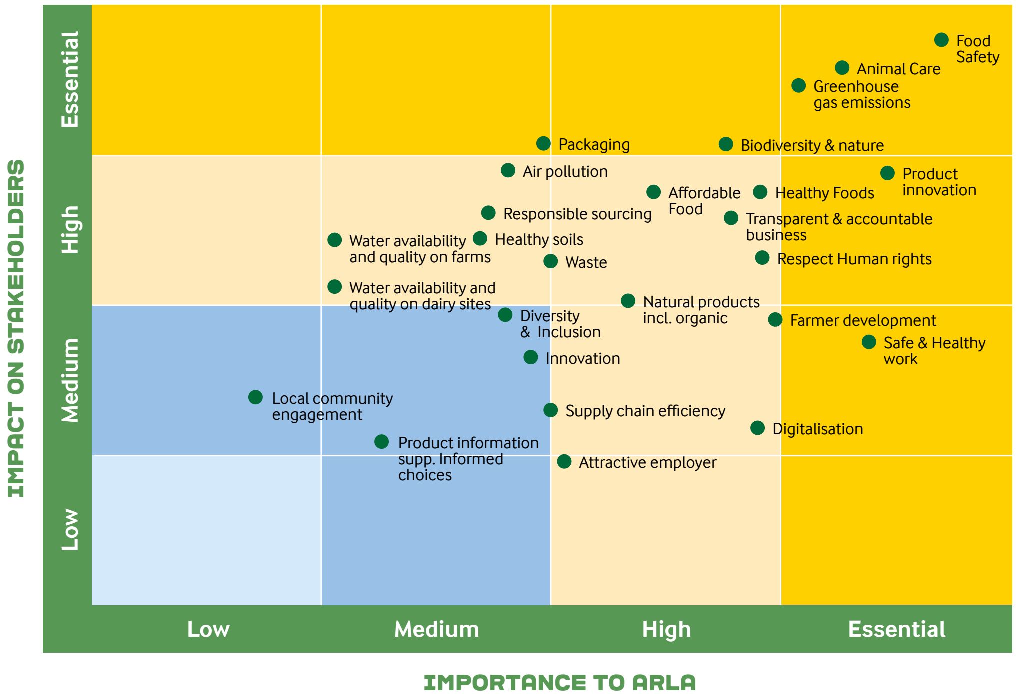
Reporting scope
Environmental KPIs (Notes 1.1-1.4) included data from all production and logistical sites. This, together with milk, external waste handling, external transport and packaging cover all material activities in Arla's value chain. The environmental impact related to offices, business travel 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, the 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 five 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

When the baseline emissions are recalculated due to significant structural changes in the company (as defined above), historic figures are also recalculated and reported alongside the non-recalculated (actual) historic emission figures. This provides the reader with more clarity to understand Arla's actual emissions each year. Other externally reported 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.

MATERIALITY ANALYSIS



INDEPENDENT AUDITOR'S REASONABLE ASSURANCE REPORT

TO THE STAKEHOLDERS OF ARLA FOODS AMBA

We have been engaged by Arla Foods amba to perform a reasonable assurance engagement, as defined by International Standards on Assurance Engagements, hereafter referred to as the engagement, to report on Arla's environmental, social and governance figures in the ESG statements (the 'Subject Matter') contained in the annual report on pages 121-135 for the period 1 January 2021 to 31 December 2021 (the 'Report').

Criteria applied by Arla
In preparing the Subject Matter, Arla applied the criteria described on pages 121-135 (the 'Criteria'). The Subject Matter needs to be read and understood together with the reporting criteria, which management is solely responsible for selecting and applying. As a result, the subject matter information may not be suitable for another purpose.
The absence of an established practice on which to derive, evaluate and measure the Subject Matter allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Management's responsibilities
Arla's management is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities
Our responsibility is to express an opinion on the presentation of the Subject Matter based on the evidence we have 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 reasonable assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, 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, our procedures included:

- Interviews with relevant personnel to understand the business and reporting process during the reporting period, including the process for collecting, collating and reporting the Subject Matter and inspected relevant documentation
- Checking that the calculation criteria have been correctly applied in accordance with the methodologies outlined in the Criteria
- Undertaking analytical procedures to support the reasonableness of the Subject Matter
- Identifying and on a sample basis testing assumptions supporting calculations of environmental figures on pages124-129.
- When feasible testing, on a sample basis, underlying source information to check the completeness and the accuracy of the data. When not possible to obtain underlying source information, performing procedures such as recalculation and comparison to financial metrics or statistical modelling to confirm the logic of data
- Performing two physical site visits in Denmark and Germany and two virtual site visits in Argentina and the UK to visually inspect operations, make inquiries, test that processes and controls are conducted in line with our understanding, inspect documents on a sample basis and evaluate if site follows group reporting guidelines
- Interviews with external specialists responsible for providing input to the calculations of the animal welfare and farmer climate data to evaluate the competence, capabilities and objectivity as well as evaluate whether the results of the external specialist's work are adequate for our purposes
- Evaluating the consistency of the information in the Subject Matter with the information in the annual report which is not included in the scope of our examinations

We also performed such other procedures as we considered necessary in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Conclusion
In our opinion, Arla's environmental, social and governance figures in the ESG statements for the period 1 January 2021 to 31 December 2021 are presented, in all material respects, in accordance with the criteria described on pages 121-135.

Aarhus, 9 February 2022
EY Godkendt Revisionspartnerselskab
CVR no. 30700228

Henrik Kronborg Iversen
State Authorised Public Accountant
MNE no. 24687

Carina Ohm
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 digitial 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: Kristian Holm, Jens Bangsbo, 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.

Financial reports and major events

23-24 FEBRUARY
Board of representatives meeting

24 FEBRUARY
Publication of the consolidated annual report for 2021

25 MAY
Board of Representatives Election

30 AUGUST
Publication of the consolidated half-year results for 2022

5-6 OCTOBER
Board of Representatives Meeting

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