

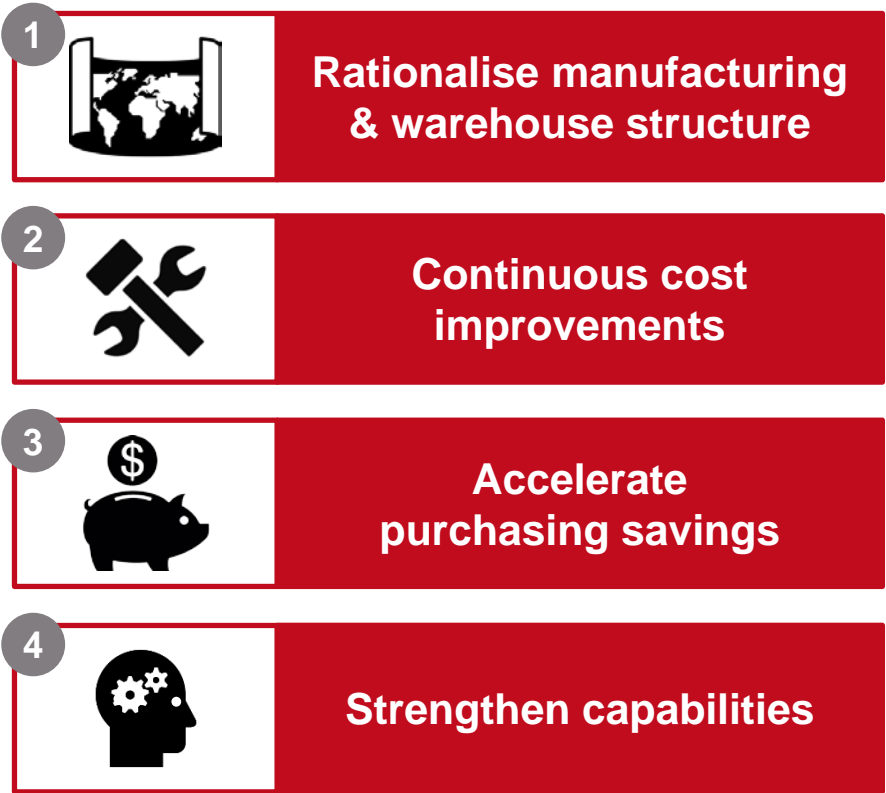


Making our supply chain a competitive advantage for Orkla

Johan Clarin, EVP Operations



Making our supply chain a competitive advantage for Orkla



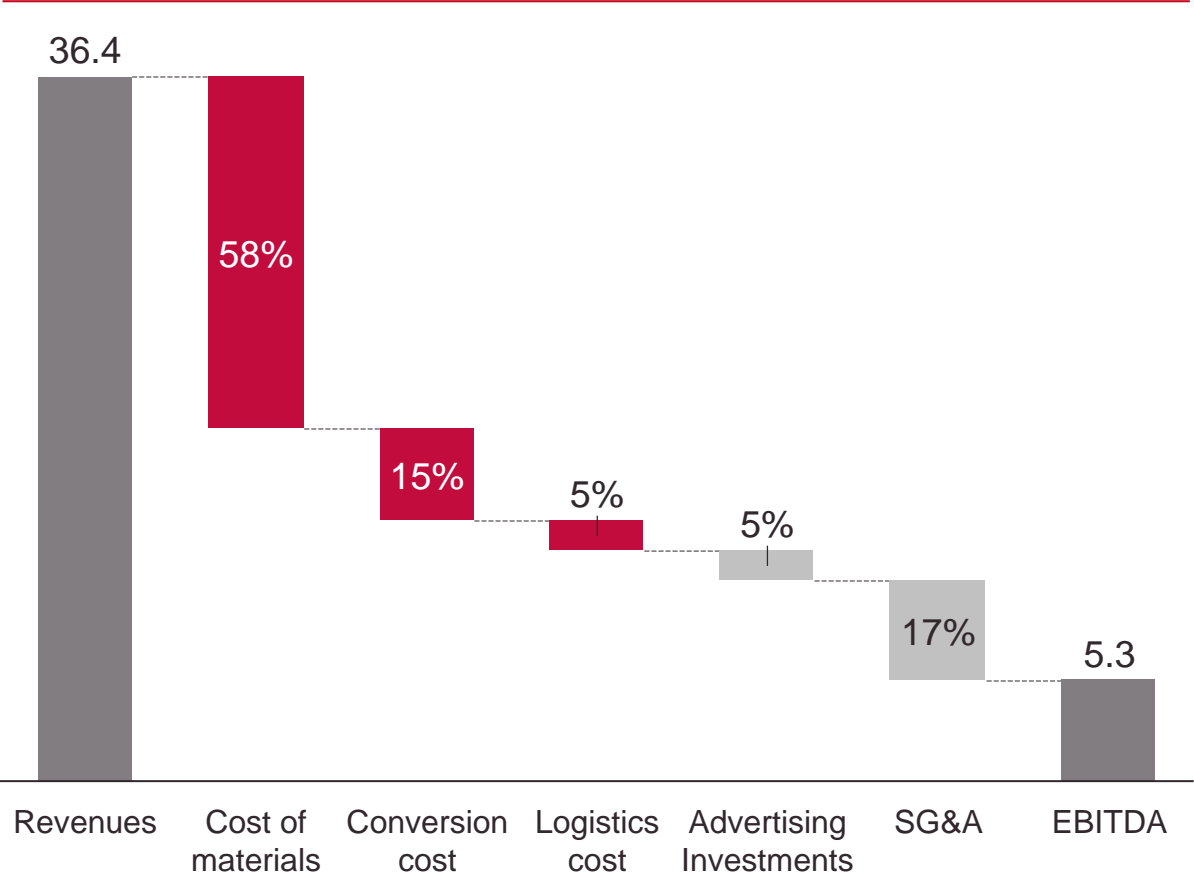
Being the preferred
*supply chain partner for
our customers*

End to end **cost**
competitiveness and
optimised *capital utilisation*

Increased *innovation speed
and ability*

Orkla supply chain – an even greater opportunity

BCG P&L 2016 (NOK billion)
share of total cost base excl. depreciation



98
percent
DELIVERED ON TIME

3.6
times/year
INVENTORY TURNOVER

105
FACTORIES

Fewer factories, lower capex, improved performance and increased innovation ability



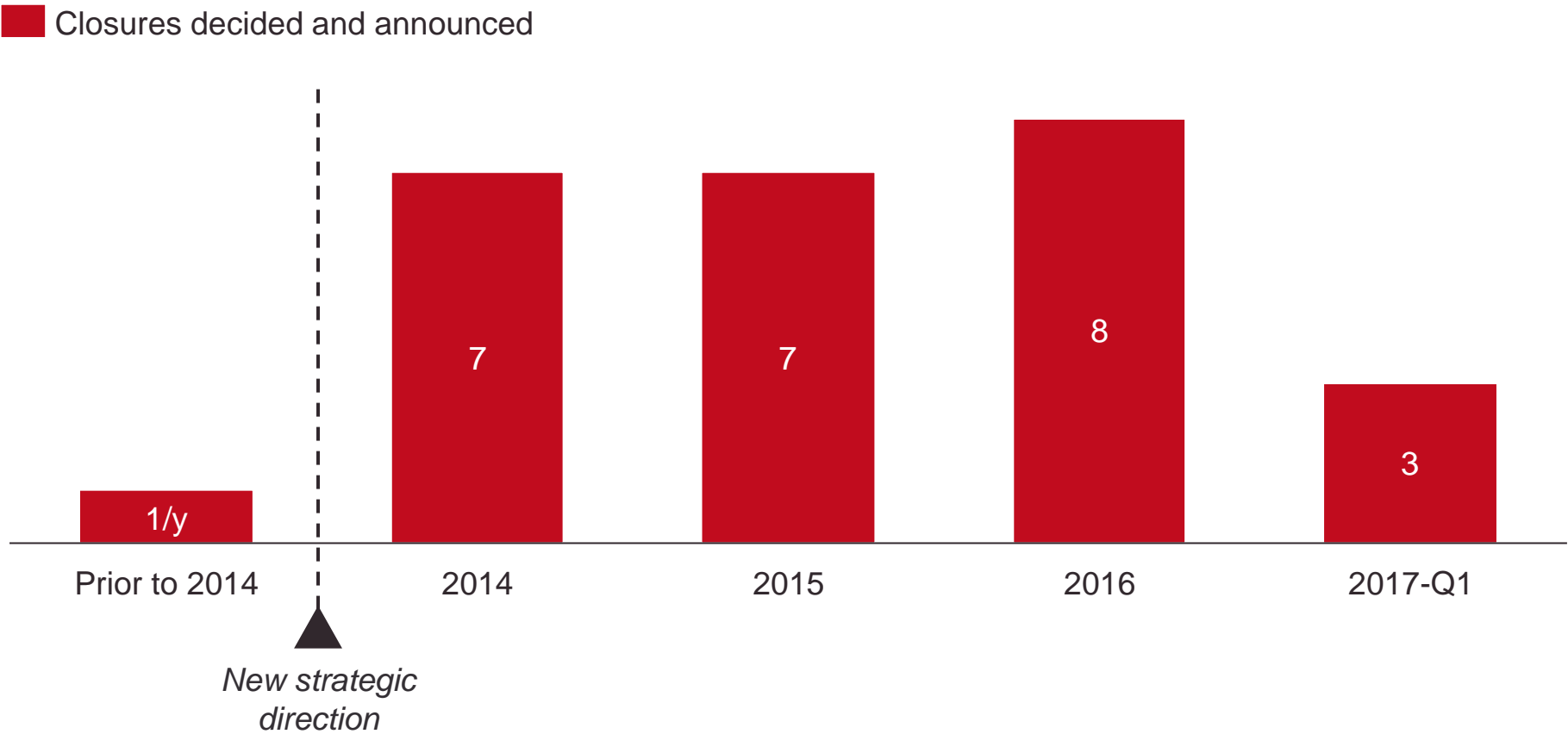
1-1-1

- Targeting one factory per category / technology per geography (1-1-1)
- Develop Centres of Excellence and consolidate within existing capacity
- Seek harmonisation and complexity reduction where possible
- Build for growth; ensure that changes allow for future growth and strengthen innovation possibilities



Executing on our strategic target to close 7-8 factories per year...

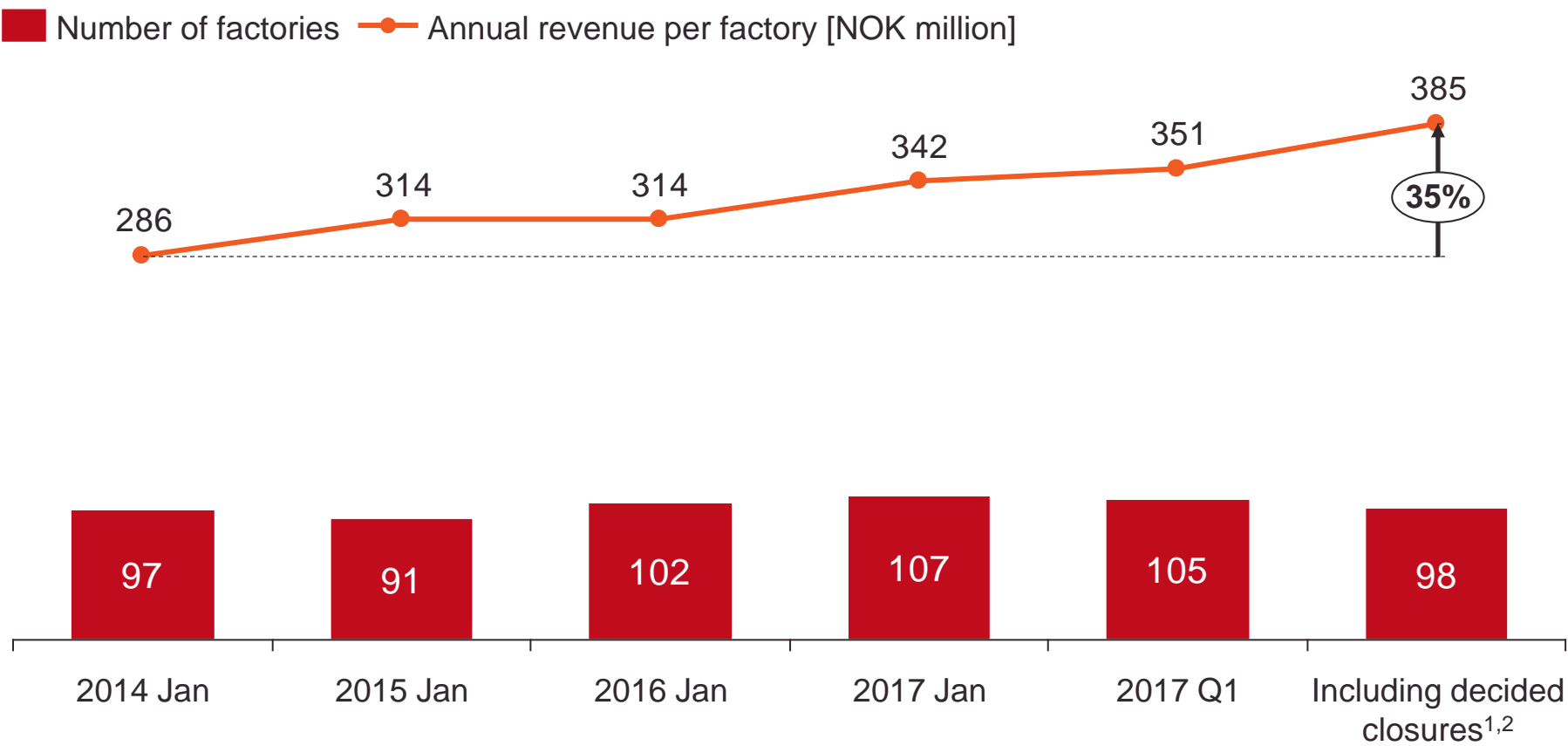
25 factory closure decisions since 2014 and the journey continues





...resulting in increased revenue per factory – improving our ability to “do more with less”

Revenue per factory [NOK million]

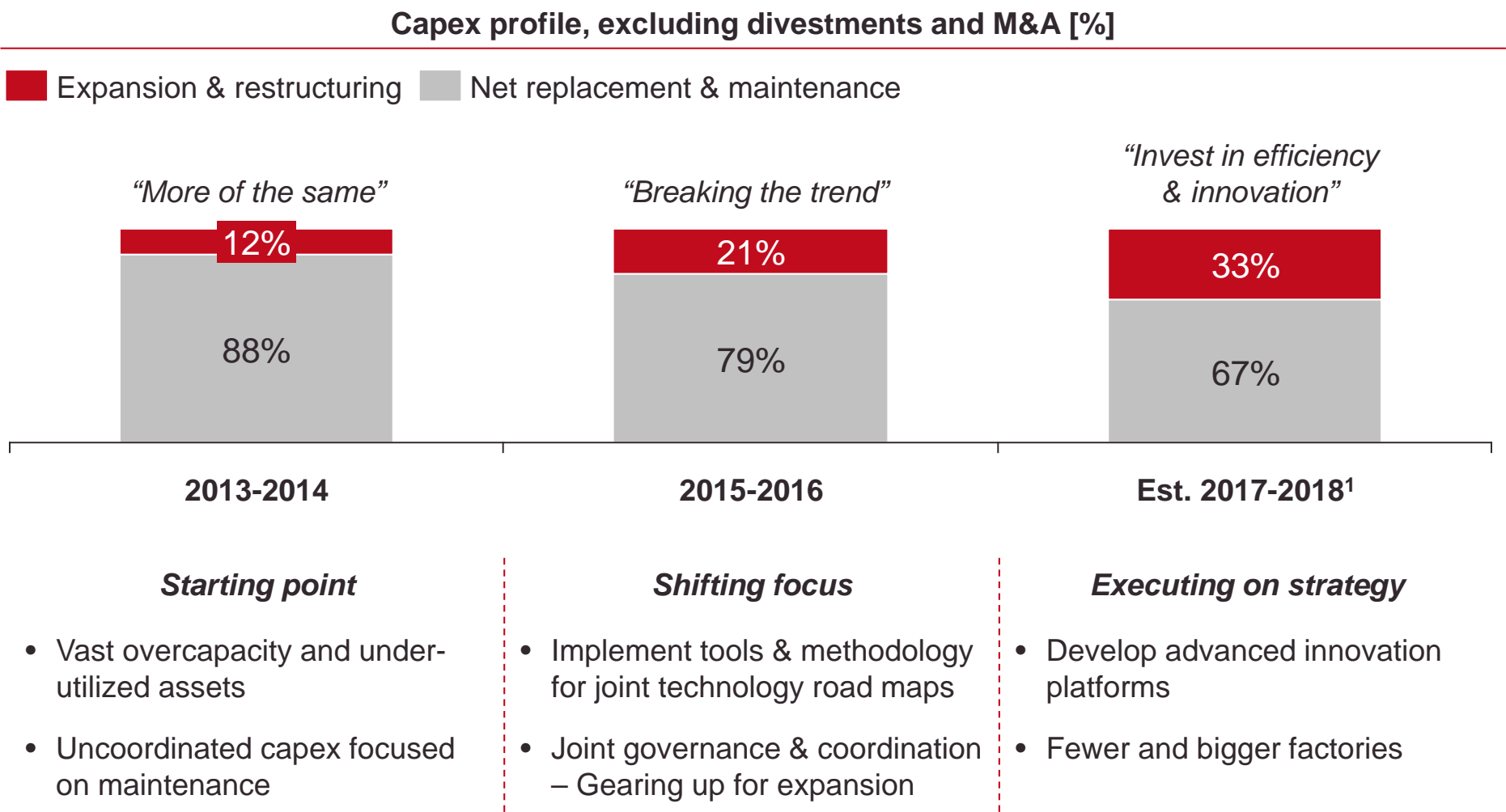


¹Assuming all factory closures decided are implemented

²Including pro forma revenue for acquired companies



With fewer factories we are redirecting capex to efficiency & innovation



Short term cost benefits of NOK 11 million from consolidation...

Close Gimsøy (NO) and move Fun Light and other dilutables brands to Kumla (SE)



Achieved result

- Significantly increased utilisation of receiving factory, shared technology platform and enabling Centre of Excellence for bottling of dilutables
- Joint product development utilising resources more efficiently across markets
- Strong financial effects [NOK million]:

11

Annual
EBIT effect

42

Investments and one
time charges

1.5

Annual
capex reduction

38

Asset
sell off

...with long term potential from innovation and harmonisation

Cross border innovation

- Joint product development utilising resources more efficiently across markets
- Benefit from shared technological platform



Develop Centre of Excellence

- Build capabilities and competences in one location
- Focus future capex on the Centre of Excellence in Kumla



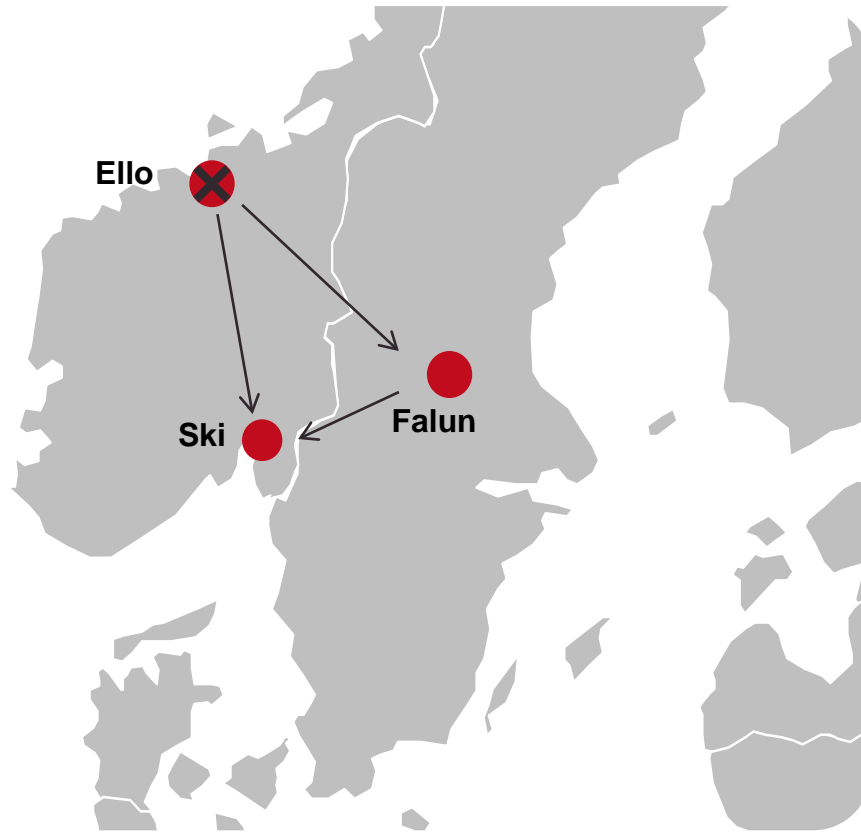
Simplify and reduce complexity

- Format harmonisation for bottles and caps renders additional cost improvements of NOK 4-5 million



Optimise factory footprint for Home and Personal Care in the Nordics

Close the Ello factory to consolidate production at the Falun (SE) and Ski (NO) factories



Estimated result

- Creating two Centres of Excellence – One for home care and one for personal care
- Enabling new and improved packaging opportunities
- M&A enabling footprint optimisation
- Strong financial effects [NOK million]:

23

Annual
EBIT effect

66

Investments and one
time charges

5

Annual
CAPEX reduction

10¹

Asset
sell off

The project has enabled launch of new packaging and harmonisation resulting in further efficiencies

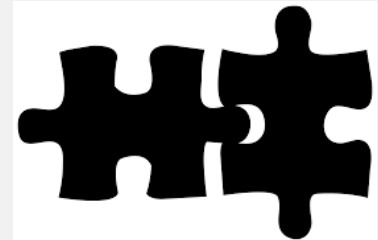
Harmonisation of packaging and recipes

- Harmonising deodorant packaging, reducing format capex need: NOK 1 million
- Recipe harmonisation with new formula for Sterilan using the same base as LdB
- Reducing COGS¹ by 25 % in the new set-up



Well executed relocation

- Relocation of production line well prepared and successfully carried out
- Seven weeks from dismantling of line to production on baseline level at new factory



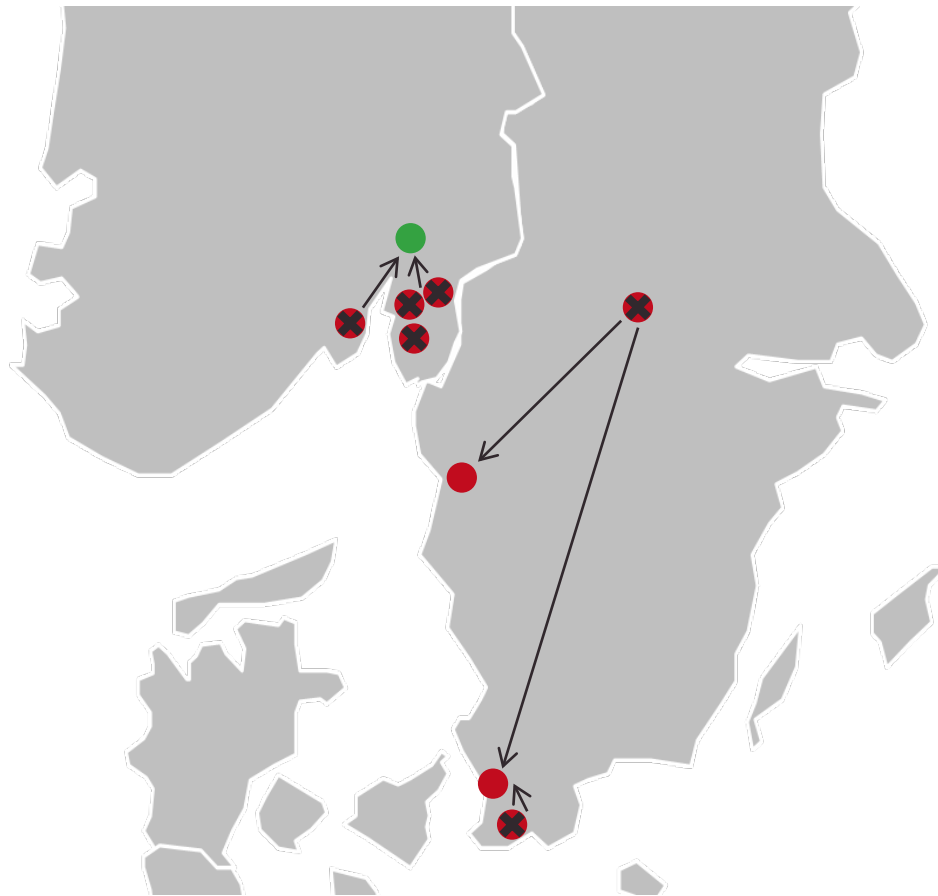
New packaging opportunities

- New launch of Naturelle Care shower in preferred LdB packaging format
- Launches and innovation projects calibrated to footprint changes, for example new layout Grumme



Consolidating 8 warehouses into 3, saving NOK 15 million per year

Establish 3 consolidated distribution hubs for serving the Norwegian and Swedish markets



Achieved result

- Leverage both in-house and external warehouse capabilities
- Streamlined, standardised and flexible logistics solutions supported by common KPIs and governance
- Build long term logistics capabilities supporting both customer requirements and Orkla's structural changes
- Strong financial effects [NOK million]:

15

Annual
EBIT effect

0

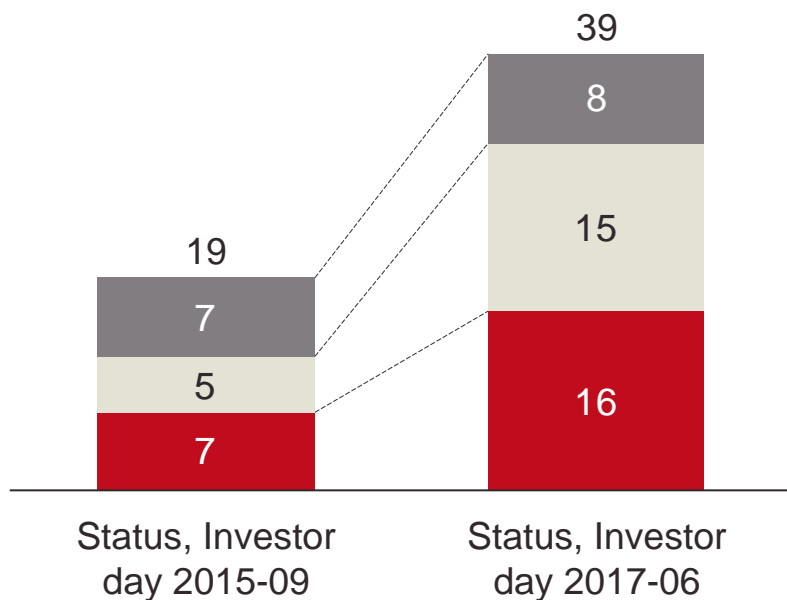
Investments and one
time charges

Focused factory improvement initiatives improving efficiency and lowering costs on average by 15% per factory

Intensified focus on factory performance improvement projects...

Factory turn-around projects

- Completed projects
- Ongoing projects
- Planned projects next 6 months



...with significant cost improvement potential

- In-house support team with global profile from leading industries and consultancies
- Teaming up with local teams to achieve step-change and cost improvements
- Focus on i) Productivity, ii) yield improvements and iii) equipment efficiency
- Pace of improvement expected to increase

~15%

Reduction of
addressable cost base

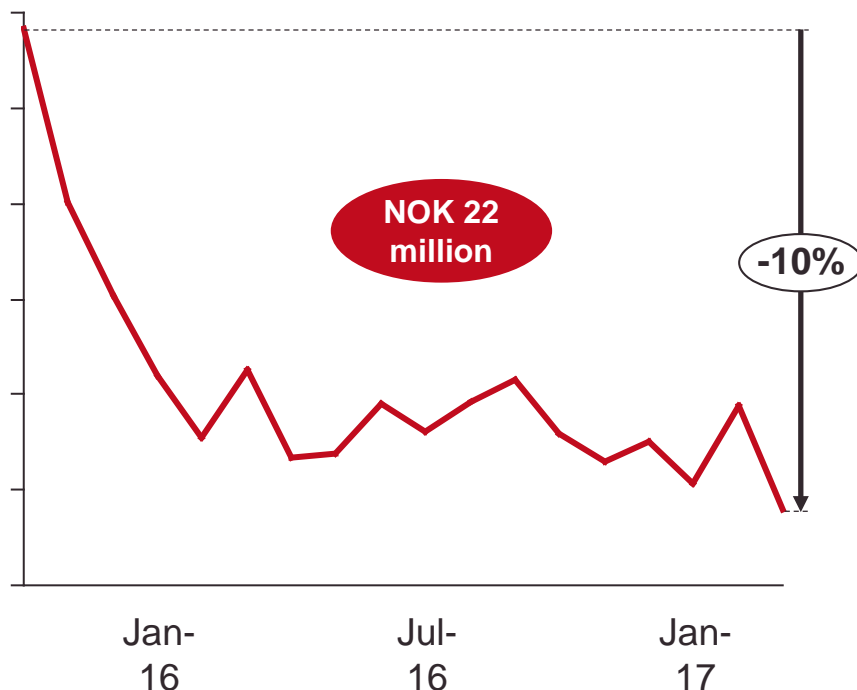
23

Planned & ongoing
turn-around projects

In one year we have already reduced cost by 10% in one factory...

Development in conversion cost/kilo (RTM)...

CC/KG



...enabled by

- Local team and corporate support functions teaming up to reduce cost and elevate continuous improvements – *One Orkla*
- Right-sizing of workforce
- Fixed cost reduction
- Increased material yield and equipment efficiency

>22

NOK million realised
during 2016

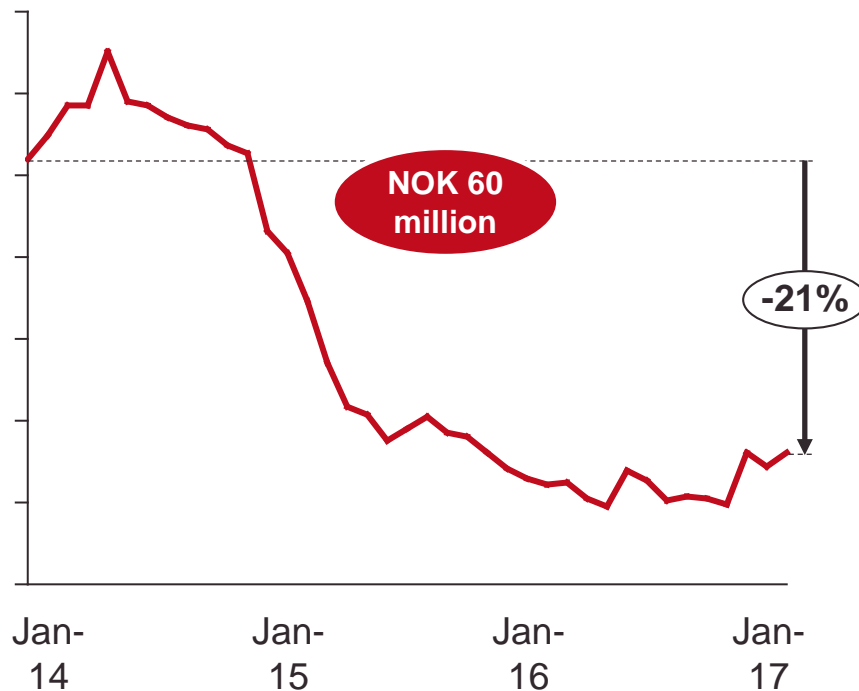
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NOK million targeted
cost saving

...and proven ability to maintain reduced cost base from completed turnaround

Development in conversion cost/kilo (RTM)...

CC/KG



...sustained over time

- Step-change in labour productivity with reduction of 60+ FTE
- Organisational redesign to create a flexible workforce
- Implementation activities completed in June 2015
- Financial effect sustained over time

>60

**NOK million realised
during 2015**

>20%

**Reduction of
conversion cost**

Orkla Group Procurement already reducing number of suppliers, driving harmonisation and delivering savings

Orkla Group procurement

- Handles Orkla's annual spend of NOK 19 billion
 - Raw materials NOK 9 billion
 - Indirect NOK 6 billion
 - Packaging NOK 2 billion
 - Traded goods NOK 2 billion
- Annually source 80 000 articles from 28 000 suppliers
- 145 FTEs in 10 countries at 30 locations
- Focus on realising synergies across Orkla within cost improvements, supply delivery performance, innovation and sustainability

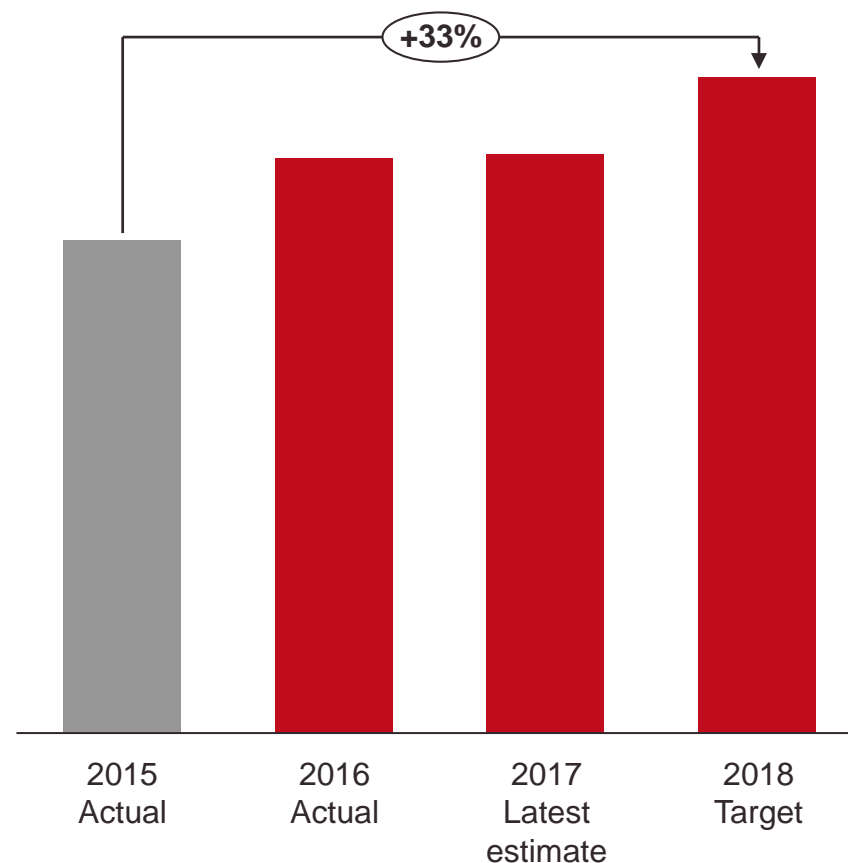
>25%

Targeted reduction in no. of suppliers by end of 2018

>10%

FTE¹ target reduction by end of 2017

Gross cost improvements Solid development and on track



Examples of improved purchasing strategies to reduce cost

Raw materials

Commodities



Veg. oils



Grain



Sugar



Nuts



Cocoa

**NOK 3.4
billion**

Animal products



Dairy



Meat



Marine

**NOK 2.5
billion**

Agriculture products



Vegetables



Fruit & Berry

**NOK 1.5
billion**

Additives and chemicals



Additives



Chemicals

**NOK 1.6
billion**

Selected strategies

- Managing timing of contract
 - Conduct group tenders
 - High CSR focus: cocoa and palm oil
-
- Expand domestic supplier base to assure supply
 - Optimise specifications
 - High CSR focus: animal welfare and marine products
-
- Expand geographical sourcing where applicable
 - Harmonise specifications
 - Expand domestic supplier base
 - CSR on agriculture products
-
- Reduce complexity by harmonising specifications
 - Preferred supplier agreements to support innovation
 - Enable dual sourcing

Cost reduction close to NOK 100 million in indirect materials and services enabled by centralised procurement

Indirect materials & services

Corporate Services



Marketing



Prof.
Services



IT



Telecom



Travel

NOK 3.2
billion

Indirect Materials



Services



Consum
ables



Energy



Investments

NOK 2.8
billion

Results and way of working

- Cost improvement: NOK 95 million in EBIT effect (2016/2017) → Efforts to be stepped up going forward
- Total annual spend: NOK 6,000 million
- Number of Orkla companies buying: 50
- Centralised procurement with focus on Nordic and Pan-European framework agreements
- Preferred supplier set-up in all countries and regions to consolidate supplier portfolio

Long term improvements in working capital have already begun

Intensified focus on payment term & inventory...

- Purchasing Centre of Excellence established with responsibility for developing and deploying procurement processes
- Applying leverage on the supplier market to extend payment terms
- New contract framework with 75 days as standard payment term
- Actual payment days significantly improved
- Inventory management and improved planning practices enabled by improved processes and support tools

...resulting in significant capital freed up

...from improved payment terms

327

NOK million during
2014-2016

>100

NOK million annual
target 2017+

...and new long-term targets for inventory levels

>8%

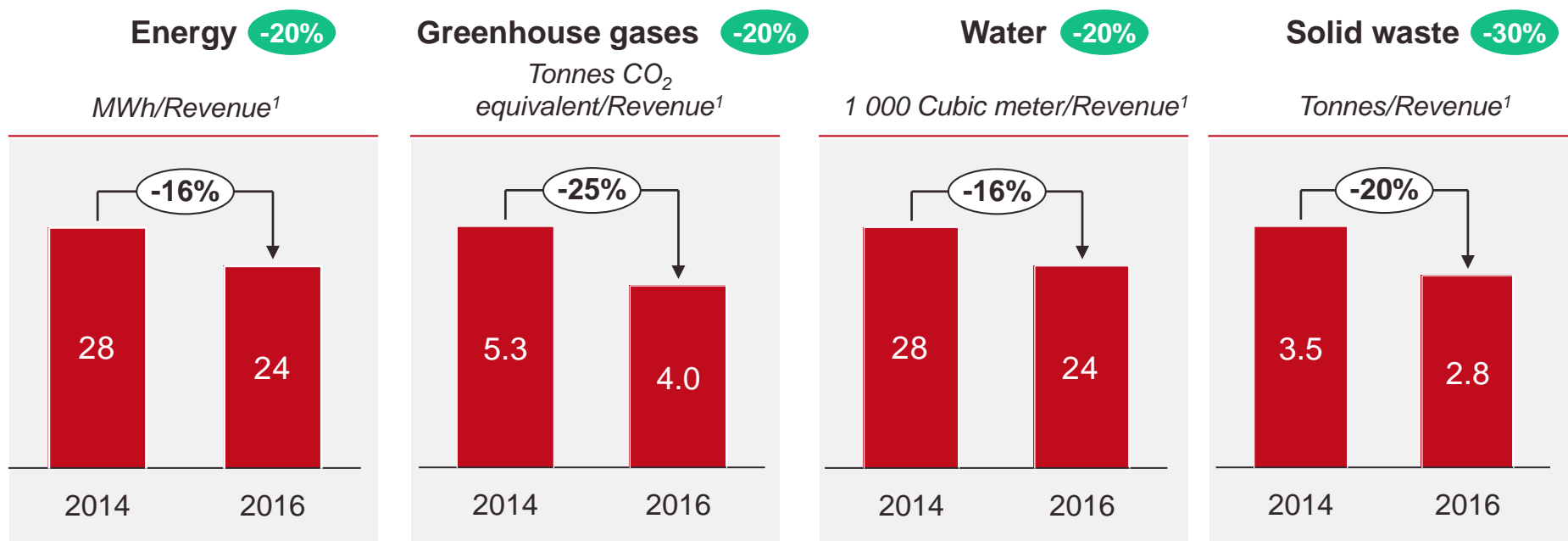
Reduced inventory

>400

NOK million freed up

Sustainability improvements also help us reduce costs

Sustainability targets for 2020 and actual performance since 2014







**To improve
further we are
committing to:**

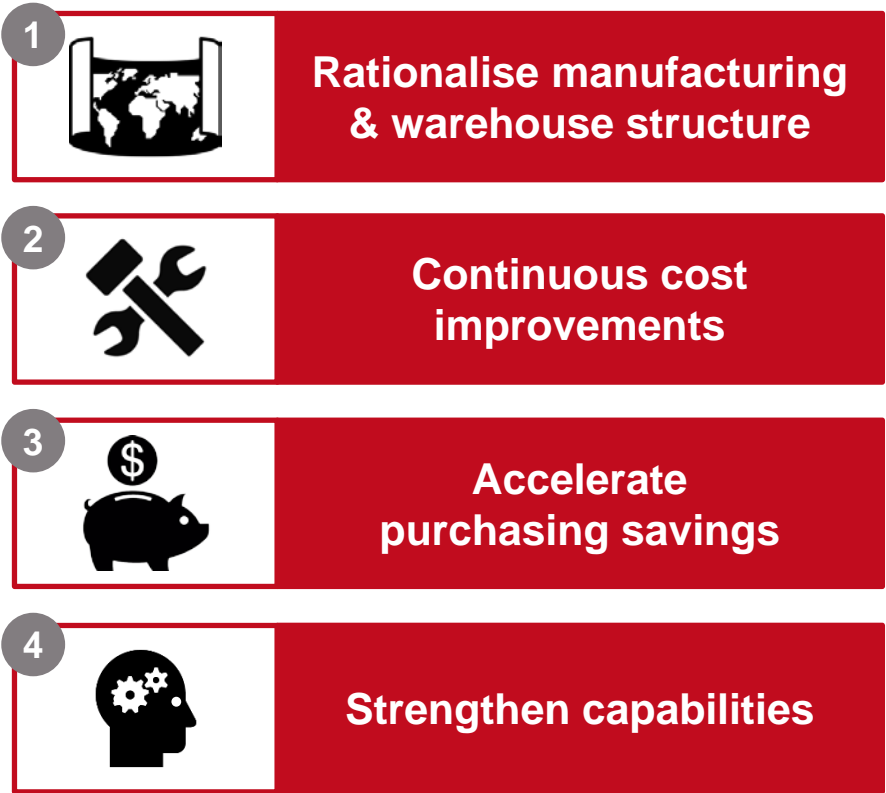
- Science Based Targets – emission budget aligned with the Paris Climate Agreement and according to CDP² requirements
- Document the use of 100% renewable power with Guarantees of Origin



We have strengthened our competitive position by increasing efficiency and lowering costs

1		Rationalise manufacturing & warehouse structure	<ul style="list-style-type: none">• The footprint programme is progressing at a historically high pace across all business areas• Revenue per factory increasing (35%) despite high pace in acquisitions	7-8 Factory closures per year
2		Continuous cost improvements	<ul style="list-style-type: none">• Intensified focus on factory performance improvement projects – 39 projects initiated• Track record of ~15% improvements on addressable cost base on completed turnarounds	15% Turnaround achievement
3		Accelerate purchasing savings	<ul style="list-style-type: none">• Centralisation of procurement enables leverage as “One Orkla” to take out significant cost• Leap forward in responsible sourcing	>25% Reduction in no. of suppliers by 2018
4		Strengthen capabilities	<ul style="list-style-type: none">• Step change in digitalised performance management and build up of Centres of Excellence• Ahead of plan in reducing environmental impact• Supply chain orchestration to optimise working capital	20-30% Reduced environmental impact

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Increased *innovation speed and ability*