



SECTION 172 STATEMENT



This **statement** describes how the Directors foster effective stakeholder relationships aligned to the Company's purpose, and how the Board has demonstrated its responsibility to ensure meaningful stakeholder engagement and considered their views when making decisions. The section describes how the Directors have had regards to the matters set out in section 172(1) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

The Directors consider that they have performed their fiduciary duty, as stipulated under section 172 of the Companies Act 2006 in good faith to promote the success of the Company for the benefit of its members. Details of stakeholders, primary methods of engagement, why Directors consider engagement to be important, issues raised by stakeholders and actions taken as a result of the engagement are detailed below. They have taken into consideration, amongst other matters:

- The likely consequences of any decision in the long-term;
- The interests of the Company's employees;
- The needs of farmer members and ensuring the best value for their milk;
- The need to foster and develop the Company's relationships with external suppliers;
- The interests of the consumers of our products and our customers, and;
- The need to act responsibly and ensure compliance with Government regulations.

The Board has considered its key stakeholders and the methods of engagement with each of those stakeholders, both at Board level and across the business. It receives regular reports from management to enable it to monitor the quality and effectiveness of the arrangements for stakeholder engagement. Specific examples of the way in which the Directors have performed their fiduciary duty under section 172 are provided in the following section. The Board has completed a programme of training to ensure that in preparing proposals for Board consideration, managers are aware of the section 172 requirements in Director decision making, ensuring that Directors have the assurance that all relevant stakeholder interests and other relevant matters, are being set out for their consideration.

The Board understands that good governance includes maintaining a clear, effective, meaningful relationship with all relevant stakeholders including our customers, our colleagues, the wider Group, our suppliers and the communities and environments in which we operate. As a wholly owned subsidiary, the Board is committed to ensuring the UK is aligned to the long-term vision and mission of its owner, the Group, which is to seek out opportunities for growth, securing the highest value for our farmer owner's milk. The Group strategy is to achieve this working as one Arla, from a common platform, which requires more alignment of performance management and planning, but also by sharing a common vision for the future. This vision includes our approach to sustainability, aiming to reduce our negative impact on the world around us and increase our positive impact.

Through the involvement of Peter Giørtz-Carlsen and Kent Skovsager, the Board retains a significant direct link of communication through to the Group and its farmer owners, which contributes to the ability of the Company to achieve alignment with the Group. Each Company Board member will also report to a Group based senior figure within their respective functions. The Group consistently promotes engagement with all stakeholders.

The Board maintains a commitment to promoting an active, open and honest approach to interactions with the Company's stakeholder community, and this includes regularly interacting with local government and industry bodies. Our relationship with the media is also one of openness, honesty and is proactive.

COLLEAGUES:

Our UK business is home to around 3,400 colleagues. We recognise that people are our most valuable asset. Our success is dependent on their efforts and investment into our people creates a culture that allows our business to thrive.

WHY WE ENGAGE OUR COLLEAGUES:

The Board holds the strong belief that engaging with our people is of key importance to successfully implementing its long-term strategies, which is aligned with the Group. Investing in our people is protecting our future and promoting our success. We want Arla to be a great place for all our colleagues. Our people are our ambassadors, and our goal is for a proud and empowered workforce.

HOW WE ENGAGE OUR COLLEAGUES:

The Group policies and practices are applied at a local level. Our commitment to development of people is achieved through the Annual People Calendar. Our colleagues have set meaningful objectives and held regular dialogue meetings during the year to ensure focus on the most appropriate development areas and personal growth. Ongoing dialogue between managers and teams throughout the calendar year is proactively encouraged. Dialogue meetings are guided and structured in a way that achieves the best outcomes for all. Our dedicated people section of the intranet contains a vast amount of resources to support these activities.

Our Annual colleague survey “Barometer” gives our colleagues a voice within Arla. Barometer shapes the future direction of the Group, creating strong foundations for future growth, and ensures continuous improvement by acting on the opinions of our people. Results sharing and action planning based on the outcome of the survey is built into the People Calendar. The survey results have been communicated to the Board and are viewed with importance in assessing levels of engagement, optimism and shaping the future to ensure opportunities for our people.

All our colleagues agree to follow the dedicated UK employee handbook which includes all our related policies. If breaches of policy occur, a whistleblower hotline is available for anonymous reporting.

We are committed to continual investment in our relationship with our colleagues. During the year we have provided wellbeing initiatives, hosted a mental health awareness week, introduced a free-to-use wellbeing app, increased levels and lines of communication across the Group, invested in our facilities at our sites such as provision of a Gym. Internal IT resources have been shaped and improved to encourage even further collaboration, sharing of best practices, engagement and celebration of successes.

Within the UK, the CLF has been established, to drive the UK strategy through the leadership community across the business. Key messages are taken from these quarterly meetings and delivered to teams across the business. The forum is also used to discuss future strategic and local initiatives and develop solutions as a community. Members of the Board regularly attend and input into the forum.

The Board has established monthly “Business & Talk” sessions, at which Directors update the Company employees on the most significant recent developments in the business and introduce future strategic changes. Interactivity with leadership is encouraged at the sessions which always include opportunities for questions from around the business.

The Company publishes Gender Pay Gap Reporting externally on its website. The analysis and results of the reporting highlighted areas that informs our internal strategies with regards to gender pay equality. The publishing of this information is part of the Board commitment to improving engagement with stakeholders.

In addition to our local initiatives, the Group maintains a set of principles in relation to diversity and inclusion which are applied on a global level. For example, colleagues dedicated to creating a more diverse and inclusive workplace maintain a global employee resource group, the Arla Diversity & Inclusion Network. Further information about the Group approach to Diversity and Inclusion can be found in the Arla Consolidated Annual Report 2019.

The Company maintains an active and open relationship with workers unions. The Company recognises Unite, USDAW and GMB for collective bargaining purposes. The Company believes in the benefits of positive trade union relationships and we are working openly, honestly and constructively with our trade unions towards industry-leading relations and a successful business. The discussions and collaboration that we have with our trade unions influences the decisions that the Board takes on future policies and strategy.

The Company's defined benefit pension scheme trustees are an employee related stakeholder. The trustees of the schemes (of which Arla appoints the majority) set the investment strategy and have established a policy on asset allocation to best match the assets to the liabilities of the schemes. The trustees appoint an independent external advisor to the schemes who is responsible for advising on the investment strategy and investing the assets. The Company relationship with the external advisor is key in ensuring the Company continues to act in the best interests of all related stakeholders.

CUSTOMERS & CONSUMERS:

The majority of our customer sales are to large UK based household name grocer retailers, who on sell to retail customers & consumers. Most of our customer sales are based on long-term relationships and long-term contractual agreements. We sell a mixture of branded and retailer own label products. Our food service channel including our Arla Pro® offering, has been a high growth area during the year for the Company. Our consumers are the end users of our products and services and continued engagement remains at the forefront of our strategic decisions.

WHY WE ENGAGE OUR CUSTOMERS & CONSUMERS:

Our customers are essential to our business. Working with transparency and openness fosters our long-term customer relationships, and understanding our customers wants and needs informs our business decisions and priorities. We build trust with our customers through acting with integrity, honesty and promoting effective communication.

Our customers are interested in our long-term trading position as they seek guarantee of supply and consistency of product and pricing. Our sustainability strategy is important for our customers who seek to identify and minimise the environmental impact of their supply chain. Our customers are interested in our safety standards and our compliance with regulations.

Consumer trends define our strategic decisions. Ensuring we identify and embrace changing trends, responding in a timely and effective way, is key to our continued engagement with our consumers and ultimately our commercial success.

HOW WE ENGAGE OUR CUSTOMERS & CONSUMERS:

We hold regular meetings with all our customers at all levels within our business and across all departments, from Supply Chain through to our Commercial teams. Directors are involved directly in these meetings where possible, and if not in attendance, outcomes are covered in regular meetings involving Directors specifically. Each customer has a dedicated manager responsible for the relationship. We monitor our customer interactions, obtain regular feedback and analyse customer complaints. We conduct customer research to understand the needs and wants of our customers. The Arla Consolidated Annual Report 2019 provides our customers with important perspective on the performance of the Group as a whole and details on our overall strategy and business model. Our corporate website provides a wealth of important information on the activities of the Group including UK specific activities on our UK website.

Our key topics of engagement during the year were in relation to product listings and distribution, promotional plans, pricing levels, and our joint business planning. We engage with our consumers through our digital channels such as our social media platforms, websites and e-commerce platforms. We perform extensive levels of consumer research to understand the needs of our consumers, and always have consumer needs in mind when making the important choices.

FARMER OWNERS & SUPPLIERS:

Arla is a farmer owned cooperative as described in the Governance section. Our farmers are also our primary supplier of raw ingredients. Because our owners are also our suppliers, earnings do not accrue in the Group but go back to the owners in the form of the highest possible milk performance price.

WHY WE ENGAGE OUR FARMER OWNERS & SUPPLIERS:

Our farmers are our owners and without them we would not exist as an entity. The strategies of the Group are defined by our farmers through our cooperative governance model. Our farmers are one of most significant stakeholders, as both owners and suppliers to the Arla business. Owners are interested in ensuring the Company continues to fulfil its obligation to purchase every litre of milk produced by each and every member, at the same time paying an optimised performance price, maximising sustainable long term returns for owners.

HOW WE ENGAGE OUR FARMER OWNERS & SUPPLIERS:

Engagement with our farmers is achieved in a variety of ways. Each farmer will have their own agricultural manager and each manager has around 350 farmers each. The Company operates a dedicated Member Relations team within which the agricultural managers sit. Contact levels depend on the needs of the farmers and vary from phone and physical visit. There are also regular meetings each year where each farmer is invited to discuss Arla in general and how they feel about the business. The Arla Member Service will also send text reminders and emails each month on certain topics such as the latest milk price. The Member Service website is updated with latest news articles and gives our farmers another option to log any issues they may have.

Engagement with our farmer owners is achieved through regular and transparent internal reporting of our financial performance through to the EMT, Group BoD and BoR.

The Company achieves this through our regular reporting to our Group owners, who then relay this information to the farmers through the Cooperative governance structure. When it comes to the supply of milk, we engage with our UK farmer members through our milk intake and the on-account milk price they receive, which represents the average payment farmer owners receive per kilogram of milk delivered during the settlement period. Our ongoing Calcium strategy contributes to the ability to pay a sustainable higher milk price. We also engage with our farmers over sustainability, and 2019 saw the launch of our climate check initiative, and through 2020 this will take place across all our UK farms. We opened a further CHP (Combined Heat & Power) facility at Stourton to improve our energy efficiency. We continue to support the forging of stronger links between society and our farmers through initiatives such as Open Farm Sundays.

OUR EXTERNAL SUPPLIERS:

The Board recognises the key role that our external suppliers of everything else excluding milk, play in ensuring the reliable delivery of products to our customers. From stationery, to machinery, to external advisory services, Group policies are applied in our selection of suppliers, and the business aims to only use Arla approved suppliers who are compliant with the Arla Code of Conduct, which gives confidence over our suppliers' practices. This all lends itself to more efficient relationships with our suppliers in terms of delivery, prompt payments and effective consolidation of ordering.

WHY WE ENGAGE OUR EXTERNAL SUPPLIERS:

We want to be confident in the reliability and practices of our suppliers, and ensure our key supplier relationships are secure, with clear understanding of their needs and communication of ours. We need confidence in the compliance of our suppliers with evolving regulatory landscapes. We wish to understand the challenges our suppliers face and how we can work with them towards solutions.

HOW WE ENGAGE OUR EXTERNAL SUPPLIERS:

We proactively manage our key supplier relationships and hold regular meetings to provide opportunity for hearing from our strategic partners first-hand on what challenges they face and understanding ways we can collaborate towards solutions. We ensure our suppliers are clear on our expectations and Code of Conduct requirements and our terms and conditions and payments policies are published on our website at www.arla.com/legal-information/payment-policy. The Board engages where necessary in terms of matters of external suppliers, be it a decision over which supplier to use, or discussions of any significant issues or disputes that may arise. Again, such matters form part of the regular market review meetings taking place involving the Directors.

GOVERNMENT & INDUSTRY GROUPS:

The Board aims for an open and transparent dialogue with the regulatory and industry bodies we collaborate with. We aim to maintain public trust in our industry through raising industry standards, for example with regards to climate change. We pride ourselves on our transparent relationship with HMRC and on maintaining our low risk tax status over several years. Our Group structure allows us to call on expertise on a global scale to ensure a valued level of input is maintained.

WHY WE ENGAGE WITH GOVERNMENT & INDUSTRY GROUPS:

We engage with Government bodies and industry groups to ensure industry standards are constantly improved to ensure trust is maintained across our customer base. We ensure our own practices are compliant with the most up to date operating legislation to provide our customers with a trust in our food safety and quality. We actively engage with tax authorities to ensure good tax governance and compliance with tax legislation.

We innovate with new policies that lead the way in terms of innovation. The Board takes proactive steps to inform Government tax authorities of our planned actions within the UK and maintains transparency of its activities. Our UK tax team is globally integrated to ensure transparent dialogues are maintained globally.

EXTERNAL ENVIRONMENT:

Sustainability is a cornerstone of Arla's strategy. Arla aims at delivering healthy and nutritional dairy products to consumers globally and the Group is committed to do so with a constantly reducing environmental impact. Arla understands that achieving its mission to secure the highest value for the farmer owner's milk while creating opportunities for their growth also requires delivering on its environmental and social performance. To signify commitment to the sustainability agenda and to increase accountability towards the goals set, Arla has included its environmental, social and governance performance within the 2019 Group Annual Report. The Group approach to sustainability is discussed in more detail in the Purpose & Leadership section above. Further information can be found in the sustainability section of our Company website at www.arlafoods.co.uk.

The UK is aligned over the importance given to sustainability and it forms a crucial part of the Company strategy and the Board considers the external environment in several ways. We are constantly taking steps to achieve our goals, from reducing CO2e emissions on our farms and supporting natural eco-systems, to reducing waste in our operations and bringing our customers the goodness of dairy through nutritious products and education programmes. All major projects give consideration and prominence to sustainability and their impact upon it. Recent examples of our commitment to sustainability include the Arla UK 360 Farms initiative developed in collaboration with farms and retailers, which is a commitment to support improving the sustainability of our UK farms, helping identify and implement improvements needed to meet a series of target criteria across a vast range of areas including farm management, animal welfare and environmental impact.

An example of our commitment to sustainable packaging is our continued commitment to increase the level of recycle-friendly packaging materials we use, including the launch of the world's first milk bottle to contain 50% recyclable material.

As an example of our commitment to reduce food waste, this year we changed to "Best Before" dates instead of "Use by" dates on our fresh liquid milk with the aim of reducing the levels of food waste in the UK.

We are aligned with the Group target of Carbon Net Zero in all our operations, from physical factories to trucks on the road, by 2050. This is achieved through effective route planning for example, or through ensuring our factories are as energy efficient as possible, including our new site development in Settle.

In addition to our commitment to environmental sustainability, the Company is committed to giving back to society through its charitable activities. We support local charities through our donations and fundraising opportunities. As mentioned in the Strategic report, the Company has supported our nation during the Covid-19 pandemic through several initiatives aimed at feeding the nation and supporting our key workers and the most vulnerable in the community.

We are proud of our continued longstanding partnership with FareShare, which has continued to develop during 2019. During the year we donated 644 tonnes of products, the equivalent of 1.5 million meals, which was the largest donation by any UK food manufacturer. Another example is our annual participation in the 'Mission Christmas' scheme donating gifts at Christmas time to Cash for Kids, a charity for disadvantaged children. We are also an active support of Grocery Aid, a charity supporting the wider Grocery industry on a national scale. Looking to the future, in May 2020 the Company supported the launch of the 'Milk Your Moments' campaign by UK dairy workers and farmers in support of mental health charity, Mind.

DECISION MAKING:

The Board has made numerous key decisions during the year, be it directly through its Board meetings or via delegation to a committee. The Board has remained mindful of the potential impacts on key stakeholders and factored their needs and concerns into all discussions and decision making in accordance with s172 of the Companies Act 2006. Not all stakeholders are impacted by all decisions. Some decisions may result in conflicting needs of stakeholders, and the Board has ensured fairness in its decision making. Major decisions and considerations made during 2019 include:

- Approval of the 2018 Annual accounts and financial statements.
- Approved the UK tax strategy, the UK annual tax report and received updates on key tax topics including our low risk status with HMRC.
- Participated in Brexit task force meetings and contributed to the long-term Brexit strategy.
- Attended discussions that determined the appropriate number of governance forums (i.e. sub-committees) and related content that should be covered in each.
- Received detailed analysis of the costs, benefits, timelines and budgets of future projects and approved projects that will promote the future of the Company.
- Approval of re-positioning of our UK Sales Team.
- Updated the Arla UK defined benefit pension plan trustees regarding the Company's performance.

PRINCIPLE DECISION:	HOW THE BOARD CONSIDERED STAKEHOLDER INTERESTS:	STAKEHOLDER GROUPS AND OTHER SECTION S172 DUTIES CONSIDERED:	PRINCIPLE DECISIONS MADE BY THE BOARD/- COMMITTEES:
<p>Approval of the Company's 2020 strategy and forecasts</p>	<p>The Board discussed the foundations for the strategy of the Company at a Group level initially, before building up the strategy with involvement of the UK CLF, in order to ensure the key outcomes considered the needs of all functional departments. Collaboration with Group is maintained throughout the process. The process involved identification of our key external stakeholders' needs including our farmer owners, customers and consumers, our workforce needs, Group strategic aims including long term sustainability ambition, and developing into our key strategic goals.</p>	<p>Stakeholders: Colleagues, Group, Governments and regulators, customers, consumers, farmer owners, external suppliers.</p> <p>S172 duties: Promote long-term success of the Company.</p>	<p>The Board approved the 2020 strategy, including the measurable goals for 2020. This plan was communicated to the Group for final approval.</p>
<p>Approval of acquisition of PCL 24/7 Ltd (note 31 of the financial statements for further details)</p>	<p>These projects reduced our logistics costs through bringing outsourced logistic operations in-house. The Directors considered all aspects of the project, such as costs involved and the expected benefits. The risks of the project were outlined and assessed, whilst weighing against the potential upsides for the business. Colleagues were regularly updated on the nature and progress of the project at each stage. Group was involved in the assessment of the feasibility of the project and its approval. The impact on our costs base was considered and what benefits could be realised.</p>	<p>Stakeholders: External suppliers, Colleagues, Group, customers, consumers.</p> <p>S172 duties: Promote long-term success of the Company</p>	<p>The Board approved the projects following a period of assessment.</p> <p>This plan was communicated to the Group for final approval.</p>



**STRENGTH COMES
FROM WITHIN**