



# SUSTAINABILITY INCENTIVE MODEL





# ARLA IS IN A STRONG POSITION DUE TO OUR DEDICATED EFFORTS ACROSS THE VALUE CHAIN AND OUR **FUTURE26** AMBITIONS



**ARLAGÅRDEN**<sup>®</sup>  
WORLD-CLASS MILK QUALITY

### STRONG GLOBAL BRANDS

Arla, Puck, Starbucks, LURPAK, CASTELLO

### LEADING POSITIONS

- #1** FAST MOVING CONSUMER GOODS COMPANY
- #1** DAIRY COMPANY
- #1** IN CHEESE, BUTTER, MILK BASED BEVERAGES & CREAM

### CLIMATE EFFICIENT & WORLD'S BIGGEST ORGANIC DAIRY

**1.15** ARLA OWNER AVERAGE  
kg CO<sub>2</sub>e per kg milk

### SUSTAINABILITY CENTRAL IN OUR STRATEGY

**FUTURE26**

### SCIENCE BASED TARGETS

SCIENCE BASED TARGETS  
**1.5° C**

# DAIRY PROVIDES A GOOD PROPORTION OF THE NUTRIENTS AVAILABLE TO OPTIMISE HUMAN HEALTH



7% OF DIETARY ENERGY

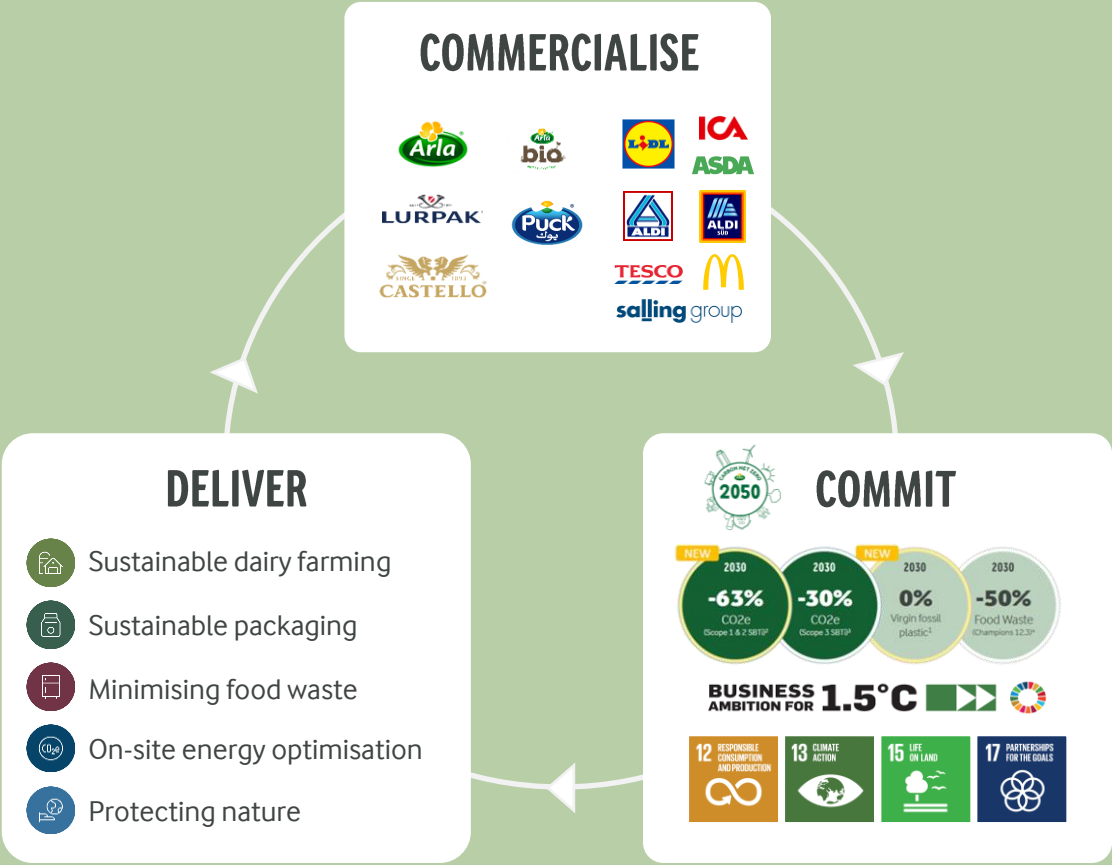
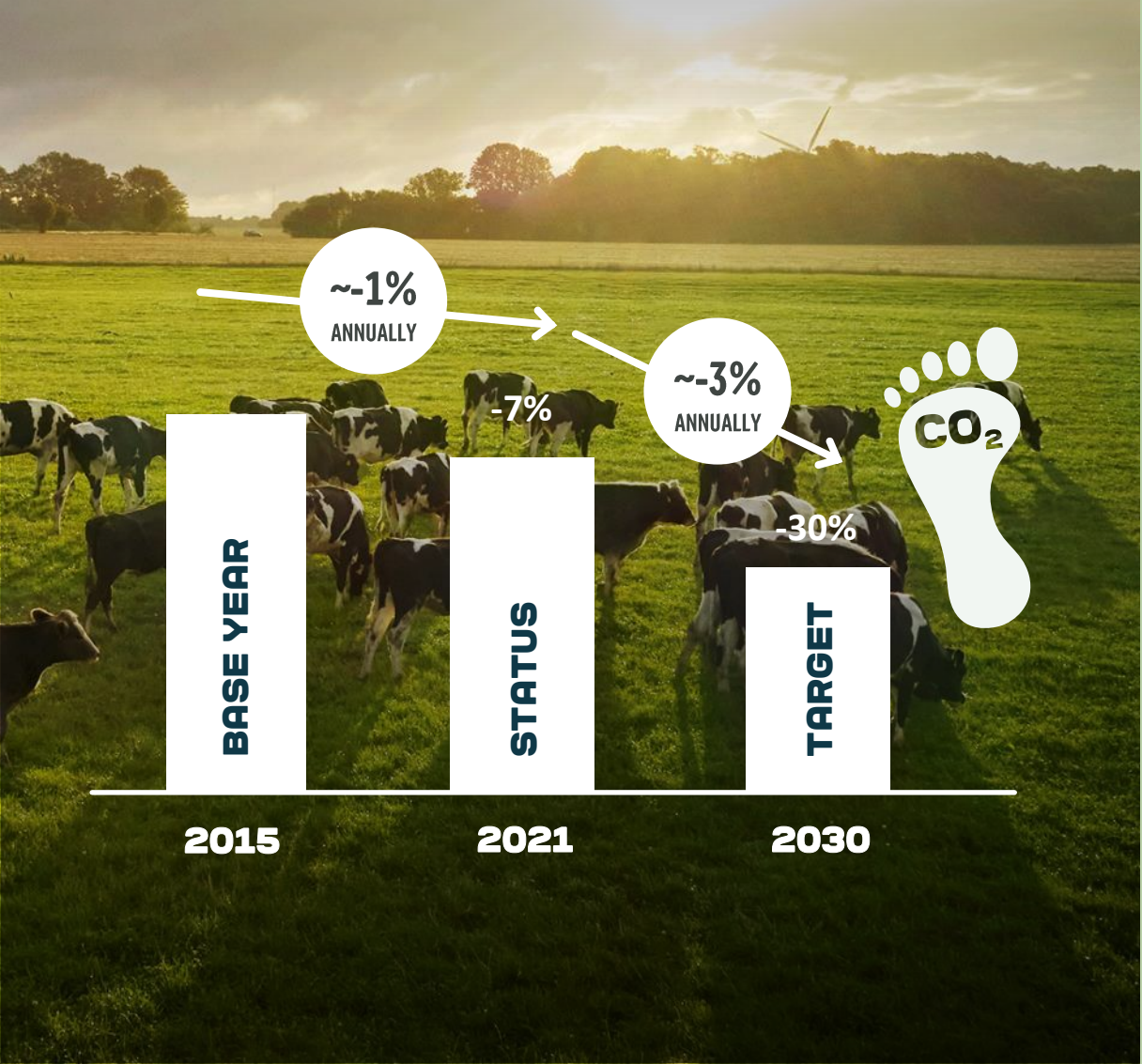
49% OF CALCIUM

18% OF ESSENTIAL AMINO ACIDS

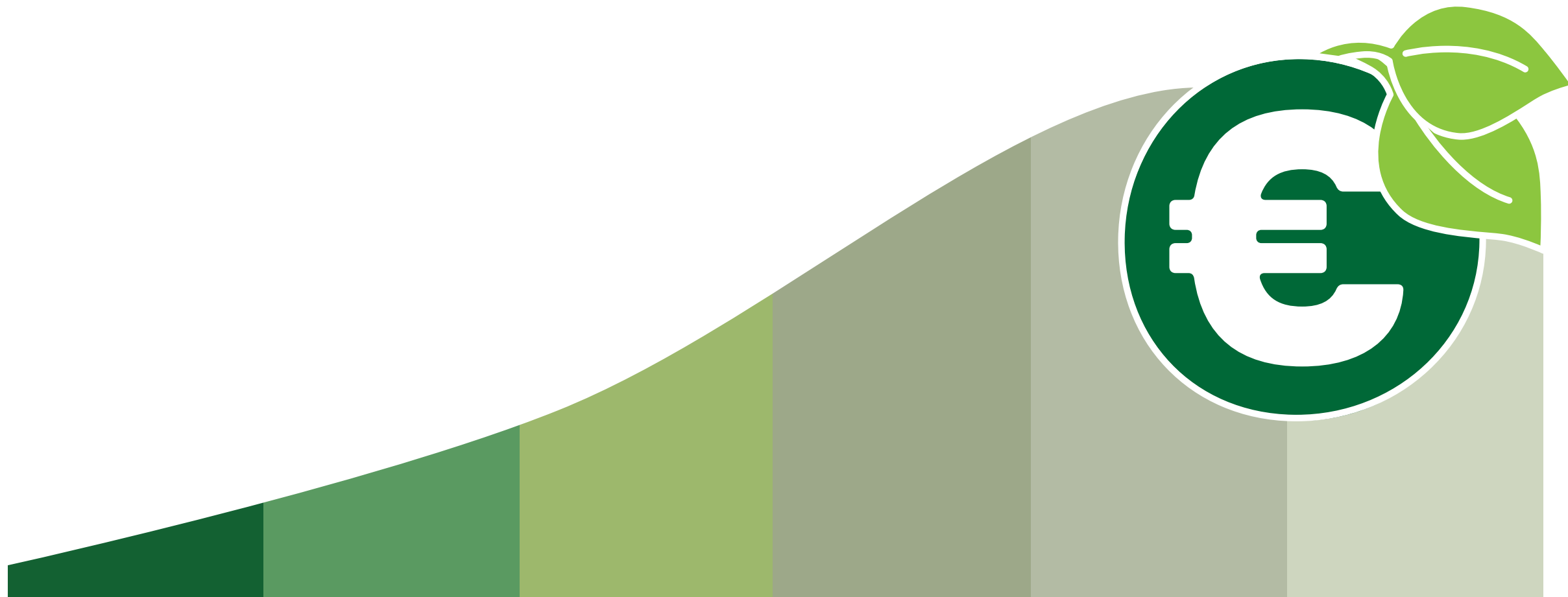
12% OF PROTEIN

28 OUT OF 29 NUTRIENTS

# WE NEED TO ACCELERATE OUR ACTIONS TO REMAIN A LEADING SUPPLIER AND MAINTAIN OUR 'LICENCE TO OPERATE' WITH CUSTOMERS



# THE SUSTAINABILITY INCENTIVE WILL MOVE US TOWARDS GREENER AND MORE EFFICIENT DAIRY FARMING



# THE SUSTAINABILITY INCENTIVE WILL MOVE US TOWARDS GREENER AND MORE EFFICIENT DAIRY FARMING



- ✓ IMPROVE SUSTAINABILITY AND STAY RELEVANT TO CUSTOMERS & CONSUMERS
- ✓ OPTIMISE PROFITABILITY ON FARM (BIG5)
- ✓ FUTURE PROOF OUR COOPERATIVE





**WE ARE INTRODUCING A POINT-BASED  
SUSTAINABILITY INCENTIVE MODEL  
TO REWARD PAST AND FUTURE ACTIONS**

# CRITERIA FOR THE SUSTAINABILITY INCENTIVE MODEL

1. Fair for all owners
2. Motivating to reduce CO<sub>2</sub>e (now) and guide farmer owners to focus on their greatest improvement potential
3. Easy to understand
4. Enable commercialisation of on-farm sustainability initiatives
5. Leave farmer owners the choice of deciding which actions work on their farm
6. Future proof model that allows for incentivising new sustainability elements
7. Reward past and future actions

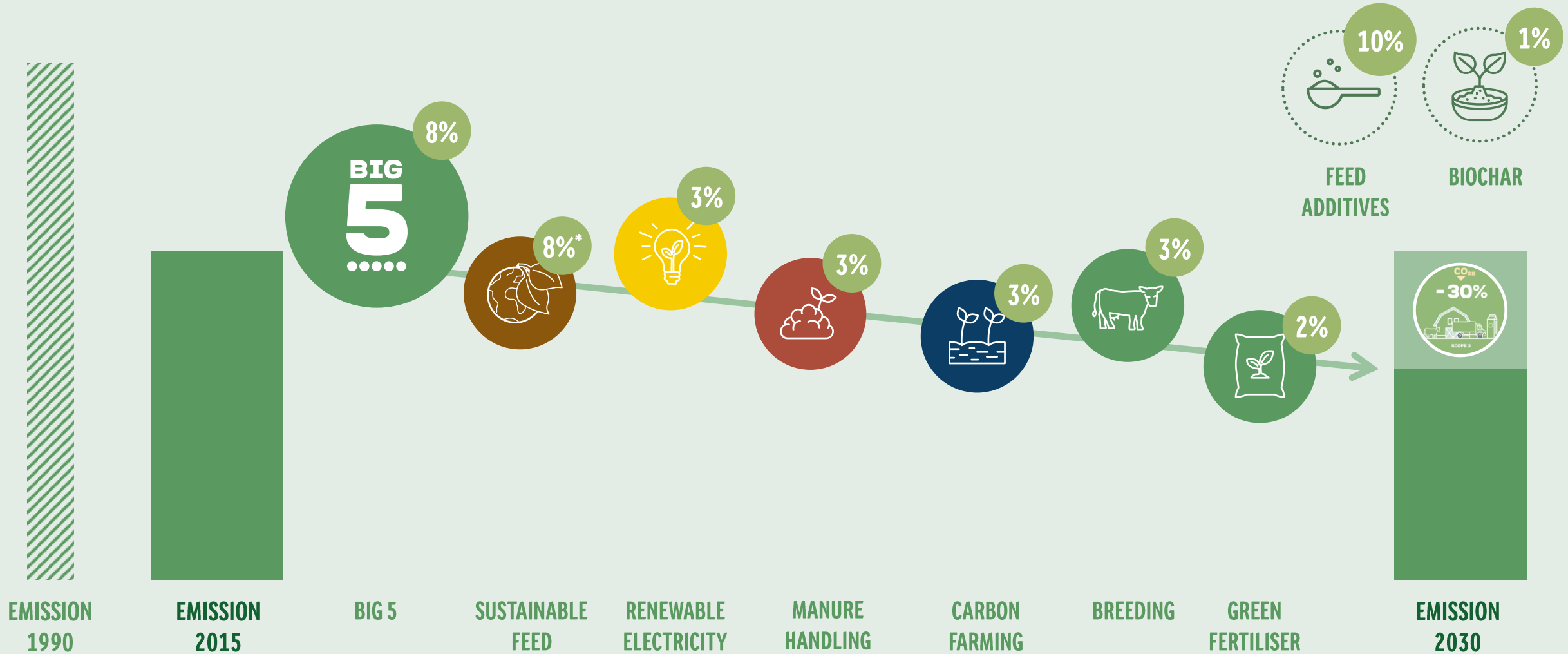




# THE SUSTAINABILITY INCENTIVE MODEL BUILDS ON CLIMATE CHECK DATA TO REWARD PAST AND FUTURE ACTIONS



# THE MODEL IS BASED ON SCIENCE AND FOCUSES ON THE MAIN LEVERS WE HAVE IDENTIFIED TOWARDS 2030



\*Requires direct Land Use Change (DLUC) and carbon sequestration to be included in the Science Based Target and the 2015 baseline to be updated accordingly

# FROM THE START, THE MODEL REWARDS ACTIONS IN SIX MAIN CATEGORIES



BIG  
5

## BIG 5

FEED EFFICIENCY

FERTILISER USE

LAND USE

PROTEIN EFFICIENCY

ANIMAL ROBUSTNESS

.....

FEED MONITORING

BIG 5 ASPIRATION PLAN



## SUSTAINABLE FEED

SOY USE



## BIODIVERSITY & CARBON FARMING

GRAZING

CONTINUOUS PLANT COVER

PERENNIAL CROPS

PERMANENT GRASSLAND

SOIL SAMPLING

BIODIVERSITY & SOIL HEALTH  
CHECK SUBMISSION



## MANURE HANDLING

BIOGAS/IN-HOUSE ACIDIFICATION

BAND SPREADER

OTHER



## RENEWABLE ELECTRICITY

RENEWABLE ELECTRICITY USE



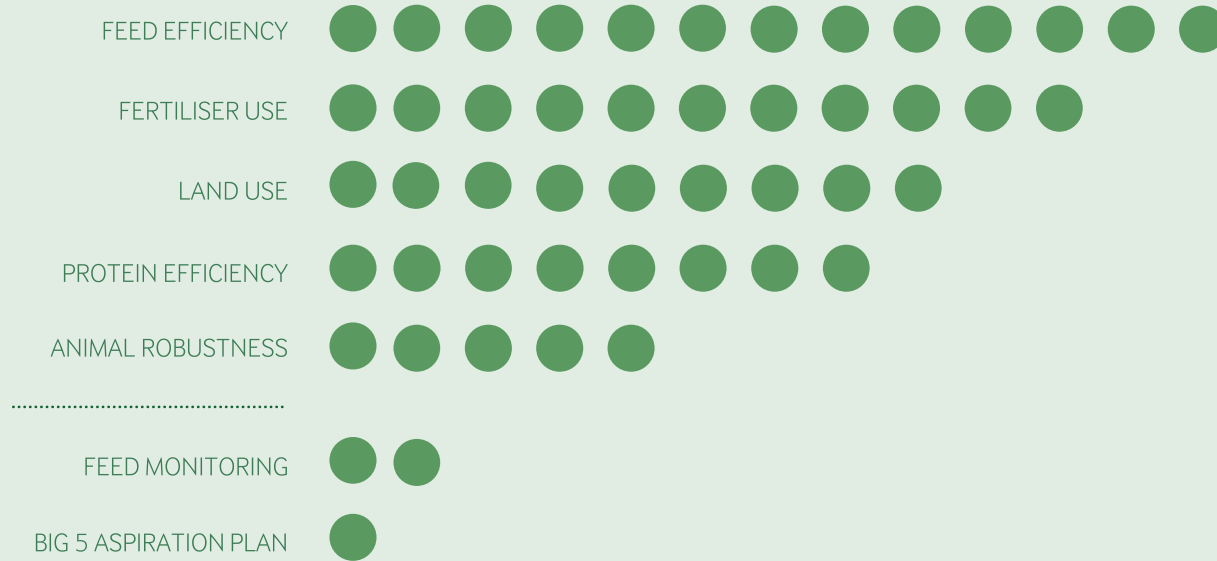
## KNOWLEDGE BUILDING

PARTICIPATION IN KNOWLEDGE  
BUILDING EVENTS

# THE ACTIONS THAT HAVE THE MOST POSITIVE IMPACT ON SUSTAINABILITY WILL LEAD TO THE MOST POINTS



## BIG 5 (49 PTS)



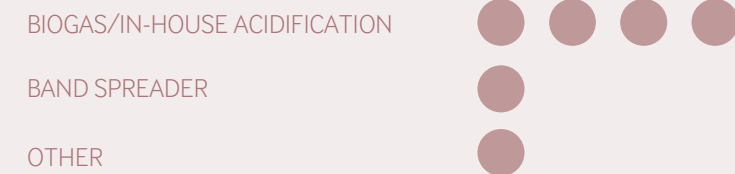
## SUSTAINABLE FEED (11 PTS)



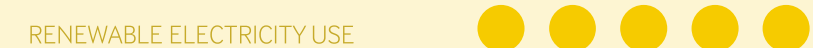
## BIODIVERSITY & CARBON FARMING (8 PTS)



## MANURE HANDLING (6 PTS)



## RENEWABLE ELECTRICITY (5 PTS)



## KNOWLEDGE BUILDING (1 PT)





# EACH POINT LEADS TO 0.03 EUROCENT KG/MILK ON THE MILK PRICE – MORE LEVERS WILL BE ADDED

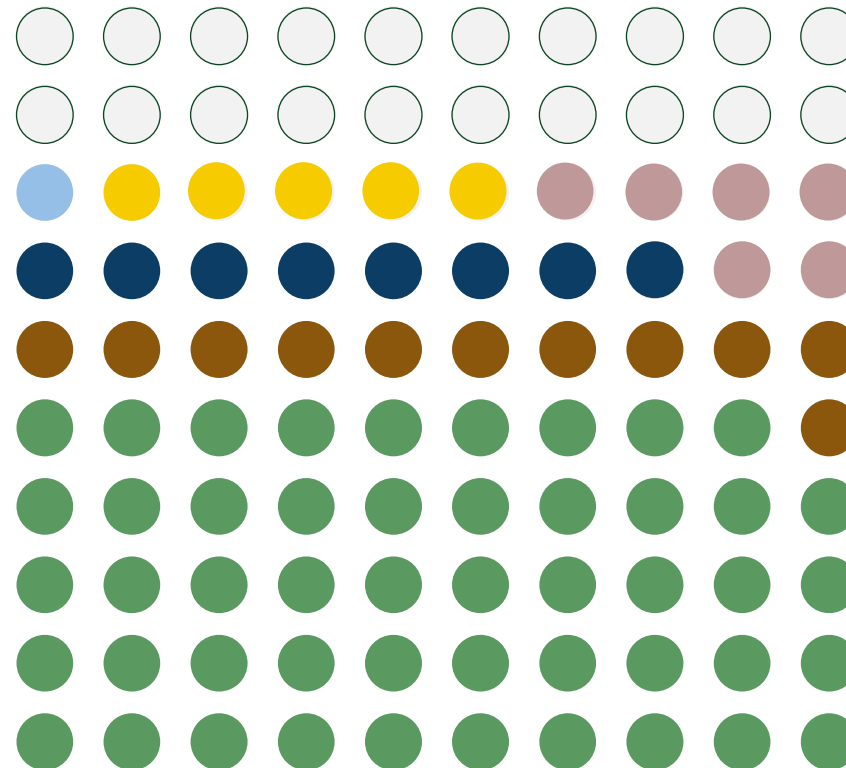


TOTAL POINTS IN THE FUTURE:

**100 POINTS =  
3 EUROCENT**

POINTS AVAILABLE FROM 2023:

**80 POINTS =  
2.40 EUROCENT**



 FUTURE LEVERS

 KNOWLEDGE BUILDING

 RENEWABLE ELECTRICITY

 MANURE HANDLING

 BIODIVERSITY &  
CARBON FARMING

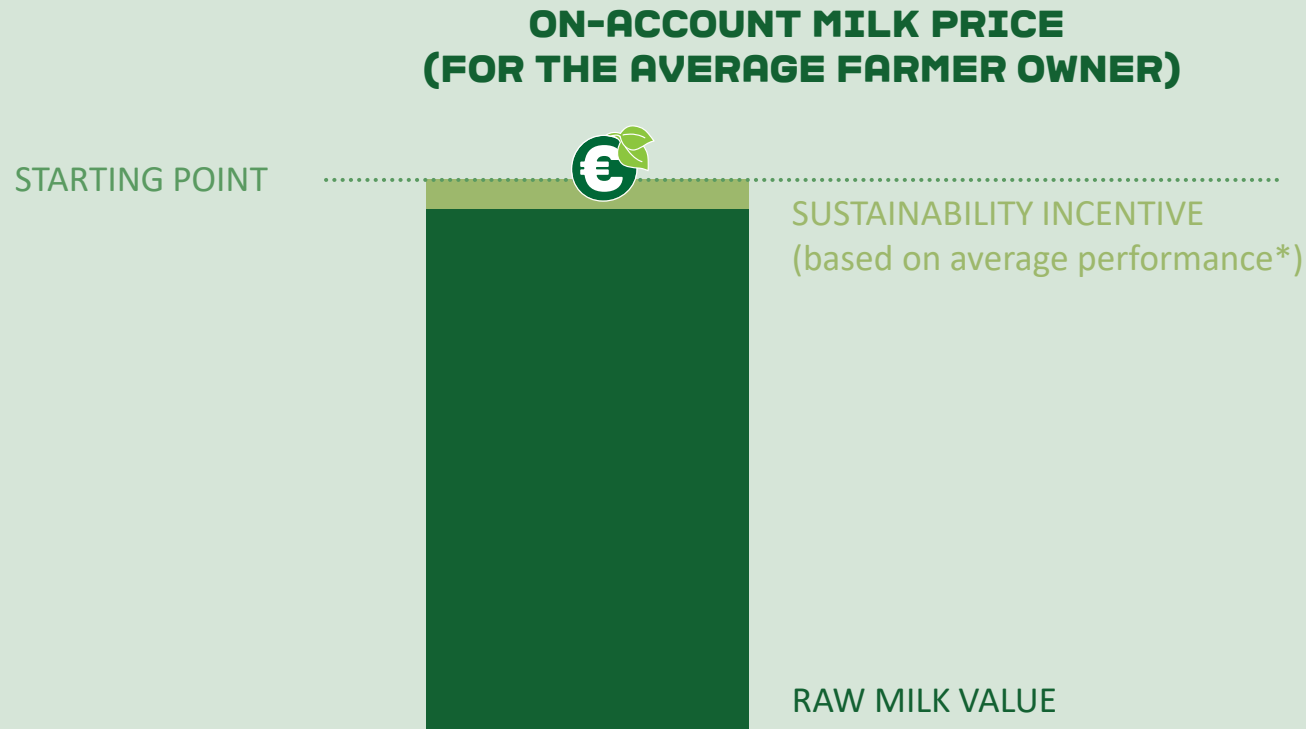
 SUSTAINABLE FEED

 BIG 5

# FROM THE START, THE MODEL WILL BE FUNDED THROUGH A REDISTRIBUTION OF A SMALL PART OF THE RAW MILK VALUE



ILLUSTRATIVE  
PURPOSE ONLY

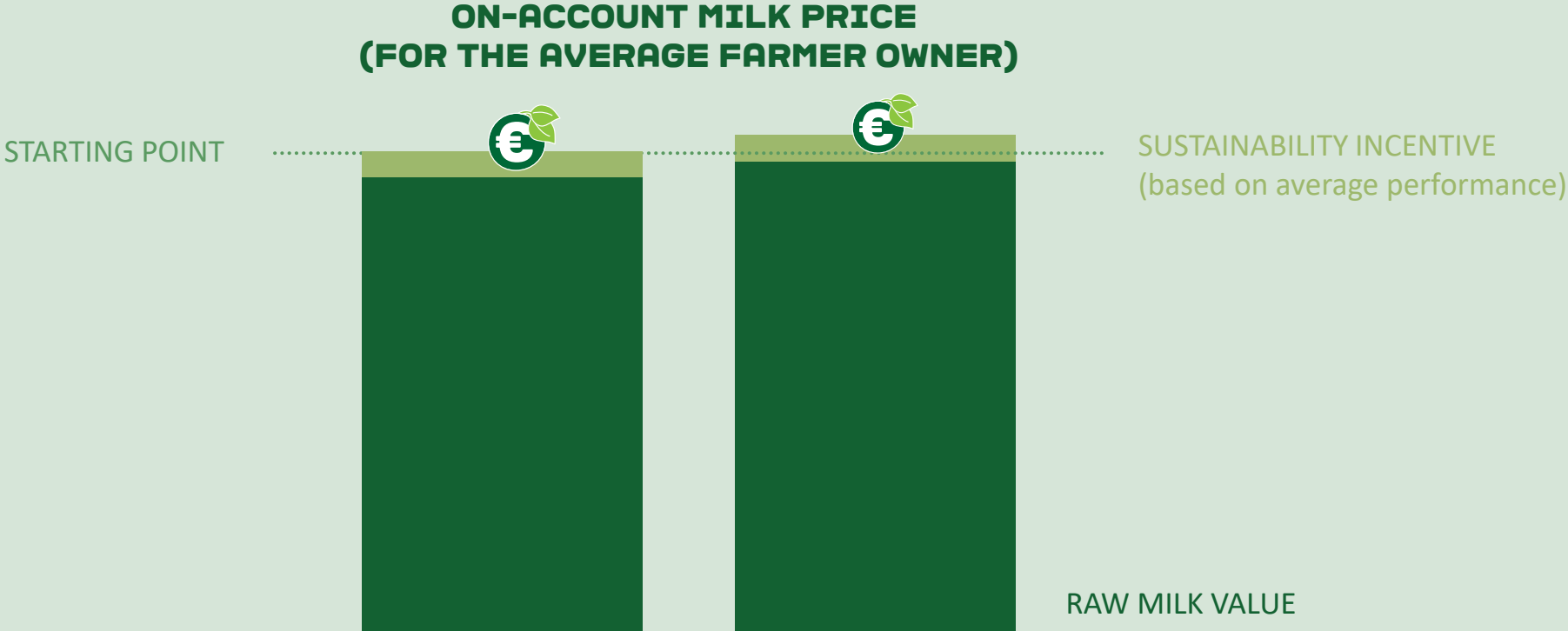


\* The size of the incentive in Arla's milk price statement will be calculated quarterly based on the average performance.  
For example: Based on Climate Check 2021, the Arla incentive would be 1.17 eurocent.

# OVER TIME, THE COMMERCIALISATION OF SUSTAINABILITY ACTION WILL HELP BRING NEW MONEY INTO ARLA



ILLUSTRATIVE  
PURPOSE ONLY



# MEASURES TO PROTECT THE INTEGRITY OF THE DATA WILL SECURE MEMBERS AND CUSTOMERS TRUST IN THE MODEL



## NEW MEASURES



Request for documentation and spot check of uploaded files



Additional verification of exceptional performance



Repayment of unjustified Sustainability Incentive



## IN PLACE NOW



Farmer owners confirm that data is correct



Advisory visits and data validation



Analytics tools & statistical controls



# WE ARE STEPPING UP OUR SUPPORT TO FARMER OWNERS TO HELP ACCELERATE ACTION



**KNOWLEDGE BUILDING  
EVENTS & COMMUNICATION**



**EXTERNAL FARM  
ADVISORS ONBOARDED**



**STRENGTHENED SUPPORT FROM  
CLIMATE CHECK ADVISORS**



**ADDITIONAL RESSOURCES  
IN ARLA**











**SUSTAINABILITY INCENTIVE MODEL**

**ACTIONS NEEDED TO GET POINTS**

# ACTIONS NEEDED TO GET POINTS (1/5)





CATEGORY	LEVER	POINTS AND THRESHOLDS														DATA SUBMISSION	POINTS UPDATE FREQUENCY
		0	1	2	3	4	5	6	7	8	9	10	11	12	13		
<b>BIG 5</b> 	<b>FEED EFFICIENCY, kg dm/kg fpcm*</b> 	>1,21	>1,15 ≤1,21	>1,10 ≤1,15	>1,07 ≤1,10	>1,04 ≤1,07	>1,00 ≤1,04	>0,96 ≤1,00	>0,93 ≤0,96	>0,90 ≤0,93	>0,88 ≤0,90	>0,86 ≤0,88	>0,84 ≤0,86	>0,82 ≤0,84	≤ 0,82	Pre-filled in Climate Check	Annually
	<b>FERTILISER USE, kg gross N/ha**</b> 	>359	>326 ≤359	>303 ≤326	>271 ≤303	>247 ≤271	>224 ≤247	>200 ≤224	>174 ≤200	>142 ≤174	>125 ≤142	>104 ≤125	≤ 104			Pre-filled in Climate Check	Annually
	<b>LAND USE, m<sup>2</sup>/kg fpcm*</b> 	>2,11	>1,73 ≤2,11	>1,45 ≤1,73	>1,27 ≤1,45	>1,15 ≤1,27	>1,07 ≤1,15	>1,00 ≤1,07	>0,92 ≤1,00	>0,83 ≤0,92	≤0,83					Pre-filled in Climate Check	Annually
	<b>PROTEIN EFFICIENCY, %</b> 	≤23	>23 ≤26	>26 ≤27	>27 ≤29	>29 ≤30	>30 ≤32	>32 ≤33	>33 ≤34	>34						Pre-filled in Climate Check	Annually
	<b>ANIMAL ROBUSTNESS, %</b> 	>8,9	>6,0 ≤8,9	>4,3 ≤6,0	>2,9 ≤4,3	>1,3 ≤2,9	≤1,3									Pre-filled in Climate Check	Annually
	<b>FEED MONITORING</b> 	<b>2 points:</b> Feed management system in place and/or minimum one advisor-led feed control performed per quarter														Submit information: Confirm the activity and upload documentation	Quarterly, if status has changed
	<b>BIG 5 ASPIRATION PLAN</b> 	<b>1 point:</b> Big 5 aspiration plan is submitted														Pre-filled in Climate Check	Annually

\* fpcm = fat and protein corrected milk

\*\* gross N/ha = gross Nitrogen from manure and fertiliser applied per hectare land

# ACTIONS NEEDED TO GET POINTS (2/5)




CATEGORY	LEVER	POINTS AND THRESHOLDS														DATA SUBMISSION	POINTS UPDATE FREQUENCY
			0	1	2	3	4	5	6	7	8	9	10	11			
<b>SUSTAINABLE FEED</b> 	<b>SOY USE</b> 	Soy usage (g dm soy/kg fpcm)	>56	>35 ≤56	>23 ≤35	>13 ≤23	>9 ≤13	>8 ≤9	>7 ≤8	>5 ≤7	>4 ≤5	>1 ≤4	>0 ≤1	0	Pre-filled in Climate Check	Annually	
		Soy is 100% deforestation free	11 points no matter how much soy is used											Submit information: Confirm the activity and upload documentation			Quarterly, if status has changed







# ACTIONS NEEDED TO GET POINTS (3/5)



CATEGORY	LEVER	POINTS AND THRESHOLDS	DATA SUBMISSION	POINTS UPDATE FREQUENCY
<b>BIODIVERSITY &amp; CARBON FARMING</b> 	<b>GRAZING</b> ●●	<b>2 points:</b> If minimum 80% of the farm's cows are grazing minimum 6 hours a day, 120 days a year using rotational/multi-paddock grazing management	Pre-filled in Climate Check	Annually
	<b>CONTINUOUS PLANT COVER</b> ●●	<b>2 point:</b> If 5% or less of land is with bare soil during winter Plant cover can be: Perennial grass, cover crops, winter seed	Submit information: Confirm the activity and upload documentation	Annually
	<b>PERENNIAL CROPS</b> ●	<b>1 point:</b> If minimum 0.5 ha/cow is grassland	Pre-filled in Climate Check	Annually
	<b>PERMANENT GRASSLAND</b> ●	<b>1 point:</b> If minimum 0.3 ha/cow is permanent grassland	Pre-filled in Climate Check	Annually
		OR <b>1 point:</b> If minimum 0.1 ha/cow is natural grassland primarily managed by grazing	Submit information: Confirm the activity and upload documentation	Annually
	<b>SOIL SAMPLING</b> ●	<b>1 point:</b> If a carbon test result is submitted, from a soil sample taken within the past 7 seven years	Submit information: Confirm the activity and upload documentation	Annually
	<b>BIODIVERSITY &amp; SOIL HEALTH CHECK SUBMISSION</b> ●	<b>1 point:</b> Biodiversity & Soil Health check is submitted	Pre-filled based on Biodiversity & Soil Health Check submission	Annually





# ACTIONS NEEDED TO GET POINTS (4/5)



CATEGORY	LEVER	POINTS AND THRESHOLDS	DATA SUBMISSION	POINTS UPDATE FREQUENCY
<b>MANURE HANDLING</b> 	<b>BIOGAS OR INHOUSE ACIDIFICATION</b> 	<p><b>1 point:</b> More than 0% but less than 25% of the manure is delivered to biogas and the carbon reduction created by this is allocated to the farm</p> <p><b>2 points:</b> min 25% of the manure is delivered to biogas and the carbon reduction created by this is allocated to the farm</p> <p><b>3 points:</b> min 50% of the manure is delivered to biogas and the carbon reduction created by this is allocated to the farm</p> <p><b>4 points:</b> min 75% of the manure is delivered to biogas and the carbon reduction created by this is allocated to the farm</p> <p>OR</p> <p><b>4 points:</b> min 70% of the slurry is acidified in house</p>	<p>Submit information: Confirm the activity and upload documentation</p>	<p>Quarterly, if status has changed</p>
	<b>BAND SPREADER</b> 	<p><b>1 point:</b> Band spreader techniques are used to apply slurry in the field (no splash plates or nozzles). The band spreading techniques accepted include trailing hose/dribble bar (where the slurry is applied in narrow bands) and trailing shoe (where the slurry is applied under the crop canopy)</p>	<p>Submit information: Confirm the activity and upload documentation</p>	
	<b>OTHER</b> 	<p><b>1 point:</b> 70% or more of the slurry is acidified (storage or application) or injected into the field</p> <p>OR</p> <p>the slurry tank is covered by a tent construction or a concrete cover (if the farm has more than one slurry tank, min 70% of the farm's total slurry must be covered)</p>	<p>Submit information: Confirm the activity and upload documentation</p>	

# ACTIONS NEEDED TO GET POINTS (5/5)



CATEGORY	LEVER	POINTS AND THRESHOLDS	DATA SUBMISSION	POINTS UPDATE FREQUENCY
<b>RENEWABLE ELECTRICITY</b> 	<b>USE OF RENEWABLE ELECTRICITY</b> 	<b>5 points:</b> If 100% of the electricity used on the farm is from renewable sources: wind, solar, biogas, hydro	Submit information: Confirm the activity and upload documentation	Quarterly, if status has changed
<b>KNOWLEDGE BUILDING</b> 	<b>PARTICIPATION IN KNOWLEDGE BUILDING EVENTS</b> 	<b>1 point:</b> Farmer has participated in minimum 2 knowledge building events during a year <i>Extraordinary for 2023: Participation in 1 knowledge building event in the period from end of 2022 to mid 2023 will lead to 1 point.</i>	Pre-filled, based on the sign ups and participation	Annually



**SUSTAINABILITY INCENTIVE MODEL**