Orkla

Annual Report 2018

SUSTAINABILITY REPORT INCLUDED

Use of interactive PDF

This is an interactive PDF of Orkla' s Annual Report.
Here are some explanations for using the navigation.

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Safe products
Sustainable sourcing
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Orkla Board of Directors

Click on the names for info

STEIN EIRK HAGEN

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Responding to consumer trends with strong local brands

We have strengthened our position as a leading branded consumer goods company through several acquisitions in line with Orkla's strategy of growing in new channels. At the same time, we are focusing even more visibly on sustainability, and are continuing to launch products in response to prominent consumer trends.

Peter A. Ruzicka
President and CEO

In the course of last year we made a number of strategic acquisitions. Pizza is an important category for us, and the purchase of Finland's biggest pizza chain, Kotipizza, is aligned with our strategy of pursuing growth in new channels. Our investment in the restaurant channel began right from the start of the year with the purchase of Gorm's pizza restaurant chain in Denmark. We've also improved existing positions and selected categories by means of several other acquisitions.

2018 was also a demanding year for Orkla. An increase in sugar tax and challenges at Orkla Health in Poland and House Care UK weighed on results. On the positive side, we achieved good growth outside Norway and our ongoing cost reduction programmes are on track.

In the Czech Republic and Slovakia, we merged our two companies, Hamé and Vitana, into a single Orkla Foods company. We've also taken action to optimise our value chain and ensure competitive production of our branded consumer goods. With our new common ERP solution, which we will gradually be rolling out in the Group as from 2019, we're making it easier to work together as "One Orkla". At the same time, we're launching more and more new products and brands across our markets. A good example is Panda Lakriskuler liquorice balls, which are now available in all the Nordic countries. The Norwegian chocolate snack favourite, Smash!, which is a huge hit in Sweden, has now also been launched in Denmark.

We are committed to helping find solutions to global health and sustainability challenges and supporting the achievement of the UN's global goals. Sustainability has become a natural part of our business model, and we have drawn up criteria for defining sustainable products. A growing number of our launches are meeting consumer demand for more environmentally friendly grocery products, healthier food products and vegetarian food. Examples are Jordan Green Clean, a toothbrush that is made of recycled plastic and has eco-friendly packaging, and plant mince from our Danish brand Naturli', which has become a global success. We also work closely with our customers and the rest of the industry to make popular favourites healthier.

Our strategy of being a leading branded consumer goods company remains unchanged, and we will continue to strengthen our portfolio in higher-growth categories, channels and geographies. We have to be wherever the consumer wants to be and therefore have intensified our focus on being present in new channels outside the traditional grocery trade. Through strong innovations based on local insight, we will continue to make each day better with sustainable, local brands that delight consumers.

We are committed to helping solve global health and sustainability challenges and support the UN's global goals. Sustainability has become a natural part of our business model, and we have developed criteria for how we define sustainable products.

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A leading branded consumer goods company

Orkla is a leading supplier of local branded consumer goods with strong market positions based on local insight and presence.

Orkla's strategic objective is to strengthen its position as the leading branded consumer goods company in the Nordics, Baltics and other selected markets. Innovations based on the Group's unique local customer and consumer insight are an important growth driver. By working more closely as "One Orkla", the Group will more effectively exploit economies of scale and create cross-cutting synergies. In this way, Orkla will strengthen its long-term competitiveness, while preserving its local presence.

Orkla ASA is listed on the Oslo Stock Exchange and head-quartered in Oslo.

Vision and values

Orkla's vision is to be "your friend in everyday life". This vision is underpinned by the values "brave", "trustworthy" and "inspiring". Orkla's mission is to improve everyday life with sustainable and enjoyable local brands.

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Leading positions in selected markets

Leader in the Nordics and Baltics
Orkla is the leading branded consumer goods company in the Nordic and Baltic regions.

Unique customer and consumer insight
Orkla is known for branded consumer products that hold #1 or strong #2 positions.

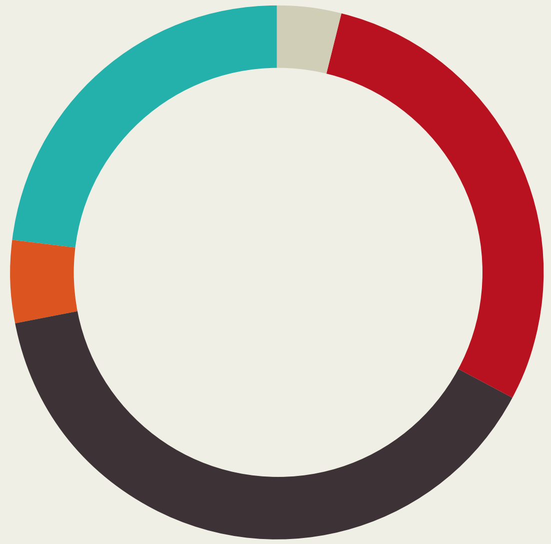
Orkla's products are sold in over

100 countries.

Orkla's ten largest categories

Snacks
Confectionery
Hygiene
Sauces and flavourings
Ready meals
Dehydrated casseroles, soups and sauces
Pizza
Fish and seafood
Bread toppings
Desserts and between-meal products

Breakdown of sales revenues by geographical region[1]



Norway	29%
Nordics ex. Norway	39%
Baltics	5%
Europe other	23%
World other	4%

[1]Excluding internal sales and other operating revenues.

Key figures

Operating revenues	EBIT (adj.)	EBIT (adj.) margin	Earnings per share	Number of employees
40.8 NOK billion	4.8 NOK billion	11.7%	3.24 NOK	18 510

All alternative performance measures (APM) are presented on page 224.

Goals and strategy

Long-term value creation is Orkla's first priority.

By working together more closely as "One Orkla", the Group will exploit strategies and opportunities across its operations more effectively. The aim is to strengthen the Group's long-term competitiveness and create higher growth and profitability, while preserving Orkla's strong local presence.

Orkla's strategic objective is to strengthen its position as the leading supplier of branded consumer goods and services in the Nordics, Baltics and other selected markets.

In line with the Group's strategy and financial targets, activities that drive organic growth and improve profitability are prioritised.

Through acquisitions Orkla will develop its operations in its home markets and within selected geographical areas, channels or niches where we can achieve leading positions based on the Group's core competencies.

The primary driver for long-term value creation is organic growth for local brands and services

- Orkla aims to distinguish itself significantly from its competitors through its unique local insight and presence.
- Innovations based on the Group's unique local customer and consumer insight will be a main growth driver.
- A growing number of new products will be launched across Orkla's markets and business areas through closer collaboration across borders and individual companies.
- Priority will be given to further developing and strengthening customer relations, with a shared goal of profitable growth.
- Orkla will strengthen its presence in emerging sales channels and focus more purposefully on export.

Improved profitability through more efficient operations in every part of the value chain

- The Group will to a greater degree exploit economies of scale, reduce the complexity of its portfolio and create synergies across different companies.
- The Group will also realise synergies through the integration of acquired companies.
- Production will be concentrated on fewer, but larger production units, thereby freeing up resources for innovation, growth and competence building.
- Steps will be taken to simplify the organisational structure, including IT and administration.

Acquisitions in Branded Consumer Goods

- Strategically appropriate acquisitions will remain a key element of Orkla's growth strategy and value creation model. At the same time, the Group will reduce its complexity to a greater degree through more active portfolio management.
- Through acquisitions, Orkla wll strengthen its activities in selected geographical areas, channels or niches where we can achieve leading positions based on the Group's core competencies.

A clear capital allocation strategy

The Board of Directors has proposed a dividend policy entailing an ambition of increasing the dividend from its current level of NOK 2.60 per share, normally within 50-70% of earnings per share.

Our first priority in allocating excess capital is to strengthen Branded Consumer Goods by making acquisitions and investing in existing operations.

Alternatively, an extraordinary dividend or a share buyback will be considered.

The Group's goal is to remain an investment-grade company. This means ensuring that the net interest-bearing liabilities / EBITDA ratio over time is less than 2.5.

Financial targets

- Long-term organic growth that at least matches market growth
- Growth in the underlying EBIT margin of at least 1.5 percentage points, adjusted for acquisitions and currency effects, for the period up to 2021
- A reduction of 3 percentage points in net working capital / net sales value for the period up to 2021

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Orkla's business areas

All alternative performance measures (APM) are presented on page 224.

Branded Consumer Goods incl. Headquarters

Operating revenues
39.6
NOK billion

Organic growth
-0.2%

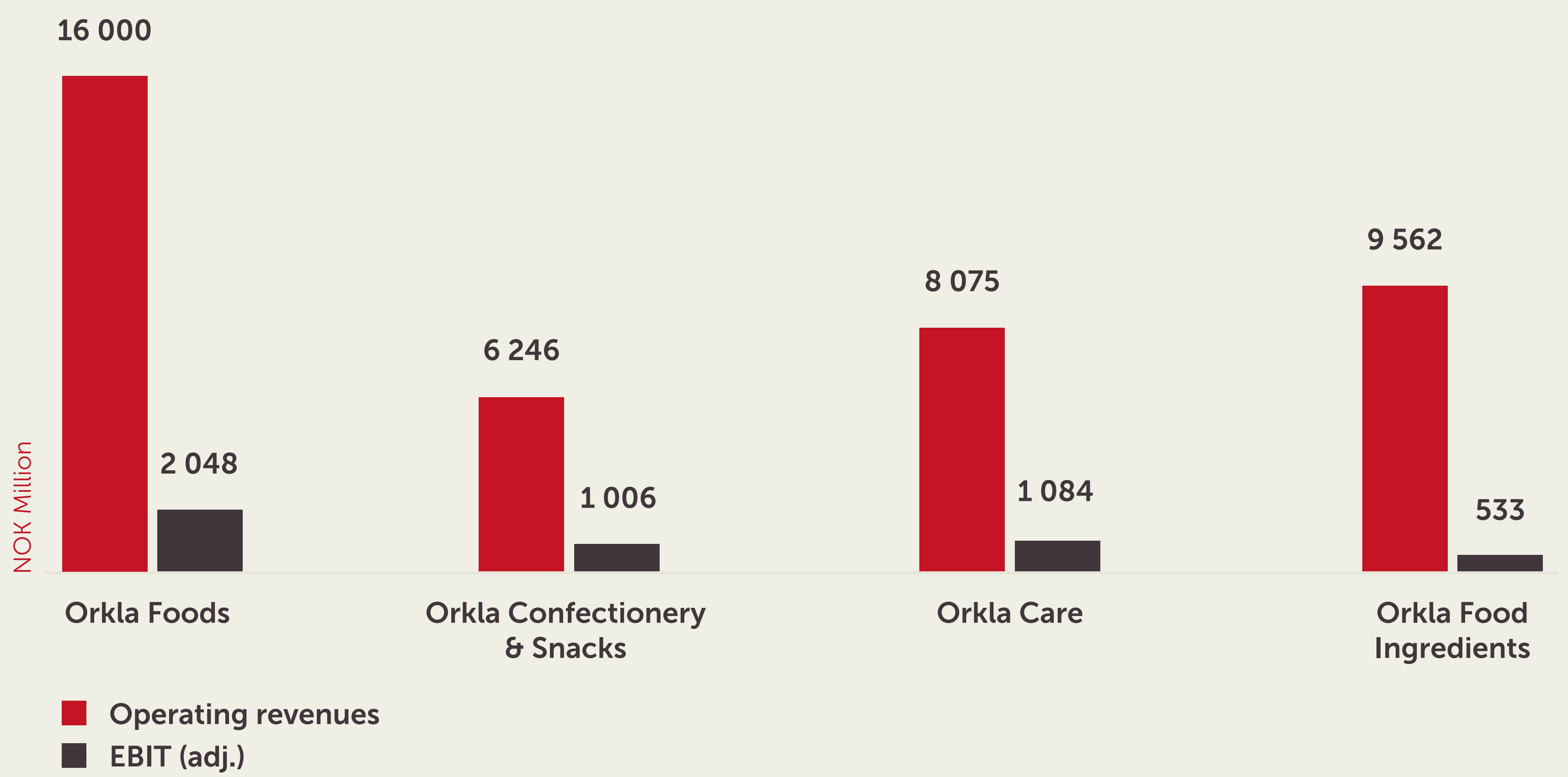
Number of employees
18 067

EBIT (adj.)
4.4
NOK billion

EBIT (adj.) margin
11.1%

EBIT (adj.) growth
+2%

EBIT (adj.) margin growth
-10 bps



Branded Consumer Goods

	Orkla Foods	Orkla Confectionery & Snacks	Orkla Care	Orkla Food Ingredients
Share of BCG operating revenues	40%	16%	20%	24%
Share of BCG EBIT (adj.)	44%	22%	23%	11%
EBIT (adj.) margin	12.8%	16.1%	13.4%	5.6%

Orkla Investments

Jotun* (42.6%)

EBIT

1.4
NOK billion

Hydro Power

EBIT (adj.)

0.4
NOK billion

Financial Investments

Book value real estate

1.9
NOK billion

*On a 100% basis.

Key figures

Operating revenues
NOK 16.0 billion

Organic growth
1.5%

Number of employees
7 644

–

EBIT (adj.)
NOK 2.0 billion

EBIT (adj.) margin
12.8%

–

EBIT (adj.) growth
-0% (flat)

EBIT (adj.) margin growth
+10 bps

Orkla Foods

Orkla Foods is the largest business area, accounting for 39 per cent of Orkla's operating revenues.

Orkla Foods offers well-known local branded products to consumers in the Nordics, Baltics, Central Europe and India. The business area holds leading market positions in a number of categories, including frozen pizza, ketchup, soups, sauces, bread toppings and ready-to-eat meals. Orkla Foods primarily sells its products through the grocery retail trade, but also holds strong positions in the out-of-home, convenience store and petrol station sectors. Its many widely known brands include Grandiosa, TORO, Stabburet, Felix, Paulúns, Abba, Kalles, Beauvais, Den Gamle Fabrik, Spilva, Vitana and MTR.

Breakdown of sales revenues by geographical region

Norway	29%
Nordics ex. Norway	39%
Baltics	3%
Europe other	22%
World other	6%

Orkla Foods' largest product categories are ready-to-eat dishes, sauces and flavourings, dehydrated casseroles, fish and seafood, pizza, garnish, desserts and between-meal products, bread toppings and beverages.

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Key figures

Operating revenues
NOK 6.2 billion

Organic growth
-3.4%

Number of employees
3 281

—

EBIT (adj.)
NOK 1.0 billion

EBIT (adj.) margin
16.1%

—

EBIT (adj.) growth
-4%

EBIT (adj.) margin growth
-10 bps

Orkla Confectionery & Snacks

Orkla Confectionery & Snacks's turnover accounts for 15 per cent of Orkla's operating revenues.

Orkla Confectionery & Snacks is market leader in the confectionery, biscuits and snacks categories, with well-known local brands and tastes that delight consumers in the Nordic and Baltic countries. Its many widely known brands include KiMs, Nidar, Göteborgs Kex, Sætre, OLW, Panda, Laima, Selga, Adazu and Kalev.

Breakdown of Orkla Confectionery & Snacks' sales revenues by geographical region

Norway	29%
Nordics ex. Norway	48%
Baltics	18%
Europe other	5%
World other	1%

The largest categories in Orkla Confectionery & Snacks are snacks, confectionery and biscuits.

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Taste hit in Scandinavia

Panda liquorice balls were introduced in Finland, Norway and Denmark in autumn 2018, and will be launched in Sweden in early 2019. This is a good example of the way we collaborate as "One Orkla", launching a growing number of innovations in several of our markets. What makes Panda liquorice balls distinctive is the balanced taste experience provided by a soft liquorice core coated in chocolate and liquorice or raspberry powder. The packaging reflects the product's good taste and quality, and has a practical closing function. The liquorice balls meet consumer demand for quality sweets offering a unique taste experience, and the product has been well received by customers and consumers in all the markets.

Key figures

Operating revenues
NOK 8.1 billion

Organic growth
-1.8%

Number of employees
3 265

–

EBIT (adj.)
NOK 1.1 billion

EBIT (adj.) margin
13.4%

–

EBIT (adj.) growth
+1%

EBIT (adj.) margin growth
-100 bps

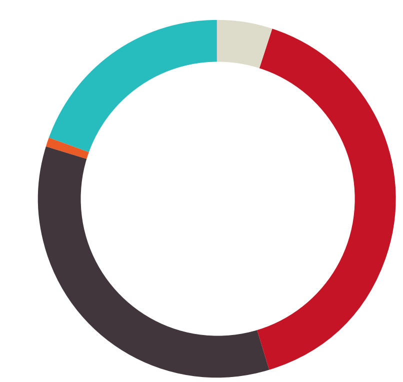
Orkla Care

Orkla Care accounts for 20 per cent of Orkla's operating revenues and is organised into seven business units.

The two largest business units are Orkla Home & Personal Care, which holds leading positions in the personal care and cleaning products segments, and Orkla Health, which holds leading positions in the dietary supplement, sports nutrition and weight control segments. Orkla Care also holds leading positions in painting tools (Orkla House Care), wound care (Orkla Wound Care), basic garments sold through the grocery channel (Pierre Robert Group) and professional cleaning products (Lilleborg). HSNG is the Nordic region's leading online retailer within health and sports nutrition. Orkla Care's well-known brands include Möller's, Salvequick, Collett, Nutrilett, Riemann, Maxim, Define, Sunsilk, Blenda, Jif, Sun, Zalo, Jordan and Pierre Robert.

Breakdown of Orkla Care's sales revenues by geographical region

Norway	40%
Nordics ex. Norway	34%
Baltics	1%
Europe other	19%
World other	5%



The largest categories in Orkla Care are hygiene, cleaning products, health, textiles, vitamins and dietary supplements.

Scandinavian design with focus on sustainability

Our new Jordan Green Clean toothbrush has been designed with both consumers and the environment in mind. Jordan Green Clean was launched in autumn 2018 in Scandinavia, and has been well received by customers and consumers alike. In 2019, the toothbrush will be launched in more countries, including Finland, Poland, the Netherlands and France, in addition to certain Asian markets. With its modern design, ergonomic handle and quality bristle, Jordan Green Clean combines functionality and sustainable materials, minimising use of resources and giving materials a new life. The toothbrush handle is made of 100 per cent recycled plastic from food containers. The packaging is made of recycled paper fibre from paper-based products. The bristles are 100 per cent bio-based, and the packaging label is made from FSC-certified paper from responsibly managed forests.

Key figures

Operating revenues
NOK 9.6 billion

Organic growth
1.2%

Number of employees
3 543

–

EBIT (adj.)
NOK 0.5 billion

EBIT (adj.) margin
5.6%

–

EBIT (adj.) growth
+14%

EBIT (adj.) margin growth
+20 bps

Orkla Food Ingredients

Orkla Food Ingredients accounts for 23 per cent of Orkla's operating revenues. Orkla Food Ingredients is the leading supplier of bakery ingredients in the Nordic and Baltic regions, in addition to holding growing positions in selected countries in Europe.

The business area has sales and distribution companies in 21 countries. Artisanal and industrial bakeries account for around 66 per cent of sales. Approximately 20 percent are direct-to-consumer sales under well-known brands such as Odense Marcipan, Mors hjemmebakte, Kronjäst, Bakkedal and Naturli'. The remaining 14 per cent of turnover is sales of ice cream ingredients and accessories. A major share of Orkla Food Ingredients' sales stem from distribution agreements. Due to this factor, and to a substantial share of raw material sales, Orkla Food Ingredients' operating margin is lower than that of Branded Consumer Goods' other business areas.

Breakdown of sales revenues by geographical region

Norway	12%
Nordics ex. Norway	42%
Baltics	4%
Europe other	42%
World other	1%

The largest categories in Orkla Food Ingredients are yeast, butter blends, plant-based foods, marzipan and margarine.

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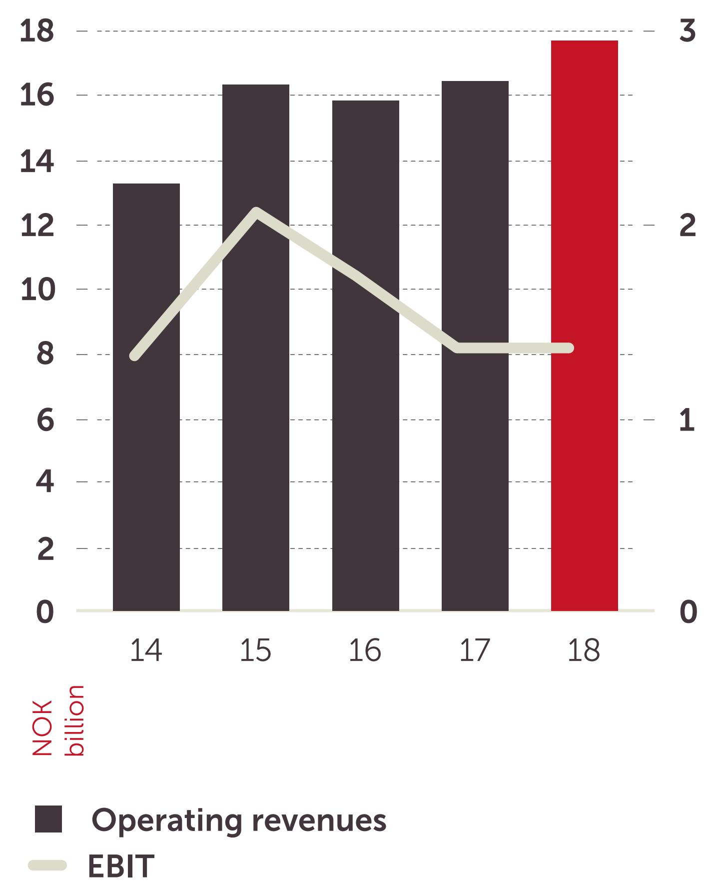
Orkla Investments

Orkla has some investments outside the Branded Consumer Goods business which are organised under Orkla Investments.

The business area Orkla Investments comprises the associate and joint venture company Jotun (42.6 per cent interest). It also includes Hydro Power and Financial Investments.

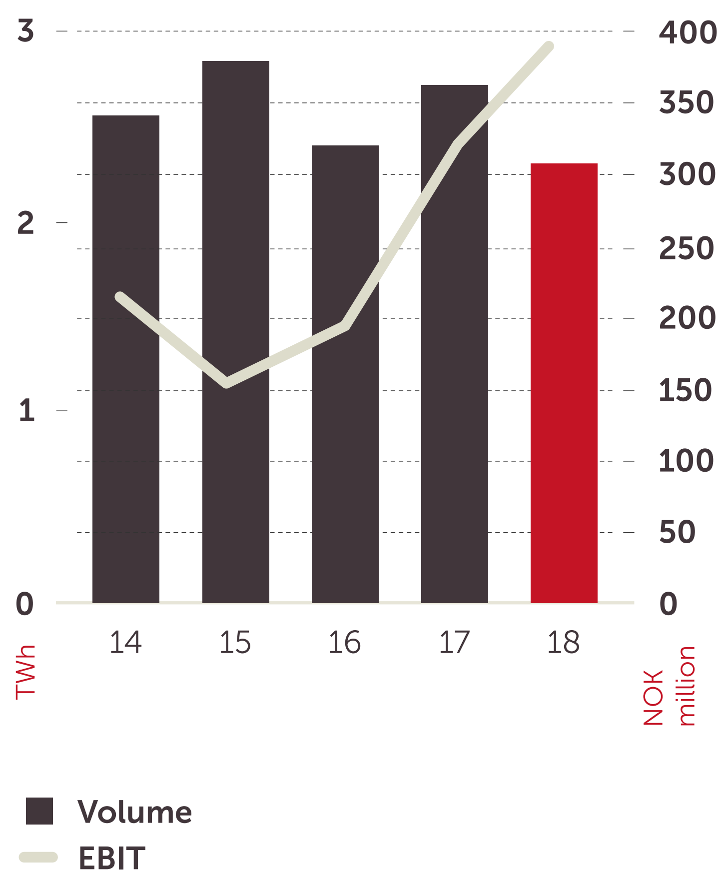
Jotun

Jotun is one of the leading global manufacturers of paint and powder coatings. Jotun's worldwide activities consist of the development, production, marketing and sale of a variety of paint systems, and are organised in the four segments Decorative Paints, Marine Coatings, Protective Coatings and Powder Coatings. The company's main markets are the Middle East, India, Africa, Northeast Asia, Southeast Asia and Scandinavia. Jotun is accounted for using the equity method and presented on the line "Profit from associates and joint ventures" in the consolidated financial statements.



Hydro Power

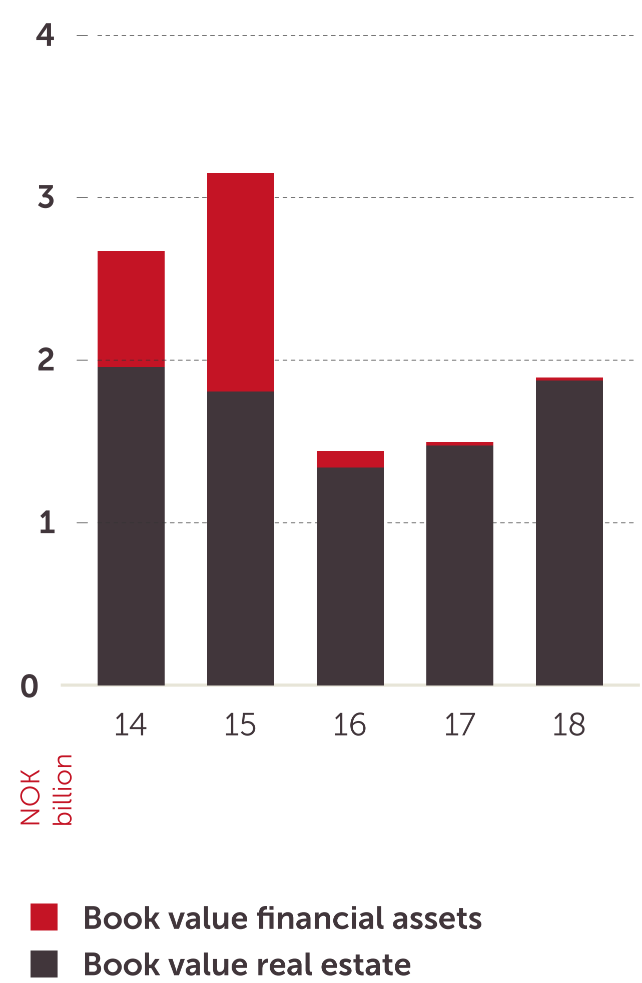
Hydro Power consists of a wholly owned power plant in Sarpsfoss and leased power plants through Orkla's 85 per cent interest in the Saudefaldene power company. Sauda's power operations are regulated by a lease agreement with Statkraft, which runs until 31 December 2030. The energy operations generate and supply electricity to the Nordic power market, and produce an average annual volume (2011–2018) totalling 2.5 TWh, of which around 1 TWh is a fixed delivery commitment with a net effect of zero on profit.



Financial Investments

Financial Investments consists chiefly of Orkla Eiendom (real estate) and Orkla Venture. Orkla Eiendom is responsible for the development of properties freed up as a result of the restructuring of Branded Consumer Goods, and the development of the Group's new headquarters. As at 31 December 2018, Orkla's real estate investments had a book value of NOK 1.9 billion.

Orkla Venture was established in 2017 to reach out to a growing universe of entrepreneurial businesses and start-up companies engaged in innovation outside established companies. Orkla Venture focuses primarily on technology, concepts and business models that might be relevant for Orkla's businesses. Besides offering risk capital, Orkla provides both expertise and collaboration in relevant parts of the value chain. The objective is to create a mutually beneficial collaborative relationship in which more start-up companies succeed, also during the challenging commercialisation phase, while Orkla is introduced to and adopts new technology and business models. Partnering with the start-up community will be an important part of Orkla's further development.



Gorm’s Pizza & Kotipizza

Through its investments in Gorm’s and Kotipizza Group, Orkla strengthened its presence in the pizza category in 2018 and acquired a leading position in a growing sales channel. Kotipizza is Finland’s best-known pizza brand and the largest pizza restaurant chain in the Nordic region, comprising around 280 restaurants. Gorm’s is market leader in the premium pizza restaurant segment in Denmark, and is a strong brand with solid plans for growth in the restaurant, takeaway and catering sectors in Denmark. Orkla already leads the frozen pizza market in the Norwegian and Swedish grocery sector, and holds a strong No. 2 position in the Finnish grocery sector. Gorm’s and Kotipizza are reported under Orkla Investments in the financial statements. Kotipizza was consolidated from 2019.

Report of the Board of Directors 2018

In 2018 Orkla has focused on growth and operational efficiency by implementing cost reduction programmes and rationalising its value chain. The Group has strengthened its position through the acquisition of several companies, including in sales channels other than the traditional retail grocery sector.

All alternative performance measures (APM) are presented on page 224. Figures in parentheses are for the corresponding period of the previous year.

Operations in 2018

In the course of 2018, Orkla strengthened its position as a branded consumer goods company through the acquisition of several companies. These transactions are described in the section "Description of structural changes". Orkla continued its efforts to develop an optimised business model, in which local responsibility is balanced by increased realisation of synergies and economies of scale across companies and business areas. This includes optimising its factory footprint, which is essential to ensuring a competitive supply chain and efficient use of capital over time. Structural measures were initiated both within the Group's existing factory footprint and in the companies acquired and integrated in 2018.

Orkla Group increased its turnover in 2018 by 3.2% through contributions from acquisitions. The Branded Consumer Goods business posted organic growth of -0.2% in 2018. Adjusted for the loss of the distribution agreement with Wrigley, organic growth was 0.4%. The growth in markets such as Sweden, Finland, Central Europe and India was good. However, the growth was counteracted by a decline in sales to the Norwegian grocery retail sector, and the weak performance of Orkla Health's Polish operations. Moreover, the significant increase in the sugar tax in Norway as from 1 January 2018 led to a fall in retail volumes in the categories concerned.

Operating revenues by business area

Orkla Foods	39%
Orkla Confectionery & Snacks	15%
Orkla Care	20%
Orkla Food Ingredients	23%
Orkla Investments	3%

Branded Consumer Goods incl. Headquarters achieved EBIT (adj.) growth of 1.8%.

Strong innovations in response to trends and consumer needs are a critical success factor for Orkla. Sustainability has become

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a natural part of the Group's innovation work, and the Jordan Green Clean toothbrushes, made of recycled plastic with bio-based bristles and eco-friendly packaging, were launched in 2018. There is continuous focus on innovation across companies and countries. Examples include the roll-out of the brand and products under Paulúns in Finland and the Baltics, and Smash! which was launched in Sweden under the OLW brand with great success. In January 2019, Smash! was also launched in Denmark under the KiMs brand. An important area of innovation in Orkla is the leveraging of strong brands in other product categories. The launch of Solidox chewing gum in 2018 is a good illustration of this approach.

Preparations are underway for establishing a common IT ERP platform across the three business areas Orkla Foods, Orkla Confectionery & Snacks and Orkla Care. The new solution will gradually be rolled out in 2019-2022/2023, and will make it possible to increase collaboration across the Group and facilitate more efficient internal processes. Preparations are also being made for the implementation of a new common IT ERP platform in the Orkla Food Ingredients business area.

The Group's EBIT (adj.) grew by 3.1% in 2018. Growth was driven by improved profit for Branded Consumer Goods, including contributions and synergies from acquisitions. Hydro Power also made a positive contribution to the year's profit improvement, due to higher power prices.

Description of structural changes

Orkla Care took over the Swedish company Health and Sports Nutrition Group HSNG AB ("HSNG") in January 2018. HSNG runs the e-commerce portals Gymgrossisten and Bodystore, and is the biggest online health and sports nutrition player in the Nordic region. Through the acquisition of HSNG, Orkla has strengthened its position in digital marketing and sales.

Orkla Care increased its ownership interest in the painting tool company Anza Verimex NV to 50% in January 2018. At the same time, Anza Verimax NV took over the painting tool operations of its joint venture partner PGZ International B.V. Combined, these companies are market leader in this category in the Netherlands and Belgium.

In February 2018, Orkla Foods purchased the Danish bakery Struer Brød A/S ("Struer"). Struer produces breakfast cereals and breadcrumbs, and Orkla was its most important customer. In April 2018, Orkla entered into an agreement to become a part-owner of the Danish pizza restaurant chain Gorm's. Gorm's is market leader in the premium segment for pizza restaurants in Denmark. Gorm's is a strong brand with solid plans for growth in the restaurant, takeaway and catering sectors in Denmark. Under the agreement, Orkla acquired a 67% interest in Gorm's, with the option to increase its stake to 100% ownership after an agreed period.

In May 2018, Orkla Food Ingredients purchased a majority shareholding in the Swedish sales and distribution company Werners Gourmetservice AB ("Werners"). Werners is market leader in Sweden in the premium segment in product categories such as truffles, caviar, chocolate, coffee, desserts, spices, vinegar and oil for restaurants, confectioners and professional chefs. The company has also established a presence in Denmark, Finland and Norway.

In July 2018, Orkla Food Ingredients purchased the Danish company Igos A/S, which is the Nordic market leader in bake-stable marmalades, fruit fillings and syrup for bakeries and confectioners. They also offer a wide selection of organic varieties.

Orkla Food Ingredients also purchased the British chocolate and caramel manufacturer County Confectionery Ltd. ("County's") in October 2018. County's has a growing customer base, including grocery retail chains, wholesalers and food service businesses, and has long been a supplier to Orkla Food Ingredients in the UK.

In November 2018, Orkla made an offer to purchase all of the shares in Kotipizza Group Oyj ("Kotipizza Group"), the owner of Finland's largest chain of pizza restaurants. Kotipizza Group is a leading player in the growing Finnish restaurant market, and Finland is one of Orkla's home markets. The restaurants are mainly franchise-operated. All the conditions, including that of acquiring more than 90% of shares and votes in Kotipizza Group, were fulfilled in January 2019. Consequently, Orkla will execute the offer in accordance with its terms and conditions. Orkla is already a leading player in frozen pizza in the Norwegian, Swedish and Finnish grocery retail trade, and with the investment in Gorm's and Kotipizza Group Orkla has strengthened its presence in the pizza category. The acquisitions are aligned with Orkla's strategic ambition of growing in channels with higher growth than the traditional grocery sector.

Orkla Foods Danmark purchased the Pama brand in December 2018. Pama is market leader in Denmark in porridge rice. Orkla Foods Danmark is currently distributor for Pama products on behalf of PepsiCo.

In December 2018, Orkla Foods entered into an agreement to purchase 90% of the shares in Easyfood A/S, a Danish manufacturer of bake-off bakery goods for the out-of-home channel. The acquisition of Easyfood strengthens Orkla's position in the out-of-home market. The agreement is subject to the approval of the Danish competition authorities.

In December 2018, Orkla Foods signed an agreement with Continental Foods on the sale of the Swedish brand Mrs Cheng's, which has a product portfolio comprising soya sauces and Thai casserole bases. The purpose of the sale is to concentrate activities on fewer categories.

In December 2018, an agreement was signed on the sale of the Russian nut company, Chaka.

For more information on the acquisition and divestment of businesses, see Notes 5 and 39.

In the course of 2018, Orkla made several structural changes to optimise its portfolio and exploit economies of scale. In the Czech Republic and Slovakia, it was decided that the companies Hamé and Vitana are to be integrated and established as a single leading food company, Orkla Foods Česko a Slovensko. In June, a decision was made to concentrate production of biscuits in the Group by building a new biscuits factory outside Riga, Latvia. This decision entails that the existing biscuits production in Kungälv, Sweden and Riga is to be closed down and moved to the new factory. The change, which will be carried out by the end of 2022, is a step in the Group's strategy to concentrate production in fewer, more efficient factories.

In Denmark, several of Orkla Food Ingredients' companies are being integrated through the implementation of common channel strategies resulting in a more efficient organisational structure. This is part of Orkla Food Ingredients' strategy for increasing its operational efficiency, while also becoming a more unified, stronger player in a competitive market.

The Board of Directors of Orkla Foods Finland decided in May to close down vegetable and herring production in Turku, Finland. Production was moved to factories which already manufacture these categories of products.

Combined with Orkla's continuous focus on improvement projects, these initiatives will continue to promote improved operations and increase profitability going forward.

The Group's results

Branded Consumer Goods

The increase of 2.8% in operating revenues for Branded Consumer Goods was driven by contributions from acquisitions. EBIT (adj.) growth for Branded Consumer Goods incl. Headquarters was 1.8%. The improved profit was mainly due to cost savings and structural growth. The change in reported operating profit (EBIT) for Branded Consumer Goods incl. Headquarters was -4.3%, where the difference from the growth in EBIT (adj.) was due to significantly higher gains related to the sale of closed factories and companies than in 2017.

Branded Consumer Goods posted organic growth of -0.2% in 2018. Adjusted for the loss of the distribution agreement with Wrigley, organic growth was 0.4%. Organic growth in Branded Consumer Goods was good in markets such as Sweden, Finland, Central Europe and India. However, growth was counteracted by a decline in sales to the Norwegian grocery retail trade, and the weak performance of Orkla Health's Polish operations. Furthermore, the significant increase in the confectionery tax in Norway as from 1 January 2018 led to a fall in retail volumes for the categories concerned.

The prices on the international raw materials to which Orkla is exposed fell slightly in 2018, on average, but price trends for raw materials in the index vary. The range of raw material categories purchased by Orkla is broader than that covered by the FAO index, and different prices apply to some extent due to European and Norwegian agricultural policy and associated import regulation. A weaker Norwegian krone and Swedish krone against the euro (-3.1% and -8.4% respectively), compared with 2017 resulted in higher purchasing costs.

EBIT (adj.) margin for Branded Consumer Goods incl. Headquarters was 11.1% (11.2%). Profit margin was positively impacted by efficiency improvement initiatives and cost reduction programmes, but these were counteracted by the dilutive effects of the inclusion of acquisitions with lower margins.

The Group

The increase of 3.2% in operating revenues is chiefly due to contributions from acquisitions. Group EBIT (adj.) grew by 3.1% in 2018. Growth was driven by profit improvement for Branded Consumer Goods, including contributions from acquisitions. Hydro Power also contributed positively to the year's profit improvement, due to higher power prices. Financial Investments had zero profit in 2018, as no material real estate transactions were carried out during the year.

Condensed income statement

The Group's "Other income and expenses" consisted primarily of acquisition and integration costs, along with costs related

Amounts in NOK million	2018	2017
Operating revenues	40 837	39 561
EBIT (adj.)	**4 777**	**4 635**
Other income and expenses	(482)	(201)
Operating profit/loss	**4 295**	**4 434**
Profit/loss from associates and joint ventures	264	313
Interest and financial items, net	(201)	(176)
Profit/loss before tax	**4 358**	**4 571**
Taxes	(1 004)	(980)
Profit/loss for the year from continuing operations	**3 354**	**3 591**
Profit/loss from discontinued operations	-	5 066
Profit/loss for the year	**3 354**	**8 657**

to several improvement processes in the Group, in particular plant closures and changes in factory footprint. There were also costs related to a write-down in connection with the sale of Orkla's Russian nut business, Chaka, and a write-down of inventories in Harris. While costs were approximately on a par with previous years, gains related to the sale of closed factories and companies were substantially higher in 2017. The change in reported operating result (EBIT) for the Group was -3.1%.

Profit from associates and joint ventures consists chiefly of Orkla's 42.6% ownership interest in Jotun. The investment is presented using the equity method. Jotun achieved good turnover growth in 2018, while operating profit was at the same level as in 2017, partly as a result of higher raw material prices. Jotun's contribution to profit amounted to NOK 258 million (NOK 307 million).

Results from foreign entities are translated into Norwegian krone, based on average monthly exchange rates. Due to currency market fluctuations, the Group was impacted by currency translation effects in 2018 of NOK 91 million on operating revenues and NOK -10 million on EBIT (adj.).

Orkla is subject to ordinary company tax in the countries in which the Group operates. The tax charge (adjusted for profit from associates) for the 2018 financial year was 24.5% (23.0%). Of this 2.6 (1.2) percentage points were related to Heconomic rent tax for the power operations. Excluding the energy business, the Group had approximately the same tax rate in 2018, just under 22%, as in the previous year. See Note 16 for further comments.

Diluted earnings per share from continuing operations amounted to NOK 3.24 (NOK 3.46).

Financial situation and capital structure

Cash flow

The comments below are based on the cash flow statement as presented in Orkla's internal format (see Note 40). Cash flow from operations from Branded Consumer Goods incl. Headquarter amounted to NOK 3,462 million (NOK 4,049 million). For the full year, working capital performance was slightly negative. Net replacement investments totalled NOK 1,393 million (NOK 1,048 million). The increase from 2017 was chiefly related to higher investment by Orkla Foods as a result of factory improvement and restructuring programmes. Investments were also made during the year in the new common IT ERP platform across the three business areas Orkla Foods, Orkla Confectionery & Snacks and Orkla Care.

An ordinary dividend of NOK 2.60 per share was paid out for the 2017 financial year. Dividends paid totalled NOK 2,685 million (NOK 7,790 million).

Net purchases of Orkla shares were effected with a cash flow effect of NOK -1,378 million (NOK 50 million). The increase in the purchase of Orkla shares was mainly due to the buy-back programme of own shares as well as for cancellation purposes. During the year Orkla bought back a total of 2% of shares outstanding.

Expansion investments totalled NOK 531 million (NOK 206 million) in 2018. Received dividends amounted to NOK 186 million

Cash flow Orkla-format

Amounts in NOK million	2018	2017
Cash flow from Branded Consumer Goods incl. HQ		
EBIT (adj.)	4 387	4 311
Amortisation, depreciation and write-downs	1 154	1 107
Change in net working capital	(190)	27
Net replacement investments	(1 393)	(1 048)
Cash flow from operations (adj.)	3 958	4 397
Cash flow effect "Other income and expenses" and pensions	(496)	(348)
Cash flow from operations Branded Consumer Goods incl. HQ	3 462	4 049
Cash flow from operations Orkla Investments	26	66
Taxes paid	(904)	(934)
Received dividends, financial items and other payments	(1)	1 574
Cash flow before capital transactions	2 583	4 755
Paid dividends and sale/buyback of Orkla shares	(4 063)	(7 740)
Cash flow before expansion	(1 480)	(2 985)
Expansion investments	(531)	(206)
Sales of companies (enterprise value)	47	12 520
Purchase of companies (enterprise value)	(1 080)	(901)
Net purchase/sale shares and financial assets	0	43
Net cash flow	(3 044)	8 471
Currency effects of net interest-bearing liabilities	21	(429)
Change in net interest-bearing liabilities	3 023	(8 042)
Net interest-bearing liabilities	3 037	14

(NOK 1,727 million), while sales of companies totalled NOK 47 million (NOK 12,520 million). The reduction of these items was mainly related to dividends from and the sale of Sapa in 2017. Acquisitions of companies totalled NOK 1,080 million (NOK 901 million) and consisted of acquisitions in Branded Consumer Goods, the largest of which was HSNG.

Net cash flow for the Group amounted to NOK -3,044 million (NOK 8,471 million) in 2018. The change from 2017 was largely due to the sale of Orkla's stake in Sapa in 2017. Net interest-bearing liabilities, totalled NOK 3,037 million at year end. The Group's liabilities are denominated in different currencies depending on its net investments in countries other than Norway, and liabilities will therefore fluctuate in step with currency rate changes.

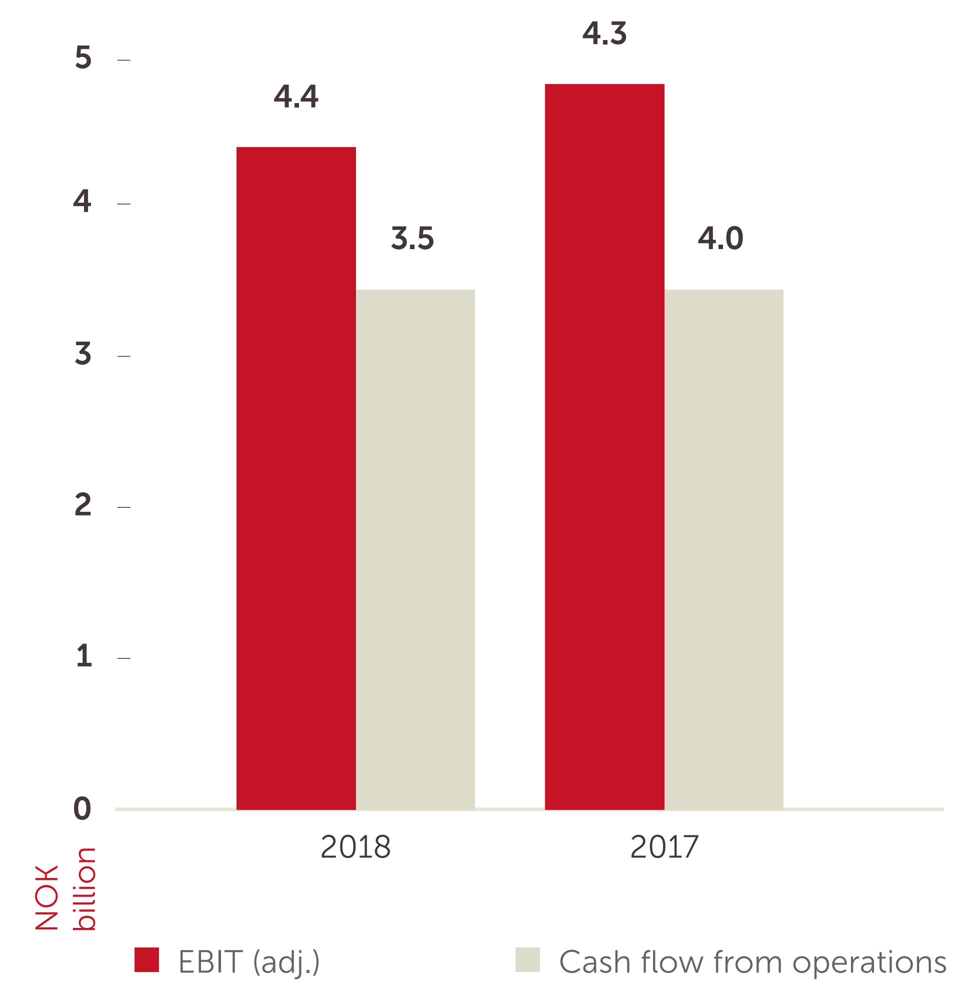
Contracts and financial hedge instruments

Orkla generally has few long-term purchasing and sale contracts. In Hydro Power, AS Saudefaldene has some long-term power contracts. Further details regarding power contracts may be found in Note 35.

Capital structure

The consolidated statement of financial position totalled NOK 52.5 billion at year end, compared with NOK 53.4 billion in 2017. Net interest-bearing liabilities increased from NOK 14 million to NOK 3.0 billion. The low level as at 31 December 2017 was primarily due to the sale of the Group's stake in Sapa. Orkla's financial position is robust, with substantial cash reserves and credit lines that give it the flexibility to support its business

Conversion of profit to cash flow
Branded Consumer Goods incl. HQ



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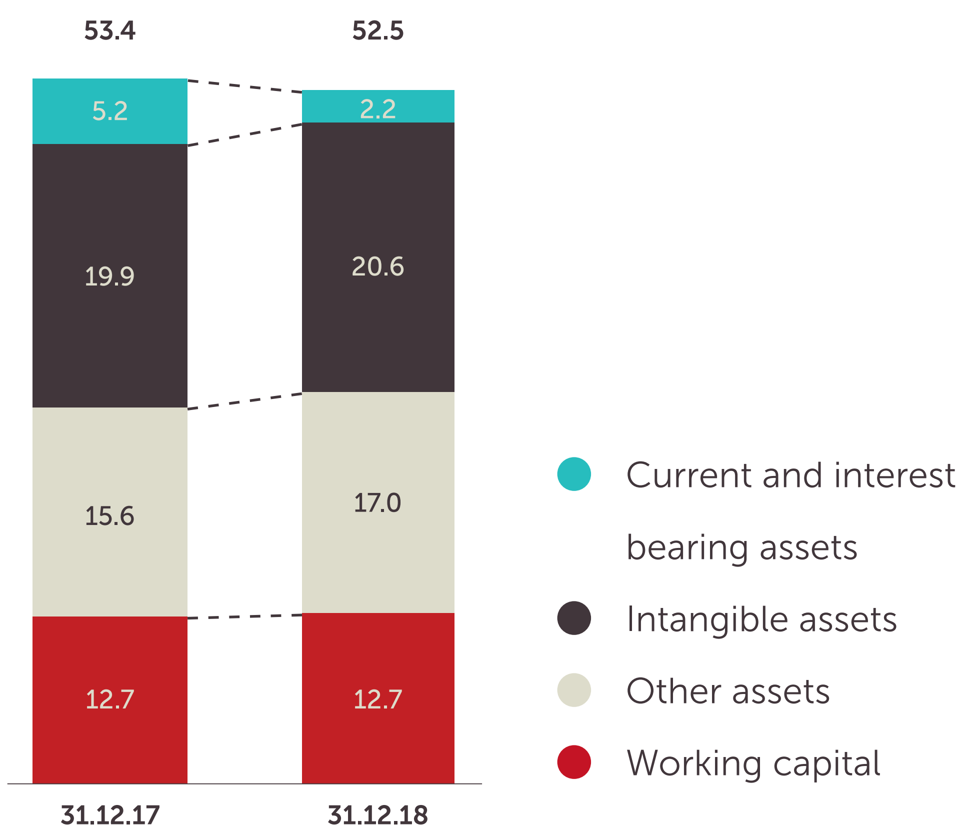
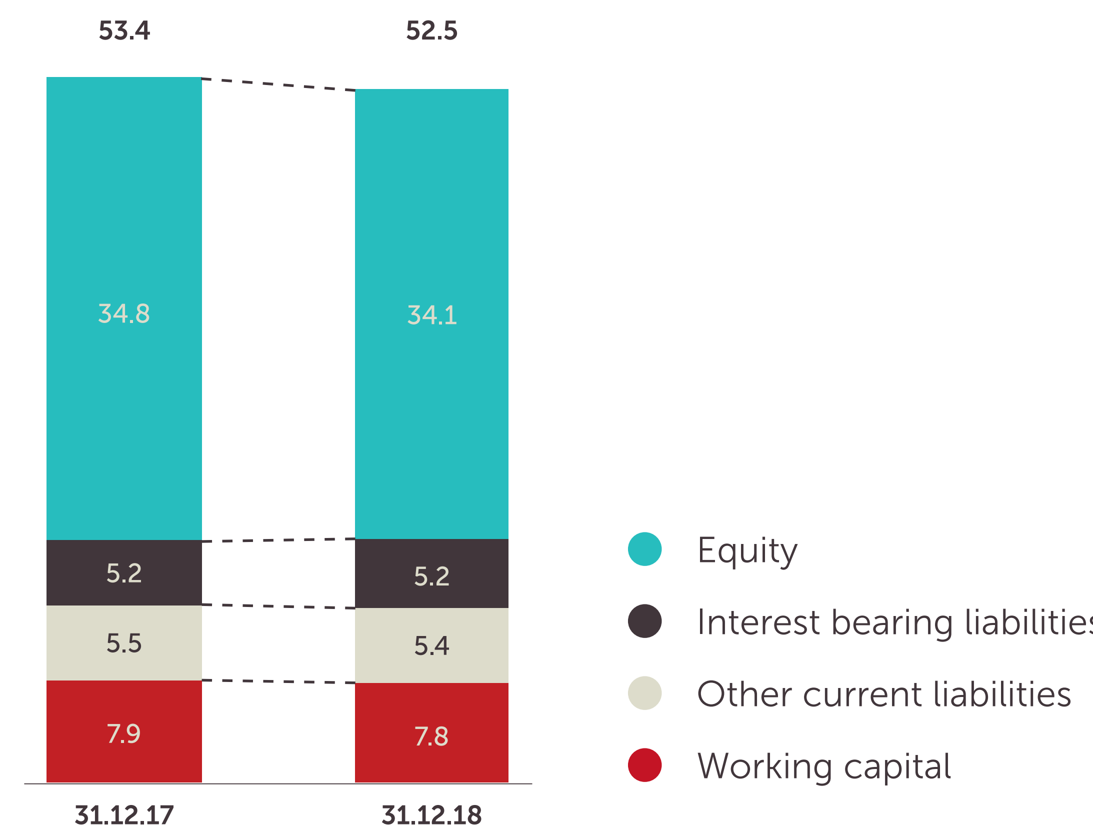
Assets

NOK billion



Equity and liabilities

NOK billion



priorities. Orkla has no material loans that fall due in the next two years. After payment of the ordinary dividend in 2018, Group equity totalled NOK 34.1 billion at year end, with an equity ratio of 64.9% (65.2%).

The Orkla share
As at 31 December 2018, there were 999,520,711 shares outstanding, and Orkla owned 19,410,259 treasury shares. The number of shareholders was stable from 38,280 at the end of 2017 to 38,313 at the end of 2018. The proportion of shares held by foreign investors decreased by 2 percentage points to 51%. The Orkla share price was NOK 68.04 at the end of the last trading day in 2018. At the end of 2017, the share price was NOK 87.05. Taking into account the dividend, the return on the Orkla share in 2018 was -18.4%, while the return on the Oslo Stock Exchange Benchmark Index (OSEBX) was -1.9%. Orkla shares were traded on the Oslo Stock Exchange for a total of NOK 33.3 billion. Further information on shares and shareholders may be found on page 227.

Risk management
The Board of Directors attaches importance to ensuring that risk is managed systematically in all parts of the Group, and considers this a prerequisite for long-term value creation for shareholders, employees and society at large. Orkla has adopted a structured approach to identifying risk factors and implementing risk-mitigating measures in its operations. According to the Group's Risk Management instructions, risk assessments must be carried out routinely in all units, and thereafter presented to and discussed by the internal boards of directors as part of the budget process. When important decisions are to be made on matters such as acquisitions, disposals or major investments, the same requirement applies to risk analysis as to routine risk management.

The units' risk assessments are consolidated to create an overall risk picture for Orkla, which also includes a longer-term, systematic risk assessment. Orkla's overall risk picture is reviewed by the Group Executive Board, reviewed and discussed by the Board of Directors and reviewed regularly by the Board's Audit Committee.

In the course of 2018, Orkla further strengthened its position as a leading branded consumer goods group. Within Branded Consumer Goods, Orkla has a diversified company and product portfolio, which mitigates the risk of significant profit fluctuations.

There is risk related to the degree to which innovations are a success. At the same time, Orkla's main geographical markets are characterised by high customer concentration and, to some extent, a higher proportion of the grocery trade's private labels. To reduce customer and market risk, Orkla focuses on factors such as good consumer insight, exchanges of experience, consumer testing and close follow-up of customers. Changing trends and consumer preferences become an increased risk if Orkla fails to keep close track of developments. Orkla works systematically to create new innovations to meet changing trends. It also acquires companies in response to new trends. Food safety risk can have significant consequences for consumers. Orkla has a central food safety team who work continuously to ensure improvements and conduct audits at Orkla's factories, as well as conducting supplier audits. The grocery market is changing, and now faces greater competition from new sales channels. Through the purchase of companies such as Kotipizza Group, Orkla is acquiring a stronger position in a sales channel with good growth. The acquisition is aligned with Orkla's strategic ambition to grow in channels with higher growth than the traditional grocery sector.

Orkla is increasingly dependent on IT systems and the proper handling of information. At the same time, there is a growing risk of increasingly sophisticated cyber-attacks. Such an attack could impact negatively on Orkla's operations in a number of areas, including reputation, sales and production and cause the loss of intangible assets. Important risk-mitigating measures include contingency plans, employee training and awareness-raising initiatives, and updating of both firewalls and older IT infrastructure.

Orkla is dependent on well-managed, timely and successful projects. Major delays in and poor project implementation could, in the final analysis, reduce Orkla's competitiveness.

Orkla also faces risk attached to fluctuations in currency rates and commodity prices. The prices of several raw materials important for Orkla were highly volatile throughout 2018. This was related in part to drought and bad weather that impacted production and in periods affected the price and availability of raw materials. Changes in weather patterns have also driven energy prices up. Prices are expected to remain volatile in the coming years, but the consequences of extreme weather for Orkla are considered to be moderate in the short and medium term. The majority of Orkla's production and sourcing takes place in the Nordics, the Baltics and Eastern Europe, where water shortages and drought are less likely to occur than in areas with a warmer climate. The risk that Orkla's own production operations might be affected by flooding or other consequences of extreme weather are considered to be low. The risk of cost increases and scarcity of raw materials and resources is met through close follow-up of suppliers, more efficient resource use, use of alternative raw materials and higher prices to customers. Many Orkla companies do a substantial share of their sourcing in local currencies, thereby reducing the overall impact of fluctuations against other currencies.

There is an inherent risk of fire, occupational accidents or other serious incidents in production environments. Production units work actively to prevent and avoid production interruptions. Group staff at central level also follow up on supply chain and insurance matters. Procedures and standards have been established that must be complied with, and employees receive training in the application of new standards.

Comments on the profit performance of the individual business areas

Orkla is a leading supplier of branded consumer goods and concept solutions to the grocery, food service and bakery sectors with the Nordic and Baltic regions as its main markets.

The Group also holds good positions in selected product categories in Central Europe and India. The Branded Consumer Goods business consists of four business areas: Orkla Foods, Orkla Confectionery & Snacks, Orkla Care and Orkla Food Ingredients. Orkla Investments consists of the Hydro Power and Financial Investments segments. For a further description of the different business areas in Branded Consumer Goods, and Orkla Investments, see Note 7. Orkla's associates consist primarily of Jotun (42.6% interest).

The financial statements of the holding company Orkla ASA cover all activities at the Group's Headquarters. These activities include the Group's top executive management and the following corporate and shared functions:

- Sales & Business Development
- Marketing & Innovation
- Mergers & Acquisitions
- Operations
- Human Resources
- Compliance
- Corporate Communications & Corporate affairs
- Legal Affairs
- Internal Audits
- Accounting/Finance

The departments largely carry out assignments and provide support for the Group's other companies and charge them for these services.

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Branded Consumer Goods incl. Headquarters

Branded Consumer Goods	Operating revenues		Organic growth (%)	EBIT (adj.)**		EBIT (adj.) margin (%)**	
Amounts in NOK million	2018	△ (%)	2018	2018	△ (%)	2018	△ (bps)
Orkla Foods	16 000	-0.8	1.5	2 048	-0.3	12.8	10
Orkla Confectionery & Snacks	6 246	-3.0	-3.4	1 006	-3.7	16.1	-10
Orkla Care	8 075	8.0	-1.8	1 084	0.9	13.4	-100
Orkla Food Ingredients	9 562	9.9	1.2	533	13.6	5.6	20
Orkla Headquarters				-284	14.5	na	na
Total Branded Consumer Goods*	**39 626**	**2.8**	**-0.2**	**4 387**	**1.8**	**11.1**	**-10**

* Intercompany sales between business areas have been eliminated.
** Branded Consumer Goods incl. Headquarters.

Operating revenues, change as %	FX	Structure	Organic growth	Total
Branded Consumer Goods	0.2	2.8	-0.2	2.8

Orkla Foods

Operating revenues for Orkla Foods in 2018 equated to a 0.8% decline in sales. Organic growth was 1.5% and was driven by increases in both prices and volumes. Growth was good in most markets, but was somewhat hampered by shifts in Norwegian retailers' campaign category focus and increases in the major Norwegian grocery chains' prices to consumers. There was profit growth in all markets except Norway, where the above-mentioned sales challenges weighed on profit. A significantly weaker Swedish krone also had a negative impact on the bottom line. The EBIT (adj.) margin was 12.8% (12.7%).

Orkla Confectionery & Snacks

Operating revenues for Orkla Confectionery & Snacks in 2018 equated to a 3.0% decline in sales. Adjusted for the loss of a distribution agreement with Wrigley, there was 0.5% organic turnover growth. Sales growth was particularly positive in Denmark, Finland and Sweden. Low market growth for the confectionery category in Norway, driven by a substantial increase in the sugar tax, had a negative impact on overall sales performance. Market performance for snacks and biscuits was good. Growth in market shares varied from one category to another, but was lower, overall, than in 2017. However, market share performance improved in the course of the year. Focus on cost improvements was a significant factor. The EBIT (adj.) margin was 16.1% (16.2%).

Orkla Care

Operating revenues for Orkla Care in 2018 equated to 8.0% growth in sales. Organic growth was -1.8%. Organic growth in Orkla Home & Personal Care, Pierre Robert Group, Lilleborg and Orkla Wound Care was counteracted by a decline for Orkla Health and Orkla House Care. Orkla Home & Personal Care's performance was driven by growth in the Nordic region. The decline for Orkla Health is primarily attributable to Poland. Orkla House Care showed good growth in the Nordic region, but this was more than neutralised by a decline in the United Kingdom. The EBIT (adj.) margin was 13.4% (14.4%), and was negatively impacted by the dilutive effects of the inclusion of acquisitions, an organic decline in sales and higher sourcing costs.

Orkla Food Ingredients

Operating revenues for Orkla Food Ingredients in 2018 rose by 9.9%. The organic growth of 1.2% was especially related to higher sales of ice cream ingredients due to good summer weather, higher sales of bakery ingredients in the Netherlands, Belgium and the UK, and continued good growth for vegetarian products under the Naturli' brand from the company Dragsbæk in Denmark. The increase in profit was generated by a combination of structural growth, organic improvement spurred by sales of ice cream ingredients, effects of internal improvement projects and by continuous efforts to obtain better procurement terms and conditions. The EBIT (adj.) margin was 5.6% (5.4%).

Orkla Headquarters

EBIT (adj.) from Headquarters amounted to NOK -284 million in 2018 (NOK -332 million). The improvement from 2017 is largely attributable to the reduced liability in the statement of financial position relating to a provision made for bonuses for Orkla's long-term incentive (LTI) programme for senior executives, in part as a result of the reduction in the Orkla share price during the year.

Orkla Investments

Jotun (42.6% interest)

Amounts in NOK million	2018	2017
Operating revenues (100%)	17 660	16 401
EBIT (100%)	1 361	1 354
Contribution to profit	258	307

Jotun is one of the leading global manufacturers of paint and powder coatings, with 53 subsidiaries, three joint ventures and six associates. Jotun has 39 production plants, located across all the continents. Its activities consist of the development, manufacture, marketing and sale of paint systems for the home, shipping and industrial sectors. Jotun is organised in four segments: Decorative Paints, Marine Coatings, Protective Coatings and Powder Coatings.

While the Decorative Paints and Protective Coatings segments showed good growth in 2018, the Marine and Powder Coatings segments were affected by low market activity. Operating profit ended at the same level as in 2017, and although impacted by increased raw material prices in all segments, it was also boosted by higher selling prices. A stronger Norwegian krone against the US dollar and other currencies also impacted negatively on profit.

Hydro Power

Amounts in NOK million	2018	2017
Volume (GWh)	2 320	2 729
Price (øre/kWh)	42.2	27.4
Operating revenues	1 025	866
EBIT (adj.)	390	316

The increase in both operating revenues and EBIT (adj.) is due to higher power prices during the year. Production volume was somewhat lower than in 2017. At the end of 2018, reservoir levels were normal, while the snowpack was lower than normal.

Financial Investments

EBIT (adj.) for Financial Investments totalled NOK 0 million in 2018 (NOK 8 million). No material real estate transactions were carried out in 2018. The most important single project is the ongoing construction of a new headquarters which is expected to be completed in the first quarter of 2019.

Orkla Eiendom meets the Group's need for specialised real estate expertise and assistance, and is responsible for the administration, development and sale of properties that are not utilised in Orkla's branded consumer goods operations. When the new headquarters is completed, Orkla Eiendom will have two rental properties totalling approximately 40,000 m² in an attractive location at Skøyen in Oslo. About 13,000 m² are leased out externally.

The most important development project otherwise is a project at Torshov in Oslo. As at 31 December 2018, Orkla's real estate investments had a carrying value of around NOK 1,870 million. In addition to ensuring efficient operations, focus in future will be on realising the potential value in the development projects, securing assets and freeing up capital by selling properties and projects that are not to be further developed.

To increase innovation and creative thinking, Orkla has established Orkla Venture to enable direct investment in start-up companies. The ambition is to build up a project portfolio comprising exciting, relevant growth companies with high potential. Investments will initially be concentrated in the Nordic region and the Baltics, in line with Orkla's other core operations. Orkla Venture was established as a separate entity in Orkla Investments and will have the same relationship with partners as an ordinary venture fund.

Research and development (innovation)

Innovation is Orkla's primary tool for creating organic growth and is therefore a key element of day-to-day operations. Orkla's innovation work is based on a cross-functional focus that spans from idea to launch. Consumer, customer and market insights are combined with technological expertise to develop products and solutions that delight consumers and better meet their needs.

Orkla's strength lies in its local presence, which gives it in-depth insight into local consumer needs and how this knowledge can be translated into powerful innovations.

At the same time, Orkla seeks to apply this consumer insight, brand understanding and product development capacity across the Group. In 2018, there was increased focus on innovation across companies and countries, under the title "One Orkla". Examples include the further roll-out of Paulúns in Finland and Baltics, the new Jordan Green Clean toothbrush, which combines Scandinavian design with sustainability, and Smash!, which was launched with great success in Sweden in 2018 under the OLW brand.

At the core of all innovation work lies the actual user experience, ranging from taste and functional properties to how intuitive and simple a product is to use. Health and environmental aspects are also key drivers of innovation. Examples of priority areas of innovation are: "Taste & Indulgence", "Health & Well-being", "Sustainability & Environment", "Organic", "Plant-based" and "Simpler Everyday Life". A good example of innovation in 2018 is Panda Choco & Lakrits, an award- winning range of chocolate and liquorice confectionery offering three layers of indulgence. Other good examples are the launch of OLW Linschips lentil chips, Grumme plant-based fabric softener, the Define RÅ hair care range, Superl!fe mixes, Grandiosa Flatbread pizza, HUSK gut health and new products under the Naturli', Anamma and TORO brands. An important area of innovation lies in utilising our strong brands in other product categories, with the launch of Solidox chewing gum as a prime example. Innovation based on the use of digital services will also be given higher priority in the time to come. A good example of this is Lilleborg, which has launched services that make the workday simpler and ensures sustainability.

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In the years to come, continuous efforts will be made to ensure that Orkla's local brands are consumers' first choice by making them a better, simpler and sustainable part of everyday living.

Corporate responsibility

Orkla' sustainability strategy

Orkla wishes to contribute to sustainable development by offering healthy, environmentally friendly products, maintaining high food safety standards, making efficient use of resources, carrying out supply chain improvements and generally operating responsibly. Orkla's sustainability work is pivotal to Orkla's ability to create growth, build trust and remain a competitive business. In 2017 the Group developed new, common sustainability targets that will apply up to 2025. In 2018, based on these targets, the companies in the Group drew up plans for their sustainability efforts for 2019-2021. Orkla's sustainability strategy covers the following main topics: nutrition and wellness, safe products, sustainable sourcing, environmental engagement and care for people and society.

Directive on corporate responsibility

Orkla's directive on corporate responsibility describes the overarching principles defining how the Group companies are to address the issues of human and labour rights, environment, health and safety (EHS), anti-corruption and other important areas of corporate responsibility. The directive has been approved by Orkla's Board of Directors and applies to the entire Group. Orkla' Responsible Employer and Human Rights Policy provides detailed guidelines for the way Orkla companies are to address the human and labour rights issues considered most relevant for their day-to-day operations. The guidelines were revised in 2016-2017, and in 2018 the companies carried out a risk assessment and drew up plans for further improvement work. The Orkla Code of Conduct describes the Group's standards and expectations in respect of individual managers, employees and Board members with regard to key human and labour rights, such as respect and tolerance, equality and non-discrimination and environmental and anti-corruption standards.

Governance procedures for corporate responsibility

The CEO of each Orkla company is responsible for implementing the Group's directive on corporate responsibility and drawing up action plans for sustainability work based on Orkla's sustainability targets. This work must be integrated into the company's operations, and must be based on the precautionary principle and the principle of continuous improvement. The companies' prioritisation of resource use must be based on an assessment of both the business's and stakeholders' needs.

Orkla's governing documents are accessible to all the companies through the Group's web-based governance portal. To ensure that employees are familiar with Orkla's directive, internal training is provided by both the Group and the companies. In 2018, around 67,800 hours of organised training were provided in topics related to corporate responsibility and sustainability, an average of 3.7 hours per employee. A number of meetings and gatherings were also held in Orkla's internal professional networks. The training carried out in the past few years has created greater awareness and knowledge of corporate responsibility and sustainability issues in the Group, promoted active engagement and ensured a more uniform approach to efforts in these areas.

Orkla monitors the companies' corporate responsibility and sustainability work by means of annual internal status reports. These reports are submitted in connection with business reviews and in connection with Orkla's external sustainability reporting. Orkla's internal sustainability network consists of the sustainability staff in the companies and Orkla's central specialist functions and is used to promote learning, experience-sharing, collaboration and reporting.

Orkla's Board of Directors monitors the Group's efforts by means of an annual assessment of the progress made in sustainability work, quarterly reviews of changes in key EHS indicators and ongoing discussion of individual matters considered to be of material importance for Orkla's operations. Orkla's Group Director for Corporate Communications and Corporate Affairs has administrative responsibility for Orkla's corporate responsibility work, and determines which matters are to be submitted to the Board of Directors. The Board also discusses Orkla's annual sustainability reporting.

Orkla's whistle-blowing function enables employees to alert the Group's governing bodies to possible breaches of the Orkla Code of Conduct. The whistle-blowing function is administered by Orkla's internal audit staff on behalf of Orkla's Audit Committee, and is independent of Orkla's line management. In 2018, Orkla launched a new, improved whistle-blowing channel that makes it possible for employees to report concerns anonymously and in their mother tongue. An internal ethics board has also been established, headed by Orkla's chief audit officer, which is involved when necessary to discuss whistle-blowing matters.

Alignment with external principles

Orkla has been a signatory to the UN Global Compact since 2005, and is a member of the Ethical Trading Initiative Norway (IEH). Since 2008, the Group has reported environmental information to the investor-initiated Carbon Disclosure Project (CDP), which has become the leading global climate and environmental reporting system. Orkla supports the CDP's two initiatives, "Report climate change information in mainstream reports as a fiduciary duty" and "Remove commodity- driven deforestation from all supply chains". Orkla has also signed the UN's New York Declaration on Forests. Through Orkla's sustainability work, the Group contributes to achieving several of the global sustainable development goals up to 2030, which were launched by the UN in 2015.

For the eighth consecutive year, Orkla was included in the Dow Jones Sustainability Index Europe. The Board of Directors is pleased that Orkla has made good progress in developing products that contribute to a healthy, sustainable lifestyle, reduced its greenhouse gas emissions and continued to achieve positive results in its efforts to promote sustainable raw material production.

Reporting on corporate responsibility

Under sections 3-3a and 3-3c of the Norwegian Accounting Act, Orkla is required to report on its corporate responsibility and selected related issues. An account of the Group's efforts to address these issues in 2018 is provided in Orkla's sustainability report, which is included in this Annual Report, under the sections:

- "Orkla's sustainability work", page 59 (corporate responsibility)
- "Sustainable sourcing", page 83 (human rights, labour rights, social conditions and environment in the supply chain)
- "Environmental engagement", page 96 (environment)
- "Care for people and society", page 107 (human and workers' rights in own company, equality and non-discrimination, working environment, injuries, accidents, sick leave, anti-corruption, social conditions)

In its sustainability reporting for 2018, Orkla has attached importance to applying the Oslo Stock Exchange's Guidance on the Reporting of Corporate Responsibility. More information on the principles on which Orkla's reporting is based is provided on page 63.

Personnel and administration

As at 31 December 2018, the Group had 18,510 employees (18,178). Of these 3,197 worked in Norway (3,226), 5,743 in other Nordic countries (5,230) and 9,570 in countries outside the Nordic region (9,722). Collaboration between management and the employee organisations through the established cooperative and representative systems functions well and makes a valuable contribution to finding constructive

solutions to the challenges faced by the Group and the individual companies.

At Orkla's Annual General Meeting in April 2018, Stein Erik Hagen, Grace Reksten Skaugen, Ingrid Jonasson Blank, Lars Dahlgren, Nils Selte, Liselott Kilaas and Caroline Hagen Kjos (personal deputy for Mr Hagen and Mr Selte) were re-elected as shareholder-elected members of Orkla's Board of Directors. In addition, Peter Agnefjäll was elected as a new Board member. Stein Erik Hagen was re-elected as Chairman of the Board and Grace Reksten Skaugen as Deputy Chair. All of the shareholder-elected Board members were elected for a term of one year, i.e. until the 2019 Annual General Meeting. All members were elected in accordance with the recommendation of the Nomination Committee.

Of a total of seven shareholder-elected members of Orkla's Board of Directors, three are women and four are men. Among the employee-elected Board members and their deputies, both genders are represented. Orkla ASA therefore fulfils the requirement in section 6-11a of the Public Limited Liability Companies Act regarding representation of both genders on the Board of Directors.

Effective 1 October 2018, the following changes were made in Orkla's Group Executive Board with a view to strengthening the Group's strategic priority areas.

- Peter A. Ruzicka remains President and CEO.
- Jens Bjørn Staff remains Executive Vice President, Chief Financial Officer.
- Karl Otto Tveter: Executive Vice President, Strategy, Development & New Growth Areas (formerly Chief of Group Functions and Group Director Legal Affairs).
- Atle Vidar Nagel Johansen: Executive Vice President, Supply Chain (formerly Executive Vice President, CEO Orkla Foods).
- Ann-Beth Freuchen: Executive Vice President, CEO Orkla Foods (Nordics and Baltics) (formerly Executive Vice President, CEO Orkla Confectionery & Snacks).
- Johan Wilhelmsson: Executive Vice President, CEO Orkla Foods (International) (formerly CEO Orkla Central Europe and Baltics).
- Jeanette Hauan Fladby: Executive Vice President, CEO Orkla Confectionery & Snacks (formerly CEO Orkla Confectionery & Snacks Norge).
- Stig Ebert Nilssen remained Executive Vice president, CEO Orkla Care, but resigned from this position on 1 February 2019. From that date Lasse Ruud-Hansen took up the position as CEO for Orkla Care on a temporary basis.
- Johan Clarin: Executive Vice President, CEO Orkla Food Ingredients (formerly Executive Vice President, Supply Chain).
- Christer Grönberg: Executive Vice President, Group Functions (formerly Group Director, HR).
- Håkon Mageli remains in his role as Group Director, Corporate Communications and Corporate Affairs. He will continue to sit on the Expanded Group Executive Board.

Terje Andersen stepped down from the Group Executive Board on 1 October 2018 after the successful divestment of businesses outside the Group's core area. He continues to be responsible for Orkla Eiendom and Hydro Power, and is still one of Orkla's representatives on the Board of Directors of Jotun.

The Board of Directors wishes to thank all employees for their efforts and for the results achieved in 2018.

Competence

Continuously developing capabilities is essential to strengthening the Group's competitive edge. An important factor for employee performance, competence and career development is the performance appraisal interview between manager and employee. The skills of individual employees are primarily developed through the personal experience acquired as the employee carries out his or her day-to-day work. Learning also takes place through interaction with other employees, coaching and feedback, as well as formal training such as participation in courses and seminars.

Orkla carries out a systematic, annual evaluation of leadership and organisation. Priorities for 2018 were to analyse the business goals' impact on leadership, expertise and organisation. The purpose was to conduct individual assessments of management performance, potential and identify potential successors to business-critical positions. Development areas were identified, and measures were taken to remedy any gaps.

The purpose of centralised competence-building activities is to ensure and underpin instruction and training within Orkla's defined core competency. The aim is to develop this core competency in a normative direction, by systematising and coordinating the various training activities. These centralised competence-building activities supplement and support local activities to develop expertise in each function. A variety of training programmes are run by the Orkla Academies, and leadership programmes and the training portfolio are constantly expanded. Active use is made of both cost and benefit- effective educational methods and technology based on both digital and traditional learning.

During the year a number of programmes were carried out and initiated with a view to developing the Group's overall expertise and competitiveness, including:

- **MyLearning:** To support the organisation's learning culture and digital development, Orkla has invested in a new Learning Management System (LMS), a shared programme for the administration, tracking, reporting and delivery of learning programmes. The system, called MyLearning, was launched in April and provides employees, management and HR with a user-friendly learning portal that effectively engages the learning group and improves the employer's brand and competence-building.

- **HRBP Programme:** This programme aims to develop and enhance business partnering and business development skills, thereby contributing to Orkla's human capital strategy. The programme offers access to a set of tools and knowledge to equip HR staff with the right mind-set, thus enabling HR to have more influence on operations. The programme focuses on consulting capabilities, business understanding and organisational skills-building. The target groups are HR professionals at a strategic and tactical level and the programme was conducted in Norway and locally in India for a total of 80 HR employees.

- **Orkla Digital Academy:** To strengthen digital competence in marketing and innovation a digital academy is being developed in collaboration with Orkla Care. The academy has four learning programmes, each designed specifically for the target group and based on use of "blended learning", which combines the best of digital and face-to-face learning. More than 200 Orkla Care employees have signed up for the 2019 programme.

- **EHS training at Orkla Foods Sverige:** To strengthen management and employee expertise based on Orkla's EHS Health standard, Orkla Foods Sverige (OFS) and the public health authority have jointly developed four courses built on the "Train the Trainer" concept. The courses cover ergonomics, physical exposure and the organisational and social working environment, coupled with focus on violence, bullying, harassment and abuse. In the fourth quarter of 2018, EHS coaches and HR staff at the company's various facilities received training from the corporate health service in holding these courses, which will take place in 2019. The concept meets existing pedagogical needs in a time-saving, cost-efficient manner. OFS owns the teaching materials, and the health authority will track new regulations or research in this field for three years and update the materials.

Corporate governance (Statement of Policy on Corporate Governance)

Orkla's governance systems are based on principles set out in the Norwegian Code of Conduct for Corporate Governance and are largely aligned with applicable international guidelines on good corporate governance. An overall statement of policy on corporate governance at Orkla may be found on page 45 of this Annual Report. The statement of policy will be an item of business for discussion at the 2019 Annual General Meeting.

Pay and other remuneration of senior executives

The Board of Directors has a separate Compensation Committee, which deals with all material matters related to pay and other remuneration of senior executives before such matters are formally discussed and decided by the Board of Directors. In accordance with Norwegian company legislation, the Board of Directors has also prepared a separate statement of guidelines on the pay and other remuneration of senior executives, included in Note 5 to the financial statements for Orkla ASA, which will be presented and discussed at the 2019 Annual General Meeting. The note also provides details of remuneration and contractual arrangements.

Accounting principles

The consolidated financial statements for 2018 have been prepared and presented in accordance with the International Financial Reporting Standards (IFRS), which have been approved by the EU. The financial statements for the parent company have been prepared in accordance with section 3-9 of the Norwegian Accounting Act (simplified IFRS).

The explanation of accounting principles in Notes 1-4 and in respective notes describes important matters relating to accounting treatment under IFRS. The consolidated financial statements have been prepared and presented on the basis of the going concern assumption, and in accordance with section 3-3 of the Accounting Act, the Board of Directors confirms that use of the going-concern assumption is appropriate.

Orkla ASA

Orkla ASA is the parent company in the Orkla Group and supplies and performs services for the Group's other companies. In 2018, Orkla ASA delivered profit after tax of NOK 2,369 million (NOK 9,795 million). Profit in 2017 was impacted by the sale of Orkla's stake in Sapa. At year end, Orkla ASA had total assets of NOK 45,290 million (NOK 47,257 million), equivalent to a decrease of 4.2%. The equity ratio was 72.8% (73.2%).

Allocation of comprehensive income

In 2018, Orkla ASA posted comprehensive income of NOK 2,412 million. The Board of Directors proposes the following allocation:

Transferred from equity	NOK (187) million
Proposed dividend	NOK 2,599 million

As at 31 December 2018, Orkla ASA had total equity of NOK 33.0 billion (NOK 34.6 billion). The Board of Directors has determined that Orkla ASA had adequate equity and liquidity at the end of 2018. The Board of Directors proposes to pay an ordinary dividend of NOK 2.60 per share for the 2018 financial year.

Outlook

Strategically appropriate acquisitions will remain a key element of Orkla's growth strategy and value creation model. At the same time, the Group will increase its focus on reducing complexity through more active portfolio management. Orkla intends to strengthen its leading local brands, while reducing the complexity of its portfolio. The foundation for increased future growth will be laid by strengthening Orkla in higher-growth channels, categories and geographies.

In 2018, the global raw material prices to which Orkla is exposed were somewhat higher, overall, than in the previous year. However, prices vary substantially from one commodity group to another, and the uncertainty attached to future commodity price trends is generally high. The different business areas are exposed to varying degrees to currency risk, primarily related to purchasing in a foreign currency. Orkla also has currency translation exposure in connection with the consolidation of foreign businesses. There will always be uncertainty as to future exchange rate trends.

Orkla aims to deliver long-term organic growth that at least matches market growth. For the period 2019-2021 Orkla targets EBIT margin growth of at least 1.5 percentage points, adjusted for acquisitions and currency effects. The Group also aims to achieve a significant improvement in working capital, with a reduction of 3 percentage points in net working capital as a percentage of net sales for the three-year period 2019-2021.

Oslo, 13 March 2019
The Board of Directors of Orkla ASA

Stein Erik Hagen Chairman of the board	Grace Reksten Skaugen Deputy Chair of the Board	Ingrid Jonasson Blank	Lars Dahlgren	Liselott Kilaas	Nils K. Selte
Peter Agnefjäll	Terje Utstrand	Karin Hansson	Sverre Josvanger	Roger Vangen	Peter A. Ruzicka President and CEO

(This translation from Norwegian of the Report of the Board of Directors of Orkla ASA has been made for information purposes only.)

Corporate Governance

Orkla's principles for good corporate governance aim to lay the foundation for long-term value creation, to the benefit of shareholders, employees and society at large. Openness, transparency, accountability and equal treatment underpin confidence in the Orkla Group, both internally and externally, and constitute key elements in Orkla's efforts to foster a sound corporate business culture.

1. Statement of policy on corporate governance

Orkla is required to report on corporate governance under section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance; see section 7 on the continuing obligations of stock exchange listed companies. The Accounting Act may be found (in Norwegian) at www.lovdata.no. The Norwegian Code of Practice for Corporate Governance, which was last revised on 17 October 2018, may be found at www.nues.no. This statement of policy will be an item of business at Orkla's Annual General Meeting on 25 April 2019. The company's auditor has assessed whether the information provided in this statement with regard to section 3-3b of the Accounting Act is consistent with the information provided in the annual financial statements. The auditor's statement may be found on page 219.

The Board of Directors at Orkla actively adheres to good corporate governance standards and will at all times ensure that Orkla complies with the requirements of section 3-3b of the Accounting Act and the Norwegian Code of Practice for Corporate Governance. This is done by ensuring that the topic of good governance is an integral part of the decision-making process in matters dealt with by the Board. Furthermore, the Board assesses and discusses the principles annually, and has also considered this statement at a Board meeting. The following statement of policy is structured in the same way as the Code of Practice, covers each point of the Code and describes how Orkla complies with the Code requirements.

2. Business

Orkla's objectives, as defined in its Articles of Association, are as follows:

"The objectives of the company are to engage in activities comprising industry, commerce, forestry, transport, finance, the acquisition and sale of securities and other investments, the purchase, sale, development and management of real estate, the publication of newspapers, magazines and other media, services and any other activity connected with the aforementioned objectives. The activities are conducted by the company itself or by its subsidiaries in Norway and abroad."

In accordance with its objects clause, Orkla operates in several areas. The Group's core business is branded consumer goods, but the Group still has activities in the energy, real estate and financial investments sectors.

The Orkla Compass comprises Orkla's vision, goals, strategic pillars, core values and business strategy, and sets a clear, common direction for the Group. Orkla's vision is to be "Your friend in everyday life", and Orkla's mission is "Improving everyday life with sustainable and enjoyable local brands." Orkla aims to outperform and create greater value than its competitors and other comparable companies. The Group will achieve this objective by working purposefully within the framework of five strategic pillars: (1) Consumers, (2) Customers, (3) People, (4) Operations and (5) Society. Orkla's core values are "Brave", "Trustworthy" and "Inspiring".

Orkla is committed to promoting sustainable social development by operating in compliance with responsible business principles, systematically improving its operations in relation to the external environment, climate and energy resources and investing in profitable business projects that can generate positive ripple effects for society. The Group's stance with regard to corporate responsibility has been defined in the Orkla Code of Conduct and the Group directive on corporate responsibility. The documents may be found on Orkla's website, and are described in further detail in a separate statement on Orkla's Corporate Responsibility (see section 3-3c of the Accounting Act). The statement also gives an account of the Group's efforts to address important corporate responsibility issues in 2018.

Orkla's strategy process covers a period of three years (STP). Every three years, a new three-year plan will be adopted that sets the strategic direction and defines goals for the Group, business areas and individual companies. During the STP, annual evaluations are carried out of the Group's goals, strategy and risk profile.

3. Equity and dividends

The Board of Directors ensures that the company has a capital structure adapted to its goals, strategy and risk profile, and conducts an annual evaluation of the structure. As at 31 December 2018, Group equity totalled NOK 34.1 billion. An ordinary dividend of NOK 2.60 per share was paid out for the 2017 financial year. Over time, Orkla shareholders shall receive a competitive return on their investment through a combination of dividends and an increase in the share price. Orkla has pursued a consistent shareholder and dividend policy for many years. On Orkla's Capital Markets Day in October 2018, it was announced that Orkla aims to increase its dividend from the current level of NOK 2.60, normally within 50–70 percent of earnings per share. The dividend will be paid out on 7 May 2019 to shareholders of record on the date of the Annual General Meeting.

Authorisations empowering the Board of Directors to undertake share buybacks are limited to specific purposes and are granted for a period no longer than until the next general meeting. The General Meeting is given the opportunity to vote on every purpose covered by the authorisation.

At the Annual General Meeting in 2018, the Board of Directors was granted authorisation to buy back up to 100 000 000 Orkla shares so that the company can acquire and hold up to 10 per cent of its share capital. Shares acquired under this authorisation are to be cancelled or used in connection with employee incentive programmes, including the Group's employee share purchase programme. As at 31 December 2018, Orkla had acquired 20,000,000 of its own shares under the current authorisation.

The Board of Directors proposes to the General Meeting to amortize 17,500,000 shares.

As at 31 December 2018, Orkla held 19,410,259 treasury shares. Questions concerning increases in share capital must be submitted to the General Meeting for decision. The company's transactions in its own shares are effected on the market at market price, in accordance with good stock exchange practice in Norway. There are otherwise no provisions in Orkla's Articles of Association that regulate the buyback or issue of shares.

4. Equal treatment of shareholders and transactions with related parties

Orkla has one class of share and each share entitles the holder to one vote. Each share has a nominal value of NOK 1.25. Further information on voting rights at general meetings is provided under point 6, General Meetings. The company's policy is not to dilute the shareholdings of existing shareholders. In accordance with this policy, there have been no real share capital increases in the company in recent years. Should the Board of Directors wish to propose to the General Meeting that a departure be made from the pre-emptive right of existing shareholders in the event of a capital increase, such a proposal will be justified by the common interests of the company and the shareholders, and the grounds for the proposal will be presented in the notice of the general meeting.

To avoid any detriment to the Group's reputation, the Board considers it important to pursue a policy of transparency and caution in connection with investments that could be perceived as an unfortunately close involvement, or close relationship, between the company and a member of the Board, executive management or parties related thereto. Procedural rules for such transactions have therefore been drawn up in the Rules of Procedure for the Board of Directors, which may be found on Orkla's website. According to the Rules of Procedure, the Board Chair must be informed of such transactions and must decide how the matter should be dealt with. If the matter concerns the Board Chair, this duty is incumbent upon the Deputy Chair of the Board. Further information on transactions between related parties is provided in Note 37 to the consolidated financial statements. In the event of non-immaterial transactions between the company and shareholders, a shareholder's parent company, Board members, executive management or parties related thereto, the Board of Directors will ensure that a valuation is carried out by an independent third party. The Board will similarly arrange for a valuation by an independent third party in the event of non-immaterial transactions between companies within the Group where there are minority shareholders.

5. Freely negotiable shares

All Orkla shares carry equal rights and are freely negotiable. No special limitations on transactions have been laid down in Orkla's Articles of Association. Article 3, second paragraph, of the Articles of Association states that "the Board of Directors may entirely or partly refuse to approve the transfer of shares if the company pursuant to statute or to regulations laid down pursuant to statute is given the discretionary right to refuse such approval or to apply other restrictions on sales". In this connection, it should be noted that the provisions of the Industrial Licensing Act requiring Board consent for acquisitions of shares representing more than 20% of all shares in the company are applicable, due to Orkla's ownership interests in waterfalls. Transactions in the Orkla share are described in further detail on Orkla's website.

6. General meetings

Orkla seeks to ensure that as many shareholders as possible are able to exercise their rights by participating in general meetings, and that the general meeting is an effective meeting place for shareholders and the Board of Directors. The Annual General Meeting is held every year before the end of May. Information on shareholders' right to submit items of business for consideration at the general meeting is posted on the company's website. Notices of general meetings and related documents are made available on Orkla's website no later than 21 days prior to the date of the meeting. The final date for giving notice of attendance is three working days prior to the general meeting. Shareholders are given the opportunity to vote on the election of every single candidate to an office in the Nomination Committee and on the Board of Directors. The auditor and members of the Board of Directors and Nomination Committee are present at general meetings.

The voting right for a transferred share may be exercised when the transfer has been recorded by the Norwegian Central Securities Depository (VPS) within the time limit for giving notice of attendance at the general meeting, or if the share acquisition has been notified to the VPS and proof of the acquisition is presented at the general meeting. Under Norwegian law, only shares that are registered in the name of the shareholder may be voted. Shares that are registered in a nominee account must be reregistered in the VPS in order for the shareholder to be able to vote the shares. Further information may be found in the notice of the general meeting and on Orkla's website.

Shareholders who are unable to attend the general meeting may vote by proxy. Orkla will appoint the Board Chair or meeting chair to vote for the shareholders. The proxy form is designed in such a way that voting instructions may be given for each item of business that is to be considered. Shareholders who were unable to attend the Annual General Meeting in 2018 could, in addition to voting by proxy, cast a direct advance vote on the company's website or through VPS Investor Services. The Board of Directors has decided that shareholders may cast such direct advance votes again in 2019. Both the notice of the general meeting and Orkla's website provide further information regarding use of proxies, advance voting and shareholders' right to submit items of business for consideration at general meetings.

Under Article 12, second paragraph, of the Articles of Association, the Board of Directors may decide that documents concerning items of business to be considered at the general meeting are not to be sent to shareholders when the documents are made available on the company's website. This also applies to documents which by law must be included in or attached to the notice of the general meeting. A shareholder may nonetheless request that documents pertaining to items of business to be considered at the general meeting be sent to him or her. The provision in the Articles of Association departs from the general rule in Chapter 5 of the Public

Limited Liability Companies Act which prescribes that the annual financial statements, the report of the Board of Directors, the auditor's report and the Board of Directors' statement of guidelines for the remuneration of the executive management pursuant to section 6-16a must be sent to all shareholders no later than one week before the general meeting.

The general meeting is led by an independent chair proposed by the Board of Directors; this person will normally be the Chair of the Nomination Committee.

Members of the Board of Directors are present at general meetings, but normally not the entire Board has attended. No items of business at general meetings have made this necessary to date. The Board Chair, the general manager and the heads of the various business areas are always present in order to reply to any questions that may be raised.

7. The Nomination Committee

Under the Articles of Association, Orkla has a Nomination Committee that is elected by the General Meeting. The Rules of Procedure for the Nomination Committee may be found on Orkla's website. The Nomination Committee consists of two to five members, who are elected for a term of up to two years. The General Meeting elects the Chair and members of the Nomination Committee and determines its remuneration. The Committee is tasked with submitting the following reasoned recommendations:

Recommendation to the General Meeting:

- election of shareholder-elected members and deputy members to the company's Board of Directors
- election of members and the Chair of the Nomination Committee
- remuneration of the Board of Directors and the Nomination Committee

Recommendation to the body that elects the Chair of the Board of Directors:

- election of the Chair and Deputy Chair of the Board of Directors. (For this purpose, the Nomination Committee is supplemented by a representative appointed by the employee representatives on the Board

The Rules of Procedure for the Nomination Committee contain further guidelines for the preparation and implementation of elections to the Nomination Committee and the Board of Directors, as well as criteria for eligibility, general requirements regarding recommendations, the number of members in the Committee and their term of service, and detailed procedural rules for the work of the Nomination Committee. Information regarding the composition of the Nomination Committee, which members are up for election and how input and proposals may be submitted to the Committee is posted on Orkla's website under "Investor Relations". The composition of the Nomination Committee is intended to ensure that the interests of all the shareholders are served, and meets the requirement of the Norwegian Code of Practice for Corporate Governance as regards independence of the company's management and Board of Directors. None of the members of the Nomination Committee are a member of the Board of Directors of Orkla ASA. Neither the general manager nor other senior executives are members of the Committee. Information regarding the composition of the Nomination Committee and the number of Orkla ASA shares owned by each Committee member as at 31 December 2018 may be found on page 257.

8. The Board of Directors, composition and independence

Orkla's Corporate Assembly was discontinued in 2013 in accordance with the agreement entered into with the employee unions. Consequently, the General Meeting elects shareholder-elected members to the Board directly. The Board Chair is elected by the General Meeting.

The composition of the Board of Directors is intended to serve the interests of all the shareholders and meet the company's need for competence, capacity and diversity. The Board's composition meets the requirements of the Norwegian Code of Practice for Corporate Governance as regards Board members' independence of the company's executive management, main shareholders and material business relationships. Two of the Board members are defined as non-independent of the company's main shareholders. All the Board members are defined as independent of the company's executive management or material business relationships. There are few instances in which Board members are disqualified from considering Board matters. Representatives of the executive management are not members of the company's Board of Directors. Under Article 4 of Orkla's Articles of Association, the Chair, the Deputy Chair and the other shareholder-elected members of the Board may be elected for a term of up to two years. Since 2007, however, a term of one year for shareholder-elected members and deputy members has been adopted, on the grounds that an annual assessment of the overall composition of the Board will ensure greater flexibility. There are no other provisions in the Articles of Association governing the appointment and replacement of Board members.

Further pursuant to Article 4 of Orkla's Articles of Association, the shareholder-elected members of the Board of Directors are required to own shares in the company with a view to strengthening the shared financial interests of shareholders and Board members. In 2017, the General Meeting introduced an arrangement whereby parts of the fee paid to the shareholder-elected Board members are to be used to purchase Orkla shares. A more detailed description of the number of Orkla shares owned by each member of the Board, the members' background, qualifications and term of service, whether they are independent, how long they have been an Orkla Board member, how many Board meetings they have attended, and whether they have any material functions in other companies and organisations is provided on page 234.

Under Norwegian law and in accordance with Orkla's current system of corporate democracy, Group employees have the right to elect four members of the Board of Directors of Orkla ASA. The composition of the company's governing bodies is described on page 257.

9. The work of the Board of Directors

The tasks of the Board of Directors are laid down in the Rules of Procedure for the Board of Directors, which govern the Board's responsibilities and duties and the administrative procedures of the Board, including which matters are subject to Board consideration and rules for convening and holding meetings. The Board's Rules of Procedures also contain rules regarding the general manager's duty to inform the Board about important matters, and to ensure that Board decisions are implemented. There are also provisions intended to ensure that company employees and other parties involved are adequately informed of Board decisions, and see to it that the guidelines for preparing matters for Board consideration are followed. Other instructions to the Board and clarification of its duties, authorisations and responsibilities in respect of the general management are provided through routine communication.

The Rules of Procedure further establish that a Board member must not take part in the consideration of or a decision on an issue that is of such importance to himself or herself or to any related party that the member must be considered to have an obvious personal or financial interest in the matter. It is incumbent upon each Board member to consider on an ongoing basis whether there are matters which, from an objective point of view, are liable to undermine the general confidence in that Board member's independence and impartiality, or which could give rise to conflicts of interest in connection with the Board of Directors' consideration of the matter. Such matters must be taken up with the Board Chair. According to the Orkla Code of Conduct, employees must on their own initiative inform their superior if they should recuse themselves from dealing with or if they have a conflict of interest in connection with a matter, and consequently should not take part in considering such matters.

The Board of Directors adopts an annual meeting and activity plan that covers strategic planning, business issues and oversight activities. In 2018, eight meetings were held in accordance with the Board's activity plan, and three extraordinary meetings. A two-day meeting was held at which the Board addressed strategic issues. In addition, two items were dealt with in writing. The Board dealt with a total of 85 items. The content of the Board's work is discussed in further detail in the Directors' Report.

Board matters are prepared by the general manager and the Corporate Secretariat in consultation with the Board Chair and Deputy Chair. The Board of Directors has established two permanent Board Committees, which are described in further detail below. These committees do not make decisions, but supervise the work of the company management on behalf of the Board and prepare matters for Board consideration within their specialised areas. In this preparatory process, the committees have the opportunity to draw on company resources, and to seek advice and recommendations from sources outside the company.

The Compensation Committee

The Compensation Committee is chaired by the Deputy Chair of the Board of Directors, Grace Reksten Skaugen, and its other members are Stein Erik Hagen and Terje Utstrand. The Group Director HR is the committee secretary. The composition of the committee meets the requirements of the Norwegian Code of Practice for Corporate Governance as regards independence, and all the committee members are considered to be independent of executive management. The mandate of the committee is set out in the Rules of Procedure for the Board of Directors and in brief is as follows:

- prepare for consideration matters relating to the salary and terms of employment of the President and CEO to enable the entire Board, once a year, to participate in an evaluation of the President and CEO and in decisions concerning the latter's terms of employment
- prepare for consideration matters of principle relating to levels of pay, bonus systems, pension conditions, employment contracts and the like for senior Orkla executives

The committee will otherwise deal with special questions relating to compensation for Group employees insofar as the committee finds that these questions concern matters of particular importance for the Group's competitive position, corporate identity, recruitment ability, etc.

The Audit Committee

The Audit Committee is chaired by Nils K. Selte, and the other members are Ingrid Jonasson Blank and Sverre Josvanger. The Chief Internal Auditor is the secretary of the Audit Committee. The composition of the committee meets the requirements of the Norwegian Code of Practice for Corporate Governance as regards independence and competence. The Nomination Committee's recommendation of candidates for election to the Board also contains information as to which Board members satisfy the requirements as regards independence and competence to sit on the Audit Committee. The committee's mandate is set out in the Board's Rules of Procedure and in brief is as follows:

- ascertain that internal and external accounting reporting processes are organised appropriately and carried out efficiently, and are of high professional quality
- keep under review the effectiveness and relevance of the work of the internal audit staff and of the company's risk management systems
- monitor and assess the quality of the statutory audit of Group companies and the Group's financial statements
- help to ensure the independence of the external auditor, and ensure compliance with applicable rules and guidelines regarding the provision of additional services by the auditor to the Group or Group companies
- initiate investigations, if necessary, and propose measures relating to the above-mentioned points
- annually review and, if necessary, update its mandate, and submit its recommendations concerning its mandate to the Board of Directors

The Board of Directors' self-evaluation

Each year, the Board of Directors carries out an evaluation of its own activities and competence, and discusses improvements in the organisation and implementation of its work, both at individual level and as a group, in relation to the goals that were set for its work. The results are made available to the Nomination Committee. An external partner is engaged at regular intervals to carry out the Board evaluation.

10. Risk management and internal control

A prerequisite for Orkla's system of decentralised responsibility is that the activities in every part of the Group meet general financial and non-financial requirements, and are carried out in accordance with the Group's common norms and values. The executive management of each company is responsible for risk management and internal control in the company with a view to ensuring:

- exploitation of business opportunities
- goal-oriented, safe, high-quality and cost-effective operations
- reliable financial reporting
- compliance with applicable legislation and regulations
- operations in accordance with Orkla's governing documents, including ethical and corporate responsibility standards

Orkla's risk management system is fundamental to the achievement of these goals. To ensure ongoing risk monitoring in individual companies, all boards of operational subsidiaries are required to carry out a thorough analysis of the company's risk picture and internal control function at least once a year, in addition to the risk analysis that is an integral part of the company's decision-making processes.

Great importance is attached in Orkla's governing documents, which are available to all employees through The Orkla Way web portal, to clarifying the standards that apply to Orkla's businesses, and who is responsible for monitoring compliance with the various standards.

Orkla has a dedicated compliance function. The compliance staff have a special responsibility for ensuring follow-up and compliance in the fields of personal data protection, data security and anti-corruption and business ethics. The staff are also tasked with helping to coordinate and prioritise other compliance-related work in collaboration with compliance officers in the various companies and central Group functions.

Risk management at Orkla

The Group's risk management lies within the remit of the finance functions and is intended to ensure that all risk of significance for Orkla's value creation is identified, analysed and effectively dealt with by business areas and specialised staffs. This entails, among other things, continuously monitoring important risk indicators in order to reassess the Group's level of risk and associated risk mitigation measures, if necessary, and ensuring that Orkla's risk management is in compliance with relevant regulatory requirements and reasonably satisfactory to Orkla's stakeholders. Designated risk management experts carry out detailed risk analyses in certain specialised fields and are responsible for selected measures to mitigate risk at Group level. The Central Finance staff are responsible for Orkla's risk management model, including:

- presenting Orkla's consolidated risk profile to the Group Executive Board, the Board of Directors and the Board's Audit Committee
- maintaining instructions and guidelines for risk management and reporting.

The Group's risk management programme is reviewed on a regular basis.

EHS

Risk identification is also an important tool in preventive environment, health and safety (EHS) efforts, and the Senior Vice President EHS ensures the systematic, continuous follow-up of this work. All companies and businesses report their ten main EHS risk factors and associated risk mitigation measures as part of the annual reporting process.

The internal audit function

The purpose of Orkla's internal audit function is to contribute to ensuring that the Board of Directors receives confirmation of the status of the Group's management mechanisms, risk management and internal control systems. The responsibilities of the Internal Audit Department are as follows:

- carry out risk-based, customised and value-creating audit projects, with operational focus
- carry out follow-up audits to ensure that previous recommendations are implemented
- conduct an audit of all newly acquired companies within one year of acquisition
- ensure professional and confidential management and investigation of matters reported through Orkla's whistleblowing channel
- monitor the external auditor with regard to compliance with the engagement agreement and world-wide agreement
- report annually to the Board of Directors and the Board's Audit Committee on the overall results of the Internal Audit function's activities in the last calendar year
- serve as secretary to the Board of Directors' Audit Committee
- serve as observer in the Finance and Tax Committees
- quality assure and approve CEO-related costs on behalf of the Board Chair
- provide advisory services to the line organisation when possible based on an assessment of independence, capacity and competence, and prioritisation of tasks.

Business ethics and corporate responsibility

There is systematic focus on business ethics and corporate responsibility at Orkla. Reference is made to the separate statement on Corporate Responsibility at Orkla.

The financial reporting process

The Orkla Group prepares and presents its financial statements in accordance with current IFRS rules. The Group's governing documents are assembled in The Orkla Way, and contain requirements and procedures for the preparation and presentation of interim reports and year-end reports. A set of Orkla accounting standards has also been drawn up, in which Orkla's ten main principles for financial reporting are set out. Financial information is reported through the Group's

common reporting system, Hyperion Financial Management (HFM). Every month, each company reports figures in HFM, based on output from its own Enterprise Resource Planning (ERP) system. HFM has a general chart of accounts and built-in control systems in the form of data check accounts and check reports designed to ensure that the information is consistent. The reporting is expanded in the year-end reporting process to meet various requirements for supplementary information. Financial data are consolidated and checked at several levels in the business areas.

11. Remuneration of the Board of Directors

All remuneration of the Board of Directors is disclosed in Note 5 to Orkla ASA's financial statements. The note shows that remuneration of the Board of Directors is not linked to the Group's performance and that no options have been issued to Board members.

12. Remuneration of the Executive Management

The Board's Compensation Committee presents a recommendation concerning the terms and conditions for the President and CEO to the Board of Directors and monitors the general terms and conditions for other senior executives in the Group. The Board assesses the President and CEO and his terms and conditions once a year. A description of the remuneration of the executive management and the Group's compensation and benefits policy, including the scope and design of bonus and share-price-related programmes, is given in the Board of Directors' statement of guidelines for the remuneration of executive management; see Note 5 to

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Orkla ASA’s financial statements. A ceiling has been set for performance-related remuneration. The Board of Directors’ statement of guidelines is made available to shareholders in a separate document pertaining to this item of business, together with the notice of the Annual General Meeting.

13. Information and communications

Orkla seeks to ensure that its accounting and financial reporting inspires investor confidence. Orkla’s accounting procedures are highly transparent, and since 2005 Orkla has prepared and presented its financial statements in accordance with the International Financial Reporting Standards (IFRS). The Board of Directors’ Audit Committee monitors company reporting on behalf of the Board. Orkla strives to communicate actively and openly with the market. The company’s annual and quarterly reports contain extensive information on the various aspects of the company’s activities. The company’s quarterly presentations are webcast directly and may be found on Orkla’s website, along with the quarterly and annual reports under “Investor Relations”. In 2018, the company’s Annual General Meeting was webcast and simultaneously interpreted to English.

Orkla normally holds a Capital Markets Day every other year, on which occasion the market is given an in-depth review of the Group’s strategic direction and operational development. The Capital Markets Day presentations are webcast directly on the company’s website. All shareholders and other financial market players are treated equally as regards access to financial information. The Group’s Investor Relations Department maintains regular contact with company shareholders, potential investors, analysts and other financial market stakeholders. The Board is regularly informed of this activity. The financial calendar for 2019 may be found on Orkla’s website under “Investor Relations”.

14. Takeovers

The Board of Directors will not seek to hinder or obstruct any takeover bid for the company’s operations or shares. In the event of such a bid as discussed in section 14 of the Norwegian Code of Practice for Corporate Governance, the Board of Directors will, in addition to complying with relevant legislation and regulations, seek to comply with the recommendations in the Code of Practice. This includes obtaining a valuation from an independent expert. On this basis, the Board will make a recommendation as to whether or not the shareholders should accept the bid. There are no other written guidelines for procedures to be followed in the event of a takeover bid. The Group has not found it appropriate to draw up any explicit basic principles for Orkla’s conduct in the event of a takeover bid, other than the actions described above. The Board of Directors otherwise concurs with what is stated in the Code of Practice regarding this issue.

15. Auditor

The Board of Directors has determined the procedure for the external auditor’s regular reporting to the Board. Every year, the external auditor presents to the Board his assessment of risk, internal control and the quality of financial reporting at Orkla, at the same time presenting his audit plan for the following year. The external auditor also takes part in the

Board's discussions on the annual financial statements. On both occasions, the Board of Directors ensures that it is able to discuss relevant matters with the external auditor without the presence of the management.The external auditor and the President and CEO attend all meetings of the Board's Audit Committee. For information regarding the work of the internal auditor, reference is made to the section above on risk management and internal control. Orkla has established guidelines for the right of the general management to use the external auditor for services other than auditing. Responsibility for monitoring such use in detail has been delegated to the secretary of the Audit Committee, who is the Chief Internal Auditor.

The secretary of the Audit Committee approves all material assignments in advance and receives an annual summary from the external auditor of services other than auditing that have been provided to Orkla, and comments specifically on these services in his annual report to the Audit Committee and the Board of Directors. Details of the company's use and remuneration of the external auditor are disclosed in Note 5 to the financial statements of Orkla ASA. The General Meeting is informed about the Group's overall remuneration of the auditor, broken down in accordance with statutory requirements into remuneration for statutory auditing and remuneration for other services. In connection with the auditor's participation in the Audit Committee and the Board of Directors' consideration of the annual financial statements, the auditor also confirms his independence.

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01 Orkla's sustainability work

Mobilising for sustainable growth

At Orkla we seek to create sustainable economic growth by mobilising our entire organisation and developing products and solutions that are good for people and the environment.

As a leading manufacturer of food and grocery products, we at Orkla have a possibility to contribute to sustainable value chains and inspire the population to adopt a healthy diet. This is both a responsibility and a prerequisite for long-term growth. Orkla has focused on switching to sustainable production for many years, and we have come a long way in making sustainability work an integral part of our business plans and routine operations. In 2018 we have seen the positive results of this work in every area.

Orkla's footprint

Orkla's grocery products are purchased regularly by several million consumers, and affect their diet, health and well-being. Even small improvements in products can have a positive effect. By developing products and services for a healthy lifestyle, Orkla can make important contributions to public health. We estimate that the product improvements that Orkla has carried out in the past five years have resulted in a reduction of around 8% salt and 7% sugar from our products.

Orkla's food production makes us one of the biggest purchasers of agricultural and fish raw materials in the Nordic region. At the same time, we impact on the environment by using energy and water and purchasing packaging and transport services. Orkla is also involved in certain global raw material chains that present complex economic, social and environmental challenges. By switching to renewable energy, using resources efficiently, reducing food waste and making targeted efforts to achieve sustainable raw material production, Orkla can contribute to a sustainable value chain for food and grocery products.

Orkla is a major employer, with around 18 500 employees in 30 countries. By investing in skills development and working systematically to ensure good occupational health and safety, we contribute to our employees' job satisfaction, health and personal development. Moreover, we create positive economic ripple effects for local communities in the form of jobs, tax revenues and sourcing from local suppliers.

Altered risk picture

The global health and sustainability challenges are driving gradual changes in consumer preferences and customer demands. In most of the markets in which Orkla is present, demands for healthy food based on good agricultural raw materials, plant-based products and grocery products with environmentally friendly packaging are clear consumer trends. Orkla is responding to these changes proactively by maintaining a long-term focus on developing products with beneficial health effects, sustainable raw material production and renewable, recycled and recyclable packaging.

In 2018, drought and bad weather have impacted on production of certain agricultural raw materials purchased by Orkla, and have at times affected the price and supply of these commodities. Changing weather patterns have also pushed the price of energy and water up in some of the countries in which we have production facilities. We anticipate continued volatility in the price of raw materials, energy and water in the years ahead, but expect the consequences of extreme weather to be moderate for Orkla in the short and medium term. Most of Orkla's manufacturing and sourcing is carried out in the Nordics, the Baltics and Eastern Europe, where the likelihood of water shortages and drought is lower than in areas with a hotter climate. The risk of Orkla's own production operations being affected by flooding or other consequences of extreme weather is considered to be low. We are countering the risk of cost increases and shortages of raw materials and resources by optimising our use of resources, using alternative raw materials and partnering with our suppliers to promote the long-term sustainable production of raw materials.

Sustainable growth

Promoting sustainability is pivotal to Orkla's ability to create growth, trust and competitive operations, and in 2017 we adopted new, Group-wide sustainability targets up to 2025. The targets are ambitious, but necessary to ensure that we are well positioned to address changed market expectations and framework conditions.

In 2018, we drew up criteria for defining sustainable products at Orkla. To be classified as sustainable, the product must satisfy the criteria in at least two of the following three categories: sustainable raw materials, sustainable packaging and products that promote a healthy lifestyle. We will start measuring sales of products that fall into the three categories in order to highlight the commercial effect of our sustainability efforts.

Movement for a sustainable lifestyle

To successfully transition to sustainable production and consumption, we emphasise the importance of making

Pierre Robert
Underwear made of GOTS-certified organic cotton.

Klar
A range of products for a greener everyday living.

Felix
Felix Veggie makes it easy to choose vegetarian.

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sustainability work an integral part of our operations and mobilising our entire organisation. In 2018, all the Orkla companies drew up plans for sustainability activities for the coming strategy period. We have chosen to call Orkla's sustainability efforts "a movement for a sustainable lifestyle", thereby underscoring the importance of mobilising our entire organisation and actively engaging consumers, customers, suppliers, public authorities and external specialist communities in a concerted effort. The work to meet our 2025 targets has inspired extensive engagement and focused considerable attention on the sustainability work carried out in the companies. The targets are directly aligned with the UN's global Sustainable Development Goals.

The efforts to meet our sustainability targets largely take place in Orkla's many companies, with the support of the Group's specialised functions. Orkla has an internal sustainability network that facilitates exchanges of experience and collaboration across companies and countries. In addition, the Group functions have established several initiatives at central level in the past few years to share lessons learned and best practices, establish common approaches and systems and optimise use of available resources.

The status of Orkla's sustainability work

Our sustainability strategy covers five main topics: safe products, nutrition and wellness, sustainable raw materials, environmental engagement and care for people and society. These are areas where we, by virtue of our operations, have substantial influence and responsibility, and where our efforts will be of crucial importance to the Group's future growth and profitability.

Orkla has achieved improvement in all five topical areas. In the past few years, the companies have successfully launched a wide range of healthy, vegetarian and organic food products, healthier snacks, health foods, well-being products, cleaning products with gentle ingredients and products that are good environmental choices. In 2018, sales of products that promote a healthy lifestyle accounted for around 14% of Orkla's turnover.

Our efforts to ensure safe products are carried out in accordance with strict standards, and the risks that arose in 2018 were handled in accordance with Orkla's contingency preparedness procedures, at no risk to consumer health. Orkla factories also maintain good control of the risk of emissions and other undesirable environmental impacts, and are making good progress towards reducing energy consumption, water consumption and food waste from production.

In the 2014-2018 period, Orkla reduced greenhouse gas emissions from its own operations by 54%, and is already well on its way to meeting the target of 60% reduction by 2025. By purchasing guarantees of origin related to Orkla's hydropower plants, we ensure that our European offices and factories use renewable energy. Renewable energy accounted for a total of 39% of our energy use in 2018. Our target of 60% renewable energy in 2025 will be reached by phasing out fossil fuels and increasing our use of energy from renewable sources.

Orkla is making good headway in monitoring suppliers to ensure that raw materials are produced safely and responsibly. In 2018, we took further steps towards our goal of 100% sustainable raw material production. The challenges in this area are complex, and a great deal of work still remains to be done.

We have begun to implement Orkla's revised human rights policy, and in 2018 the companies carried out a risk assessment in this connection. Efforts related to skills upgrading, integrity and occupational health and safety were also further strengthened.

The results of our sustainability work in 2018 and the targets for our further efforts are described in greater detail in separate chapters on each main topic.

Orkla's sustainability reporting

Orkla's sustainability reporting for 2018 has been prepared in accordance with the GRI Standards: Core option and the Oslo Stock Exchange's guidance on reporting on corporate responsibility. In connection with the transition from reporting under GRI G4 Guidelines to GRI Standards, we made a thorough assessment of all the indicators and drew up a plan for which indicators we wish to report on. The assessment was carried out by an internal working group in dialogue with Orkla's Group Executive Board. The choice of topics and indicators is based on a materiality analysis originally prepared in 2015. Only minor changes, entailing the combination of some topics, were made in 2018. Orkla's sustainability reporting covers all topics defined as important and material, but greatest weight has been attached to the material topics. The reporting covers the same topics as before, with some changes in topic titles as a result of the updated materiality analysis. An overview of the indicators covered is presented on Orkla's website under results and reporting.

Under sections 3-3a and 3-3c of the Norwegian Accounting Act, Orkla is required to report on corporate responsibility and selected responsibility topics. An account of the Group's efforts to address the relevant topics in 2018 may be found in the following chapters:

- "Orkla's sustainability work", page 59
- "Sustainable sourcing", page 83
- "Environmental engagement", page 96
- "Care for people and society", page 107

Unless otherwise stated, the key figures in Orkla's sustainability reporting cover all businesses in which Orkla owned more than a 50% stake as at 31 December 2018. The key figures for emissions and energy and water consumption will be verified by the independent company Cemasys in the course of spring 2019. For information on the sustainability work carried out in Orkla's associate Jotun, we refer to the company's own report.

Corporate responsibility at Orkla

Orkla defines corporate responsibility as operating responsibly with respect for people and the environment. Orkla's directive on corporate responsibility describes the general principles governing the way the Group companies are to address the issues of human and workers' rights, environment, health and safety (EHS), anti-corruption and other important areas of responsibility. The directive is based on the Universal Declaration of Human Rights, the ILO's Core Conventions and the OECD Guidelines for Multinational Enterprises. It has been adopted by Orkla's Board of Directors and applies to the entire Group, including wholly-owned subsidiaries. Orkla's corporate responsibility management procedures are described in the Report of the Board of Directors on page 37 of this report.

One of Europe's most sustainable companies

In 2018, Orkla was included in the Dow Jones European Sustainability Index for the eighth consecutive year. This internationally recognised index is a key yardstick used by investors and other stakeholders to assess companies' non-financial performance.

The UN Global Compact and the UN Sustainable Development Goals

Orkla has been affiliated with the UN Global Compact since 2005 and actively supports the initiative's ten principles in the areas of human and workers' rights, environment and anti-corruption. Through Orkla's sustainability work, we contribute actively to the achievement of several of the global Sustainable Development Goals launched by the UN in 2015 and which run until 2030. In 2016, Orkla President and CEO Peter A. Ruzicka signed the Businessworthy Pledge, a personal commitment to work towards achieving the global Sustainable Development Goals.

P. Ruzicka

Peter A. Ruzicka
President and CEO

Making it easier to live healthily

If we are to solve the global health challenges, we in the food industry must be part of the solution. At Orkla we contribute to improving public health by making our foods and our products healthier and by making it easier to make good choices in everyday life.

The big picture

The strong focus on the link between diet, lifestyle and health over many years has given rise to significant changes in consumers' eating habits and taste preferences and a strong scepticism about sugar on the part of many people. At the same time, public authorities are continuing their efforts to improve the population's diet, and an active discussion is taking place in Europe on labelling systems, indirect taxes and other potential remedies. The shift towards increased consumption of healthier products is reinforced by the fact that many grocery chains and other professional customers are calling for products with a favourable nutrition profile. For Orkla, this offers opportunities for innovation.

Our influence

Orkla promotes better public health by developing healthier varieties of foods and products that are part of people's daily diet. Relatively small reductions in salt and sugar content over many years are proving effective. Many of the products launched by Orkla in recent years have offered nutrition and health benefits. At the same time, we expect our future growth to increasingly come from this type of product. This includes "better-for-you" options in the snacks, snack meal, biscuit and plant-based food and drink categories and innovative products tailored to individual health needs. Orkla has set aggressive innovation targets in this area, and all the companies have planned activities to increase sales of healthy products and reduce consumption of salt and sugar in the 2019–2021 period.

Orkla's 2025 sustainability targets

- Double the consumption of products and services that promote a healthier lifestyle[1]
- Reduce salt and sugar by 15%[2]
- Inspire people to adopt a healthier lifestyle

Orkla's sustainability pledge

"Make healthy living easier"

Our approach

A detailed description of procedures and work processes for our nutrition and health work may be found on Orkla's website under "Results and reporting".

Our nutrition and wellness work supports the achievement of the UN Sustainability Development Goal SDG3.

[1]Applies to selected product types. Base year 2017.
[2]Applies to a reduction in overall consumption of salt and sugar from Orkla's food products. Base year 2015.

Partnership to promote better public health

A broad mobilisation is underway to reduce the prevalence of lifestyle diseases. Orkla contributes to this effort by actively promoting partnerships to improve public health.

The global health challenges must be addressed through a concerted effort on the part of the food industry, the retail industry, specialist communities and public authorities. Orkla is committed to being a part of the solution and works closely with the authorities and the food industry in several countries to promote better public health. We have also initiated new collaborative efforts in a number of the markets in which we are present. In addition to having a positive effect on society, this work also helps to ensure that Orkla has predictable framework conditions and a competitive product portfolio.

Developments in 2018

Orkla partners with the food industry and the health authorities in Norway to make grocery products healthier. As part of the agreement of intent to promote healthier food, Orkla has committed to specific targets for reducing salt, sugar and saturated fat. In 2018, we participated in two meetings with the Minister of Health's working group for food businesses to follow up on the industry's efforts to make everyday food healthier and increase the intake of fruit and vegetables,

Sugar-free best seller

Nidar's popular favourites, Doc' throat lozenges, have soothed sore Norwegian throats since 1970. Every single year we consume close to 200 million of them. Now the popular throat lozenges have been launched in a sugar-free version. By switching to Doc' sugar-free throat lozenges in the KIWI, Meny, Spar and Joker grocery chains, Orkla and NorgesGruppen have helped to reduce the population's annual sugar consumption by around 130 tonnes.

whole grain products and fish. As a consequence of the Government's increase in sugar taxes, however, all the member companies of the FoodDrinkNorway sectoral federation decided to put collaboration on reducing sugar on hold. Orkla has nevertheless continued its efforts and launched several products with salt and sugar contents equivalent to or lower than the target levels specified in the agreement of intent.

In Sweden, Orkla works closely with the authorities, the food industry, the RISE Research Institute of Sweden and other companies to find new, innovative ways of reducing salt in various food categories. Orkla Foods Sverige is concentrating particularly on lowering the salt content of tomato sauce, tomato soup and ketchup. The company has also contributed substantially to the establishment of the Sweden Food Arena, where companies and industry organisations from the entire food chain meet to collaborate on research and innovation for an innovative, sustainable and competitive sector. In Lithuania, Orkla strives to reduce salt and sugar in order to achieve targets set in an agreement between the industry and the Lithuanian Ministry of Health. In Denmark, Orkla is a member of the Danish Whole Grain Partnership, a public- private initiative aimed at increasing consumption of whole grain products.

Orkla is committed to being a part of the solution and works closely with the authorities and the food industry in several countries to promote better public health.

Offers omega-3 test

In 2018, Orkla Health in Norway tested a service for pharmacies that enables their employees to have their own omega-3 value measured. After a little finger prick to obtain a blood sample that is sent to an external laboratory, you can have your personal results sent to you by mail. The analysis measures the amount of long-chain omega-3 fatty acids in red blood cells and is a good measurement unit for determining whether a person is getting enough of the important fatty acids in his or her diet. Good sources of supplementary omega-3 are either fish or supplements like Möller's Pharma or Triomar, which are sold in pharmacies. This new product from Orkla Health is part of an effort to offer more customised services that give the consumer reliable answers to questions related to maintaining good health and vitality on an everyday basis.

Healthier popular favourites

Making food products healthier with a lower salt, sugar and saturated fat content is a goal high on Orkla's agenda. Our companies have continued to make good progress towards this objective in 2018.

Increased demand for food products containing less salt and sugar has long been a clear trend in the Nordic region. In the past few years, focus on health has steadily increased, also in the Baltics and Central Europe.

Developments in 2018

Orkla has made significant headway in its efforts to lower the content of salt and sugar in its products. Reducing sugar has been the companies' top priority in all the business areas. Orkla's portfolio of sugar-free and reduced-sugar products has contributed to an overall reduction of approximately 9 000 tonnes in the population's sugar intake in the past five years. Categories in which the sugar content was cut in 2018 include bread toppings, jams, snack meals, bars, ketchup and smoothies. Orkla has also launched sugar-free cordials and throat lozenges, breakfast cereals, snack meals and jams. The companies in Orkla Confectionery & Snacks are now working to reduce the amount of sugar in several biscuit products including Selga (Latvia), Kornmo and Bixit (both in Norway).

We have reached our target of eliminating 80 tonnes of salt from Orkla's Norwegian products in the 2015–2018 period. Orkla Confectionery & Snacks has removed 21 tonnes of salt from its snacks and biscuit products, with special focus on reducing salt in products eaten by children. MTR Foods is making good progress in its salt reduction programme and has lowered the salt content of several ready meals. By developing products with less salt, Orkla contributed to an annual decrease in salt consumption of approximately 190 tonnes in 2018. Categories in which salt was reduced in 2018 include bread, bakery mixes, margarine, liver paté, ready meals, soups, tomato sauces and ketchup. In the past five years, the quantity of salt has been cut by the equivalent of an annual reduction in consumption of approximately 810 tonnes.

Over a period of many years, the companies in Orkla Foods and Orkla Confectionery & Snacks have worked systematically to replace saturated fat from palm oil with healthier alternatives. In 2018, palm oil was removed from Mikropops and snack products from Orkla Suomi, soups and bouillon from Vitana and ready meals from MTR Foods. Furthermore, Orkla Food Ingredients eliminated palm oil in several of its margarine products.

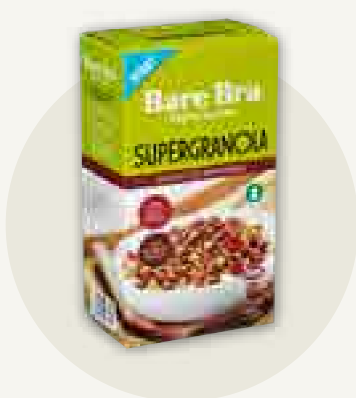
Making it easier to make healthy choices with the Green Keyhole label

Orkla fully supports the Green Keyhole healthy food labelling system in the Nordic countries, and develops wholesome, tasty and varied food products in line with the health authorities' dietary recommendations. With its Paulúns and Bare Bra brands, Orkla offers a broad range of healthier breakfast products with no added sugar. Other brands that can boast the Green Keyhole label are Anamma, Abba, Felix and Stabbur-Makrell. Sales of this type of food product totalled around NOK 500 million in 2018. The goal is to increase sales to NOK 1 billion by 2025.

Healthier popular favourites

Felix Tomatketchup
Felix ketchup with less sugar and salt (Sweden)

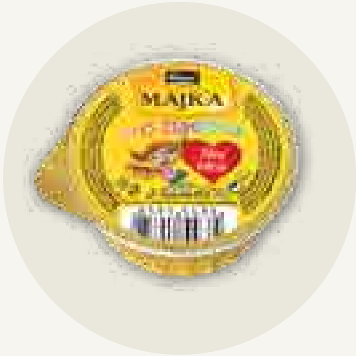
Risifrutti
Natural rice porridge with no added sugar to which consumers can add a topping (Sweden)



Bare Bra
Green Keyhole-labelled Granola and other healthy breakfast products (Norway)

Gårdlykke
Gårdlykke crisps with less oil and salt (Denmark)

Beauvais Pizzasnegle
Snacking products, where the dough is filled with up to 50% vegetables (Denmark)



Hamé
A special liver paté with less salt for children in the Czech Republic and Slovakia

48 tonnes less sugar in biscuits

Is it possible to promote health and nutrition in an unhealthy category? Absolutely, according to Orkla Confectionery & Snacks Norge. As a part of the company's health and nutrition work, product developers set their sights on reducing the amount of sugar in biscuits by 10%. A comprehensive, resource-intensive process has delivered good results. In 2018, the amount of sugar in biscuits was cut by 48 tonnes, and Orkla is now category leader. The sugar that was removed was not replaced with a sugar substitute. The change therefore offers an additional benefit because it has a healthy influence on consumers' taste preferences.

Innovations for a healthier lifestyle

Orkla is developing more and more products that make it easier to make healthier, more sustainable choices on a daily basis.

A growing number of consumers are asking for natural, plant-based foods and "better-for-you" products in various categories. In 2018, Orkla launched several new products in response to these trends.

Developments in 2018

Strong sales growth for plant-based food

Orkla's two largest vegetarian brands, Swedish Anamma and Danish Naturli', have grown by close to 60% and have been launched in a growing number of markets. Both Anamma and Naturli' offer plant-based alternatives to meat, such as plant-based minced products, burgers, sausages and other dinner options. The vegan alternative to minced meat, which is used in popular dishes like tacos, pasta sauces and lasagne, has seen the strongest growth. Anamma products are sold in several countries, including Norway, Sweden, Finland, Iceland and Germany. The Swedish brand Felix has expanded its assortment of vegetarian dinners with a range of frozen pies filled with vegetables. Norwegian TORO wants to inspire people to eat more plant-based food and has compiled a selection of "green" recipes based on the products featured on its website. Danish Naturli'

Global success with Danish plant-based Minced

In less than a year, Danish plant-based Minced from the Orkla company Naturli' Foods has appeared in refrigerated counters in supermarkets in Sweden, Germany, England, Austria, Switzerland, the Netherlands, Ireland, Australia and New Zealand, and the company has entered into agreements with retailers in three other countries. The next goal is the USA. Danish consumers were introduced to the 100% plant-based Minced at the start of 2018, at which point it was the first of its kind world-wide. It very quickly became a success, and sales volumes totalled 800 tonnes of plant-based Minced in 2018. Since the start of 2018, two new varieties of the plant-based minced product have been added to the Naturli' family, an organic option based on chick peas and a variety made from Danish peas.
The packaging for all three products is made of 80% recycled plastic. Naturli' partners with Plastic Change to make plastic more sustainable, and donated DKK 0.20 for each plant-based Minced product sold in Denmark to this organisation. Naturli' Foods products have been inspired by concern for nature and the environment. All the products are developed and manufactured in Denmark. Naturli' had a total turnover of DKK 197 million in 2018.

Foods has a broad range of innovative foods and plant-based drinks, toppings, ready meals and ice cream, which were launched in a growing number of markets in 2018.

Vegetarian burgers on the menu at McDonalds

McDonald's Food Team and Anamma, an Orkla Foods Sverige brand, have jointly developed an entirely new vegan burger. McVegan was widely launched on McDonald's menu in both Sweden and Finland in 2018, and sales are soaring.

Common focus on "better-for-you" products

Orkla Confectionery & Snacks has adopted a common strategic approach to developing "better-for-you" products across companies and countries. Its companies in Norway, Sweden, Finland and Denmark work together to launch healthier on-the-go snacks under the Småsulten and Anyday brands, and in Latvia similar products have been launched under the Laima Better4U brand.

Natural food that tastes good

The Paulúns health brand has undergone an exciting transformation in food stores in the past decade. What started out as a good, healthy muesli has now become a broad range of products that make it easy to eat wholesome, well-balanced food not just for breakfast, but also for lunch, snack meals and dinner. Super Pasta, Super Bönflinga and new varieties of Granola are just some of the many new products introduced on a number of markets in 2018. All the products are made from high-quality raw materials and contain no sugar or additives whatsoever. Paulúns is now sold in 6 countries, in Norway under the Bare Bra brand. Orkla's sales of Paulúns products totalled NOK 250 million in 2018, an increase of 12% from the year before.

The way forward

In 2019, Orkla will continue to reduce the content of salt and sugar in its products, and every business area has drawn up plans for this work. Confectionery & Snacks will focus particularly on "better-for-you" products, while Orkla Foods will continue to develop healthy products and respond to the vegetarian trend in a growing number of new product categories and markets. Similarly, the OFI companies will maintain their strong emphasis on whole grain products and vegetarian food, while also stepping up their efforts to reduce the amount of salt in bread, baking mixes and margarine.

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Nutrition and wellness

GRI-ref.		Unit	2018	2017	2016
Reduction of salt, saturated fat and sugar					
Self-defined	Decrease in salt due to reduction actions	Kg	192 000	80 000	90 000
		%	2.0	-	-
Self-defined	Consumption of salt (in own products) per turnover*	Kg/mill. NOK	238	-	-
Self-defined	Decrease in saturated fat due to reduction actions	Kg	379 000	960 000	640 000
Self-defined	Decrease in sugar due to reduction actions	Kg	3 382 000	1 040 000	370 000
		%	2.7	-	-
Self-defined	Consumption of sugar (in own products) per turnover*	Kg/mill. NOK	3 023	-	-

Sale of healthy products

Self-defined	Estimated percentage of turnover* from health and wellness products[1]	%	13.9	-	-
Self-defined	Estimated percentage of turnover* from vegetarian[2] and vegan products	%	6.5	-	-
Self-defined	Estimated percentage of turnover* from organic products	%	5.3	-	-

[1]Includes food with reduced salt, sugar and saturated fat, lacto/ovo-vegetarian and vegan products, products made of more than 50% whole grain cereals, products with official nutrition labelling and products with specific health benefits.
[2]Products that represent alternatives to meat or in which animal protein has been replaced by plant-based protein.
* Branded Consumer Goods' turnover.

Safe products build trust

Food safety is a matter we take seriously at Orkla. That's why we set the same high food and product safety standards in every country in which we manufacture or sell our products.

The big picture

More and more consumers want to know who is behind the food and products they buy, what they contain and where they are manufactured. In the past few years, fraud related to the quality of raw materials has emerged as a significant risk. There is growing demand for transparency and traceability in every part of the value chain, while the risk picture is increasingly complex. An important means of combating and mitigating food fraud is to have a strong quality culture and the necessary expertise to identify and deal with new safety risks in the value chain at an early stage.

Our influence

Our local brands are purchased regularly by consumers all over the world. This gives us a great responsibility. We have chosen to put our Orkla logo on the vast majority of the Group's products to make it clear who is behind them. Regardless of the country in which we manufacture or sell our products, we apply the same stringent requirements when it comes to food and product safety. Given the multitude of raw materials, production sites and suppliers involved, the risk picture is complex. Orkla's common standards and systems for ensuring safe food manufacturing, safe raw materials and safe packaging are therefore crucial to ensuring good, cost-effective control of risk throughout the value chain. When we acquire new companies, we make it a priority to ensure the swift implementation of Orkla's standards, thereby laying the foundation for a strong food safety culture.

Our approach

A detailed description of our food safety procedures and work processes may be found on Orkla's website under results and reporting.

Orkla's 2025 sustainability targets

- 100% food-manufacturing facilities at green level
- 100% approved suppliers
- Continue to ensure that all products are safe

Orklas sustainability pledge

"Be prepared to deal with emerging risks"

Our goals

Orkla takes an uncompromising stance on food and product safety and has worked purposefully in this area for many years. Our efforts support the achievement of the UN global Sustainable Development Goals SDG 12 and SDG 17.

Developments in 2018

Improved food safety standard

Orkla has established a good food safety culture in its own companies and factories based on the Orkla Food Safety Standard (OFSS). The OFSS was revised in 2018 to align it with improvements in the international BRC standard. Food fraud was placed even higher on the agenda with specific requirements for risk assessment of all raw materials and new control procedures. Another new requirement is that all Orkla companies and factories must have plans for further developing and improving their food safety culture. The process of implementing the revised standard began in autumn 2018.

Audits and follow-up

Orkla maintains close control of food safety in its own operations and audits all its production facilities regularly. A total of 102 audits were carried out in 2018, compared with 79 in 2017. The increase in the number of audits is due to the acquisition of new companies that require more follow-up audits to reach an acceptable level. Orkla's central food safety department was also involved in several acquisition processes in the Group.

To make optimal use of the Group's cross-cutting expertise and ensure a uniform approach, Orkla introduced a new course for internal food safety auditors in 2018. The course provided training in standards and a standardised template for conducting audits of Orkla's food manufacturing plants.

Enhanced food safety culture

Competence is a critical success factor for reducing risk. Orkla has therefore invested substantial resources in providing training in key areas such as control of critical production points, allergen handling, supplier audits, root cause analysis and the OFSS. Orkla collaborates with Campden BRI, which is considered to be a leading provider of research and applied solutions for the food industry.

Transfers of best practice

Food safety is one of the areas in which we work extensively as One Orkla with common cross-company policies, systems and work methods. Orkla Foods has established a common

Did you know that...?

Several of Orkla Food Ingredients' sales and distribution companies do not manufacture any products themselves. In 2014, therefore, Orkla drew up its own Storage & Distribution standard to reduce the food safety risk related to products manufactured by other companies and ensure better quality systems and traceability. The standard is based on the BRC Storage & Distribution standard, and the main emphasis is on product transport and storage. The standard has been implemented in the companies and has contributed to significant improvements in quality procedures.

quality organisation for the companies in Norway, Sweden and Denmark. In 2018 it was expanded to include the companies in Finland, the Czech Republic and Austria, and as from next year the Baltics and Central Europe will also be included. There is also close collaboration between the companies in the other business areas. Orkla Food Ingredients has a quality network in which the companies collaborate on shared solutions for supplier monitoring, customer collaboration and product databases. Expertise is also shared in networks and at conferences.

Supplier monitoring

Orkla has set rigorous requirements for its suppliers of raw materials and finished goods for many years, and has well-established approval and monitoring procedures. In 2018, Orkla reorganised its operations, giving the business areas greater responsibility, ensuring more efficient use of resources and upgrading the audit team's expertise. The process of approving and monitoring suppliers was amended at the same time, as a result of which fewer resources are now spent on suppliers who have achieved BRC certification by approved certification bodies, and can therefore document that they comply with very high standards.

Effective contingency management

All the food products launched by Orkla have undergone a thorough risk assessment during the development process to enable us to identify and control potential health risks related to packaging, ingredients and use. Orkla has drawn up a contingency plan to ensure proper management of unforeseen and undesirable incidents, and we continuously track developments in contingencies. In 2018, we changed our reporting procedures: all matters, regardless of magnitude, must now be reported and the costs must be estimated. This will provide a better overview and show developments over time. In 2018, Orkla carried out a contingency exercise for the management teams of two selected companies and the participants of three in-house courses with emphasis on media training and contingency handling. In addition, all Orkla factories held annual drills. The number of contingencies was significantly lower than in 2017. There was one incident in which a consumer had a severe reaction and became ill. There were no matters resulting in a fine.

The way forward

We will continue to implement our revised food safety standard,and Orkla companies and factories will be audited under the new standard as from 1 February 2019. Work on strengthening the food safety culture in our companies and building competence continues, and in 2019 we will hold an international food safety conference for all our quality and food safety personnel. We are also introducing new measures to reduce the risk of food fraud, including risk assessment of all raw materials, new control procedures and more direct sourcing from suppliers to reduce the number of intermediate links. We are setting stricter requirements for the protection of raw materials by applying new standards for monitoring production environments, and emphasising the importance of cyber security in Orkla's quality systems.

Safe, environmentally friendly grocery products

It is vitally important for Orkla that our products are safe to use. Customers and consumers must receive the same high quality every single time they choose our well-known, popular branded products in the cleaning, personal care and textile categories.

Environmental assessments and safety are key factors in all product development at Orkla Care. Just as in our food production, the companies comply with strict product safety guidelines in every part of their value chain. The work is based on the precautionary principle, and the companies systematically replace ingredients that could have a negative health or environmental effect. The companies track relevant external research to stay up to date on potential risks to health. There were no cases involving breaches of product safety rules in 2018. Close to 100% of all products launched in 2018 underwent a health and safety assessment.

Developments in 2018

Orkla Home & Personal Care has its own laboratories which are engaged in extensive innovation that benefits consumers in the form of increasingly better products. In developing cleaning and personal care products, the company uses only well-documented ingredients and always conducts environmental assessments. Active use has been made of the Nordic Swan ecolabel since 1983. In 2018, the formulations of Solidox Kids and Junior toothpastes were improved, and all four varieties were certified for Nordic Swan ecolabelling, making Solidox the first brand in Norway to achieve such status. Our Klar range of sustainable, effective cleaning products has introduced two new sprays and a powder detergent, all of which are Nordic Swan-labelled. All of the Jif sprays now have milder formulas, without the preservative BIT and with fewer unnecessary ingredients.

Lilleborg develops effective, sustainable hygiene and cleaning systems for the professional market. The company has its own research and development department, and sustainability is a key focus of all innovation projects. Digitalisation is high on the agenda, and in 2018 Lilleborg introduced its high-technology cleaning robot to a growing number of customers. In response to the evolving technology trends in the market, Lilleborg has entered into partnership with both Datec and eSmiley. The latter is a digital internal control and HAACP system that makes it easier for food and drink outlets to maintain control of food safety. Lilleborg has a wide range of environmentally labelled products, including the largest share of Nordic Swan-labelled products in its market. In 2018, the company was the first in Norway to launch Nordic Swan-labelled products for cleaning medical instruments and equipment.

In 2018, Pierre Robert Group switched to using Global Organic Textile Standard (GOTS) cotton for all its basic undergarments and children's underwear. The widely recognised certification programme for organic textiles sets stringent requirements for water and energy efficiency and use of pesticides, colorants and chemicals. In addition to the guidelines for environmentally friendly production, GOTS certification entails compliance with requirements for social and safety conditions for workers in every part of the production chain.

Did you know that...?

Orkla Care has 350 Nordic Swan ecolabelled products;

- Pierre Robert Wool Collection – 182 garments
- Lilleborg – 88 products
- Orkla Home & Personal Care – 80 products

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Safe products

GRI-ref.		Unit	2018	2017	2016
Safe food production					
FP5	Percentage of production volume manufactured in compliance with the Orkla Food Safety Standard	%	100	100	100
FP5	Factories audited in compliance with the Orkla Food Safety Standard	Number	102	79	58
FP5	Percentage of food manufacturing sites certified by independent third party	%	53	-	-
416-2	Incidents of non-compliance concerning food safety, risk level 1 (life threatening)	Number	0	0	0
416-2	Incidents of non-compliance concerning food safety, risk level 2 (serious health risk)	Number	8	12	4

Safe deliveries of raw materials

Self-defined	Risk assessment of suppliers: self-assessments	Number	1 810	1 790	1 783
Self-defined	Risk assessment of suppliers: assessments carried out by Orkla	Number	1 352	1 165	1 172
Self-defined	Risk assessment by suppliers: supplier audits	Number	237	320	306

Training in food safety

Self-defined	Participants in courses run by Orkla's Food Safety Team	Number	400	340	576
Self-defined	Extent of courses run by Orkla's Food Safety Team	Hours	3 132	2 384	3 605
Self-defined	Participants in courses run by Orkla factories	Number	4 500	4 900	2 800
Self-defined	Extent of courses run by Orkla factories	Hours	9 700	7 200	12 200

04 Sustainable sourcing

Partnership for sustainable raw materials

At Orkla we work closely with our suppliers to promote a sustainable value chain for food and grocery products.

The big picture

In just a short time, the severity of the climate challenges we face have changed the tone of societal debate, and a new mobilisation for climate action is currently spreading. Orkla's climate risk is primarily related to raw material production and packaging. Increasing water shortages and extreme weather give rise to a risk of smaller crop harvests and less predictability in global commodity markets. This can in turn lead to higher prices and scarcity of several raw materials used in Orkla's products. Orkla therefore participates in various improvement programmes to promote the sustainable production of key raw materials. The environmental challenges created by single-use plastic products have generated broad-based engagement in efforts to find new packaging solutions. Both the retail industry and consumers are increasingly calling for more sustainable everyday products, a demand that represents good opportunities for innovation for Orkla.

Orkla's 2025 sustainability targets

- Ensure respect for workers' rights
- Aim for 100% raw materials from sustainable sources
- Aim for 100% recyclable packaging
- Promote clean oceans and sustainable fishing

Orkla's sustainability pledge

"We will deliver products made from sustainable raw materials"

Our influence

Orkla is committed to developing sustainable brands and ensuring that the raw materials we use are produced with the best interests of human beings, animals and the environment in mind. Our food production makes us one of the biggest purchasers of agricultural and fish raw materials in the Nordic region. By working closely with local farms that grow potatoes, cucumbers, beets and other vegetables, we promote sustainable farming. In doing so, we are also meeting consumer demand for food products based on local raw materials.

Some of the raw materials that Orkla purchases may present social and environmental challenges. Cultivation of palm oil, cocoa and soya can entail a risk of rain forest destruction, child labour and undesirable working conditions. To ensure good practices in our own supply chain and contribute to solving complex challenges, we collaborate closely with our suppliers. We set clearly defined requirements, follow up through visits and dialogue and promote sustainable raw material production by means of certification programmes and other improvement activities. We also handle the risk of raw material shortages by having alternative suppliers for all raw materials at risk.

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Our approach

Orkla purchases raw materials from a large number of suppliers every year, and has therefore adopted a risk-based approach whereby we focus on the suppliers and raw material chains where the risk of non-conformance with Orkla's Supplier Code of Conduct is greatest. A detailed description of our procedures and work processes for sustainable sourcing may be found on Orkla's website under results and reporting.

Our sustainable sourcing work supports the achievement of the UN Sustainable Development Goals SDG 2, SDG 8, SDG 14, SDG 15 and SDG 17.

Developments in 2018

Supplier monitoring and workers' rights

Orkla is making good progress in following up on its most at-risk suppliers and raw material chains to ensure responsible production and stable raw material deliveries. In our monitoring of direct suppliers we primarily identified minor discrepancies, which the suppliers are required to remedy. Orkla has engaged in a major collaborative project run by the Ethical Trading Initiative Norway (IEH) to improve working conditions in the cashew nut supply chain. In 2018, a survey of producers was conducted and work began on a plan for follow-up measures. In India, MTR Foods has worked actively for several years to promote production of clean milk and improve conditions for impoverished dairy farmers. In 2018, the company distributed five-litre stainless steel milk cans to 3 000 Indian dairy farmers as part of the Clean Milk, Healthy Cows campaign.

Orkla has switched to eggs from cage-free hens

In 2018, we decided to use only eggs from free-range hens in our food products in Norway and Sweden. For Orkla Foods Norge this means 35 million eggs, and the transition is to be made by 2020. Orkla Foods Sverige switched to purchasing only eggs from free-range hens on 1. July 2018. The company uses 1 000 tonnes of eggs every year in baking Frödinge cheesecakes, Kladdkakor "mud cakes", Tårtor cakes and Felix pies. The fact that we buy such large volumes of eggs every year makes us an important market player. Felix Austria switched to eggs from cage-free hens as early as 2012.

Sustainable raw materials
The percentage of Orkla's raw materials that are certified increased in 2018. 85% of all fish raw materials are certified under the Marine Stewardship Council (MSC) ecolabel, and we are nearing our goal of being able to document that all our fish raw materials are sustainably fished by 2020. Orkla Health has achieved MSC certification of Møllers Tran cod liver oil, and the company is engaged in dialogue with MSC and other organisations to find solutions for verifying that fish oil from South America is sustainably produced. Orkla has chosen UTZ as its cocoa certification system, and 77% of the raw materials we purchase are certified. Pierre Robert continues to concentrate on use of organic cotton and sustainable textiles and has launched several new products. Orkla Home & Personal Care's factory at Flisa – the world's largest manufacturer of wooden toothpicks – has been certified by the Forest Stewardship Council (FSC).

Did you know...?

Orkla has a total of 5000 environmentally certified products, 67% more than in 2017

The number of organic products has tripled

65% more MSC-certified fish products

43% increase in cocoa-based products certified by UTZ or Fair Trade

Animal welfare
In dialogue with animal welfare and agricultural organisations, Orkla has developed and implemented a Group-wide animal welfare policy. The policy is based on the Five Freedoms of Animal Welfare and applies to sourcing of eggs, dairy raw materials and meat. In this way we aim to increase awareness of animal welfare, provide guidelines for our suppliers and promote more responsible business practices. Orkla companies in Denmark, Sweden, Norway and Austria are in the process of switching to using eggs from free-range hens in their food products, and several of the Orkla Food Ingredients companies have planned to follow suit.

Sustainable agriculture
Orkla is now a member of the SAI Platform, a joint initiative in which food and drink manufacturers work to establish a common standard for sustainable agriculture. We will adopt SAI's tool in Orkla's work and engage in some of the joint

projects run by the organisation. Through contract farming and close cooperation with farms in our local markets, we influence the use of pesticides and ensure that raw materials are produced in accordance with Orkla's standards for safe food, animal welfare and the environment.

Sustainable palm oil

We have continued our efforts to replace palm oil with healthier alternatives, and most of the companies in Orkla Foods and Orkla Confectionery & Snacks have ceased to use palm oil in their products. Orkla primarily uses palm oil in its margarine production. Work on supplier monitoring and certification by the Roundtable for Sustainable Palm Oil (RSPO) has continued, but we did not reach our target of 100% certified palm oil by 2017. The companies that use palm oil have drawn up plans for switching to RSPO-certified raw materials for their own brands in the 2019–2021 period.

Wants to make a difference for cocoa

Cocoa is an important raw material in Orkla's chocolate products. Every year, we buy around 10 000 tonnes of cocoa from small farms in West Africa. To improve the living conditions of cocoa farmers and reduce the risk of child labour, we work closely with UTZ Certified. In 2018, a team of employees from several Orkla companies travelled to West Africa to gain first-hand knowledge of how the cocoa we use in our products is farmed, and to see what the certification programme entails in practice. The farmers receive training in more profitable, sustainable farming methods. This means higher incomes and better living conditions for many families, and enables more farmers to send their children to school. In cooperation with one of our biggest suppliers, we have launched a UTZ sustainability programme to promote improvement and ensure that we are focusing our efforts where the need is greatest.

Concerted effort for more sustainable packaging

We are mobilising across companies and countries to develop new, more sustainable packaging for Orkla products.

Orkla has many thousands of products manufactured by a large number of companies in some 30 countries. We work actively to develop more eco-friendly packaging and products that leave a smaller environmental footprint. In 2018, we launched new targets entailing that all the packaging we use must be recyclable by 2025. At the same time, we are actively exploring possibilities of developing new types of packaging based on renewable raw materials. We work closely with researchers, organisations, other companies and external experts to find solutions to the environmental challenges posed by plastics. If we are to succeed, we must share our know-how and dare to be open about the industry's common challenges.

Orkla's 2025 sustainability targets

- 100% recyclable packaging
- 75% packaging made from recycled materials
- 50% plastic packaging made from recycled or renewable materials

Development in 2018

Recyclable packaging

We have substantially enhanced our level of knowledge by applying new tools and guidelines, working closely with suppliers and participating in research projects. All our companies have drawn up ambitious plans for developing packaging solutions based on recycled or renewable materials in the 2019–2021 period. As much as 94% of Orkla's packaging was recyclable in 2018.

Packaging from recycled materials

We make active efforts to use more recycled materials in our packaging, and such materials constituted around 44% of Orkla's packaging materials in 2018. Orkla wants to help create a market for recycled materials by promoting demand for such alternatives and developing alternatives to fossil plastics that meet our food safety and product quality standards. We have therefore discussed this issue with packaging suppliers, the waste management sector and external centres of expertise to understand the challenges and possibilities that exist in this area.

Recycled and renewable plastics

Around 20% of Orkla's packaging is made of plastic. We have identified which recycled and renewable plastic materials are available to meet our needs, and are working closely with several packaging suppliers to find potential solutions. As a result, we were able to start using recycled and renewable plastics for several new products in 2018.

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The way forward

Sustainable packaging and agricultural raw materials are our top priorities for 2019. We will take active part in joint projects with suppliers, relevant centres of expertise and other companies to develop recyclable packaging and increase use of recycled and renewable materials. To ensure that we use sustainable raw materials, we continue to work closely with suppliers and certification organisations such as MSC, UTZ, RSPO, GOTS and FSC. We will also participate in collaborative projects run by the Ethical Trading Initiative Norway and the SAI Platform.

Plant-based single-use cutlery and edible packaging

The Orkla company Bako offers renewable alternatives to single-use plastic products. Product launches in 2018 include disposable cutlery made of plant starch and disposable plates made of sugar beet residue. One of the most innovative sustainability launches is Bako's Do Eat concept, which consists of dessert bowls and portion moulds made of potato starch. These bowls can be eaten, thereby completely eliminating any waste, or can be thrown away as food waste. Bako sells plant-based packaging to professional customers in the convenience, petrol and service stores (KBS), the hotel and catering industry (HoReCa) and the out-of-home sector.

Did you know that...?

• Orkla Foods Sverige participates in the STEPS research programme, which aims to develop knowledge and solutions that make it possible to establish a sustainable value chain for plastics.

• Orkla is actively involved in the FuturePack research project, which seeks to develop new expertise and technology to make tomorrow's plastic packaging more eco-friendly, using more bio-based and recovered plastic. The project is a collaboration between several universities, companies and organisations.

• Several Orkla companies are participating in the Design for Plastic Packaging Recyclability initiative. This joint project was launched by Green Dot Norway to learn more about what kind of changes in material and design choices that could make packaging easy to recycle.

• Orkla Home & Personal Care has entered into cooperation with the NHH Norwegian School of Economics on research on circular business models. One of Orkla's goals is to find ways of reusing plastic packaging.

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Researching green customer behaviour

Orkla Home & Personal Care wants to find new ways of reducing its own and others' environmental footprint. By participating in a research project in collaboration with the NHH Norwegian School of Economics and other players, OH&PC aims to gain insight into how consumers can be influenced to make greener choices, and how this knowledge can be integrated into new, circular and profitable business models. Through laboratory and in-store experiments, the project explores such issues as "How can Orkla reduce its 'plastic footprint' by reusing packaging in various ways? What kind of customer behaviour is necessary to achieve more sustainable consumption in and outside stores?" The insight acquired in this project will be incorporated into Orkla's innovation work.

Packaging project at Ishøi

Orkla Health's factory in Ishøi, Denmark, produces vitamins and minerals for the Nordic region and several European countries under brands such as Livol, Sanasol and Collett. The vast majority of the products are supplied in plastic containers. As part of its sustainability strategy, Orkla Health aims to switch to more recyclable packaging alternatives, while also reducing use of plastic in every part of the factory's value chain. After a complete analysis was performed at Ishøi based on Orkla's own packaging tool, the ambition for 2020 is for approximately 50% of packaging to be more sustainable. As one of several measures, clearer consumer information is to be provided in all markets on how to dispose of the containers, thereby facilitating increased recycling.

Strong engagement for clean oceans

We have a great deal of work to do to ensure that plastic does not end up in the ocean, but becomes a resource that can be used again and again.

Every year, over eight million tonnes of plastic winds up in the ocean. If we are to have a living ocean in the future, it is essential that we find solutions today to prevent more plastic finding its way into our oceans. The most important thing that we can do besides reducing use of plastic is to make sure that plastic becomes a resource that can be used over and over again.

Developments in 2018

Road map for more sustainable plastic packaging

Orkla is heading a new industry project aimed at drawing up a road map for how players in the packaging value chain in Norway can contribute to realising the EU Strategy for Plastics in a Circular Economy. In June 2019 the project team is to present proposals for ways and means of achieving the goal of making it possible to recover all packaging.

Cooperation on clean oceans and a circular plastics economy

Orkla has actively engaged in the Norwegian Floke single-use plastics programme, in which an innovation approach is used to solve societal challenges. The goal is to prevent plastics from ending up in oceans, clean up beaches and increase the recovery of plastics. Orkla has contributed to the development of the Materials Exchange concept, designed to promote reuse through the purchase and sale of plastics.

Laundry detergent in recycled plastic packaging

Orkla Home & Personal Care's pioneering work on its Klar range has resulted in new solutions that will now be introduced across its whole portfolio. In 2018, all our brands of liquid laundry detergent were packaged in recycled plastic.By reusing this material in packaging, Orkla will spare the planet from 94 tonnes of plastic per year. We are also reducing our CO_2 emissions by as much as 80% simply by switching from new HD-PE plastic to recycled plastic in our laundry detergent bottles.

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Working together to reduce microplastics

Pierre Robert Group and several other Norwegian workout wear manufacturers are participating in a research project at SINTEF to learn more about microfibres in activewear and other textiles. Microfibres are microscopic plastic fibres used extensively in clothing because the fibres are so thin that it is possible to make clothing that both breathes and is waterproof. In this project, researchers from SINTEF, NTNU – Norwegian University of Science and Technology and Sichuan University in China are studying various types of microplastic to determine which ones are harmful to the environment and which one are less so. One method used is to test materials in fresh water and salt water. It is also crucially important to find out what effect this has on marine organisms. Through the project, which began in 2017, Pierre Robert seeks to learn more about what kinds of fibre and materials are most environmentally friendly. The project will run for three years and is financed by the Research Council of Norway.

Beach clean-ups

Several Orkla companies in Norway, Sweden, Denmark and the Baltics have cleaned up plastic litter on beaches, carried out dives and analysed the kind of plastic that ends up on the ocean floor. Orkla collaborates with the Keep Norway Tidy campaign and the Keep Sweden Tidy Foundation in this work. The Orkla brand Klar has adopted a beach on the island of Håøya in the Oslo fjord, and has pledged to organise at least three communal clean-ups each year. In Denmark, Naturli' Foods has teamed up with Plastic Change to mobilise people to take a walk into nature and pick up plastic.

Teaching schoolchildren to recycle packaging

Orkla Foods Sverige has carried out a joint campaign with the Keep Sweden Tidy Foundation to provide information on packaging recovery to third-to-sixth-year Swedish school pupils. Through teaching materials and a film, the two players explain how to recycle packaging from Abba and Felix products, which are some of the most commonly purchased food products in Sweden. A store campaign was also carried out with emphasis on encouraging Swedes to recover packaging in the right way.

Small changes mean less plastic

Several Orkla companies made changes in 2018 to reduce the use of plastic in their products and packaging. In the case of Idun Ketchup, for example, changing the label on the plastic bottles has contributed to a 70% increase in bottle recovery. We have switched from using plastic to cardboard in our Q-tips, and will now spare nature 16 tonnes of plastic every year.

Sustainable sourcing

GRI-ref.	Indicators	Unit	2018	2017	2016
Responsible sourcing procedures					
308-1	Percentage of new suppliers screened for environmental risk	%	100	100	100
308-2	Suppliers screened for environmental risk by audit or self-assessment	Number	307	373	275
308-2	Suppliers with identified environmental non-compliances	Number	7	8	7
308-2	Percentage of suppliers with environmental non-compliances where improvement has been agreed	%	100	-	-
308-2	Percentage of environmental non-compliances that have been remeded	%	75	55	33
308-2	Percentage of suppliers with environmental non-compliances where the agreement has been terminated	%	0	-	-
414-1	Percentage of new suppliers screened using social criteria	%	100	100	100
414-2	Suppliers screened using social criteria by audit or self-assessment	Number	75	67	39
414-2	Suppliers with identified social non-compliances	Number	33	35	23
414-2	Percentage of suppliers with social non-compliances where improvement has been agreed	%	100	-	-
414-2	Percentage of social non-compliances that have been remedied	%	57	26[3]	38[3]
414-2	Percentage of suppliers with social non-compliances where the agreement has been terminated.	%	0	-	-
204-1	Percentage of sourcing from local suppliers[4]	%	56	63	61

[3]Concerns the percentage of non-compliances related to working conditions.
[4]Suppliers located in the same country as Orkla's receiving business.

GRI-ref.	Indicators	Unit	2018	2017	2016
Sustainable raw materials					
301-1	Consumption of raw materials***	Tonnes	959 196	1 037 556	1 052 719
301-1	Percentage of renewable raw materials[5]	%	94		
FP2	Percentage of certified cocoa (UTZ Certified MB or Fairtrade) of total volume purchased	%	77	-	-
FP2	Percentage of certified marine raw materials (MSC or ASC) of total volume purchased	%	85	92[6]	81[6]
FP2	Percentage of certified palm oil and palm kernel oil of total volume purchased	%	75	42	42
	- RSPO SG	%	31	26	26
	- RSPO MB	%	17	12	10
	- RSPO Credits	%	28	4	6
FP2	Percentage of Nordic Swan Ecolabelled textile products	%	4*	11	0
FP2	Percentage of certified (GOTS) organic cotton of total volume purchased	%	10*	28	10
FP2	Percentage of verified mulesing-free merino wool of total volume purchased	%	100	100	100

GRI-ref.	Indicators	Unit	2018**	2017	2016
Sustainable packaging					
301-1	Packaging consumption	Tonnes	133 514	136 590	99 000
301-1	Percentage of packaging made of renewable materials	%	31	35	46
301-2	Percentage of total packaging containing recycled materials	%	44	70	53
Custom	Percentage of total packaging that is recyclable	%	94	90	-

[5]Agricultural raw materials, percentage of sourced value.
[6]Orkla Foods.
*Comprises acquired businesses not previously included.
** Improved method for data collection and calculation of key performance indicators.
*** Raw materials used for own production, ex. finished goods purchased.

Strong engagement for the environment

We urgently need to find solutions to climate changes. That's why we at Orkla are taking action throughout our value chain to reduce emissions in line with the targets scientists consider necessary to reduce global warming.

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The big picture

Climate change is without a doubt the greatest environmental challenge of our time. The new report issued by the UN Climate Panel shows that we urgently need to find solutions, and business and industry are now putting climate risk higher on their agenda. For Orkla, business risk is primarily linked to the price and availability of key agricultural raw materials. Few of our factories are located in areas where there is a risk of flooding or water shortage, but drought and extreme weather can lead to higher water and energy costs. Changes in regulatory frameworks or political framework conditions can also entail increased costs. At the same time, there is growing awareness of the importance of sustainable consumption, and more and more people want environmentally friendly products. For Orkla this means new opportunities for innovation.

Our influence

Compared with the average emissions level for Norwegian industry, Orkla's greenhouse gas emissions are limited. The biggest impact comes from raw material production and at the consumption stage. We therefore strive to reduce emissions in every part of our value chain. Orkla has ambitious goals for transitioning to low carbon operations by focusing on product innovation, investing in renewable energy and reducing our energy and water use and waste. To create growth in the coming years, it is important that Orkla is able to offer products and services with a competitive environmental profile. As a growing number of Orkla factories convert to using renewable energy, the climate impact of our products will be reduced, and more and more products will be made with 100% renewable energy.

Orkla's 2025 sustainability targets

- Make the transition to low-carbon operations
- Reduce greenhouse gas emissions by 60%*
- Reduce energy and water consumption by 30%*
- Aim to be fossil-fuel free
- Reduce food waste by 50%*
- Innovate products and processes

[*Applies to own operations. Base year 2014]

Orkla's sustainability pledge

"Innovate to save the environment"

Our approach

Orkla has adopted a systematic, comprehensive approach to climate work. A detailed description of procedures and work processes may be found on Orkla's website under "Results and reporting".

Our environmental efforts contribute to the achievement of the UN global Sustainable Development Goals SDG 12, SDG 13 and SDG 17.

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Orkla ramps up its climate efforts

We have a goal of reducing the greenhouse gas emissions generated by our own operations by over 60 per cent by 2025, while also increasing our efforts to reduce the indirect climate impacts of raw material production.

By setting targets for reducing greenhouse gas emissions to the extent necessary to avoid the worst impacts of climate change, Orkla is positioning itself for the transition to a low-carbon future.

Developments in 2018

Moving towards renewable energy

Orkla's new climate targets were approved by the international Science Based Targets initiative (SBTi) in July 2018. In addition to our goal of reducing greenhouse gas emissions linked to our own operations by 60%, we are also taking responsibility for the climate impacts of activities in our value chain by implementing measures that target production of the raw materials we use in our products. In adopting our new targets we have committed to reducing greenhouse gas emissions linked to the value chain by 30% by 2025.

Orkla is making good progress on switching from fossil to renewable energy. Our companies make active efforts to replace fossil fuel with environmentally friendly energy, and a growing number of factories are phasing out fossil fuels. MTR Foods has invested in renewable energy for several years, and around 50% of its electric power needs are now met by solar energy. All the electricity we use in Europe is already renewable. Through our own hydropower plants in Sarpsborg and Saudefaldene, we produce five times as much electric power as we use. To document our renewable electricity, Orkla buys Guarantees of Origin linked to our own hydropower plants.

The effect of this is 90% lower greenhouse gas emissions for Orkla's operations. A total of 39% of the energy we use is renewable. Despite increased activity and the acquisition of new factories, Orkla's greenhouse gas emissions were reduced in 2018.

Energy consumption

Reducing energy consumption is an important means of mitigating climate change. Through Orkla's central energy programme we transfer best practices, and are implementing a growing number of energy efficiency projects across our business areas. Many of the factories have carried out process improvements that have reduced energy use. Moreover, investments have been made in new, more energy-efficient production equipment.

The cheesecake factory in Frödinge will be fossil fuel-free

With pellets from a nearby forest, remote heating from the local sawmill and electricity generated by hydropower, Orkla Foods Sverige succeeded in converting its cheesecake factory in Frödinge into a fossil fuel-free plant in 2018. The factory in Frödinge is Orkla Foods Sverige's first facility to use only renewable energy sources, and is an important step on the road to Orkla's goal of fossil fuel-free production.

Some companies have cut their energy use by moving production to other factories or improving existing factories. All in all, Orkla's energy consumption has been reduced by 10% since 2014*.

Water consumption

Most of Orkla's operations are located in areas with a low to medium risk of water shortage, but many companies see the importance of implementing environmental initiatives to reduce their water consumption. Actions reported in 2018 include investments in water treatment and recycling, process improvements, introduction of a measurement programme and training for company employees. All in all, Orkla's water consumption has been reduced by 7.3% since 2014*.

The way forward

Orkla will intensify its climate-related efforts in 2019 by focusing on new measures to promote the reduction of greenhouse gas emissions. Through the Science Based Targets initiative, we will establish plans for reducing emissions from activities outside our own operations. Besides considering measures related to our own raw material sourcing, we will examine how we can be a partner for our suppliers, encourage them to set their own climate targets and monitor their reduction programmes in a more systematic way.

*Adjusted for recent acquisitions and higher turnover.

Putting climate risk on the agenda

In just a short time, the seriousness of climate change challenges has changed societal debate, and climate risk is now being put on the agenda in the financial community and business and industry. For Orkla, Science Based Targets are a key factor for mitigating climate risk. In 2018, as one of two Norwegian companies, Orkla obtained approval of its climate targets by the international organisation, the Science Based Targets Initiative (SBTi). We are thereby committed to reducing emissions to the extent necessary to avoid the worst impacts of climate change. A total of 492 companies have pledged to set science based targets, and 140 of them have had their targets independently approved by the SBTi. For the past 10 years, Orkla has reported environmental information to the investor-initiated CDP, which is the leading system for global climate and environmental reporting. In the CDP report for 2018, Orkla scored a "B". CDP puts great emphasis on the efforts companies make to reduce and control the consequences and financial impacts of climate change. Orkla has based its strategies and plans on climate risk assessments, and in 2019 we will start work on developing a more coherent method of mapping climate risks and low-carbon opportunities. Assessing the implications of various climate change scenarios for Orkla will be of pivotal importance in this context.

Less food waste through efficient resource use

Whether we make ketchup, potato crisps or other grocery products, we consider it important that the raw materials we buy become finished products and not waste. That is both profitable and environmentally friendly.

Orkla has worked for several years to reduce food and other waste in its own production. To raise awareness of this issue, we established a central programme in 2017 to introduce common work methods, activities and initiatives for sharing lessons learned and transferring best practices. Our goal is to reduce food and other waste in our own production operations by 50% by 2025.

Developments in 2018

Orkla's model for reducing food and other waste has been rolled out in one factory after another in the past two years. The first to adopt it were six factories that manufacture crisps and potato products in Norway, Sweden, Denmark, Finland and Latvia. The project team examined every aspect, from the way the potatoes are peeled and processed at the different factories to the way labelling waste can be reduced during production. A special guide for potato peeling is now in use in three production lines that make crisps and French fries. The potato peeling stage on the French fries lines is now

30% faster, and the quantity of potato peelings that end up as waste has been reduced by around 900 tonnes. The good results led to a new project at Orkla's ketchup and dressing factories. Good progress has been made in both projects, and the factories have succeeded in cutting waste by the equivalent of NOK 7 million since the projects started. At the same time, the project has been expanded to include six factories that manufacture bottled liquids. Four of the factories have conducted analyses and identified an average waste reduction potential of around 40%. Overall, these initiatives have contributed to a 27% reduction in organic waste since 2014*.

*Adjusted for recent acquisitions and increased turnover.

Has contributed 1 million meals

The Matsentralen Food Banks in Norway help to address two major societal problems, food waste and poverty. In the past five years, Orkla has contributed a total of 1 million meals to Malsentralen, resulting in an environmental benefit of as much as 1 500 tonnes of CO_2 equivalents. We intend to continue our fruitful cooperation with Matsentralen, and have extended our partnership agreement by another three years, starting in 2019. Orkla has factories in various areas of Norway, and the fact that Matsentralen now has several regional centres gives us an opportunity to contribute in much of the country.

In addition to better utilisation of raw materials, reducing food waste is also a question of ensuring that good products are not thrown away. We therefore partner with Matsentralen Food Banks in Norway and the Matmissionen Social Supermarket in Sweden, so that our companies can give excess food to people in need. Orkla Suomi provides surplus food to WeFood, Finland's first supermarket for excess food, while Hamé collaborates with organisations that distribute food. We also work closely with customers and other industry players to reduce food waste in every part of the value chain. Orkla Food Sverige participates in a joint project with the County Governor of Skåne, Sweden, to reduce food waste. In Norway, Orkla Foods is involved in the Optimat project, which assesses ways of optimising use of raw materials. Through campaigns and recipes, several of the companies have provided pointers and advice on how customers and consumers can use up product leftovers before their shelf date expires.

The way forward

In 2019, we will apply the analysis methodology from our waste reduction efforts to more and more production lines in Orkla factories. Through the Norwegian partnership agreement to reduce food waste, efforts are being made to put in place measurement indicators for the various product categories and step up our efforts to cut food waste, improve sorting and optimise resource use. Several Orkla companies will increase investments in new packaging solutions so as to effectively avoid food waste.

Integrating sustainability into the innovation process

Orkla wants relevant sustainability issues to be considered at every step of the innovation process. This is important if we are to succeed in developing products and solutions that represent good environmental choices.

Making the transition to sustainable production and consumption calls for new thinking when it comes to choosing raw materials and packaging, product design, production processes and waste management. To achieve a significant reduction in the products' climate footprint and promote circular value chains, Orkla is making sustainability an integral part of its innovation work.

Developments in 2018

In 2017-2018, Orkla drew up common guidelines and templates for its companies' product development, and in this connection included sustainability as part of the decision-making criteria at every stage of the innovation process. At the same time, we began implementing Orkla's Climate Impact Tool, which was developed in 2017 in cooperation with the RISE Research Institute of Sweden and is used to calculate products' climate impact. The tool provides an insight into which parts of the products' value chain have the greatest environmental impact, and makes it easier to identify potential improvements.

In 2018, a number of our companies launched new products with a reduced environmental impact and actively explored opportunities related to circular value chains and business models.

The way forward

We will continue our efforts to investigate new, more eco-friendly products, services and processes in 2019 by collaborating with suppliers of raw materials and packaging and participating in external research products and partnerships. We will also hold a Master class in sustainability for the Marketing function and share lessons learned from our work on sustainable innovation and brand-building through internal networks.

Products with environmental benefits

In 2018, several Orkla companies launched products with eco-smart packaging and other innovations that represent good environmental choices.

Anamma Vegoprins
Plant-based alternatives to meat from Anamma have low environmental impact. Bio-based plastic packaging.

Solidox toothpaste for children
Norway's first Nordic Swan eco-labelled toothpaste for children and adolescents.

Jordan Green Clean
Environmentally friendly toothbrush for children and adults with a handle made of 100% recycled plastic and bristles in renewable material.

Grumme floor mop
Degradable wet mops with green soap, labelled a "Good Environmental Choice".

Pierre Robert
Pierre Robert is introducing organic cotton in a growing number of its products.

BOB
Dilutable fruit drinks in recyclable bottles made of recovered plastic.

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Environmental engagement

GRI-ref.	Indicators	Unit	2018	2017	2016	Baseline year 2014
Climate impact[7] and emissions						
305-1	Greenhouse gas emissions from own operations, Scope 1	tCO_2e	118 408	127 821	122 163	134 320
305-1	Greenhouse gas emissions from bio-energy, Scope 1	tCO_2e	368	369	312	274
305-2	Indirect greenhouse gas emissions, Scope 2, location-based calculation	tCO_2e	71 159	73 113	72 605	94 797
305-2	Indirect greenhouse gas emissions, Scope 2, market-based calculation*	tCO_2e	12 583	15 873	141 292	147 965
305-3	Estimated greenhouse gas emissions from raw materials and packaging, Scope 3[8]	tCO_2e	1 514 245	1 304 938	1 250 585	1 187 665
305-4	Greenhouse gas emissions (Scope 1 and 2 location-based) per FTE	tCO_2e/FTE	10.2	11.1	10.7	12.7
305-4	Greenhouse gas emissions (Scope 1 and 2 location-based) per revenue	tCO_2e/ NOK mill.	4.6	5.1	5.2	5.6
305-6	Emissions of ozone-depleting substances (ODS) used in cooling media	tCFC-11e	0.012	0.012	0.016	0.014
305-7	Emissions of sulphur dioxide	Tonnes	11	16	16	16
305-7	Emissions of nitrogen oxide	Tonnes	97	103	104	107

GRI-ref.	Indicators	Unit	2018	2017	2016	Baseline year 2014
Efficient resource use						
302-1	Electricity from internally generated hydropower, sold	GWh	2 320	2 760	2 490	2 570
302-1	Total energy usage, own operations	GWh	1 062	1 096	1 080	1 085
302-1	Total energy usage from renewable fuel sources incl. Guarantees of Origin (market-based calculation)	GWh	413	408	2.2	0
302-1	Energy usage – fossil fuel[10]	GWh	551	586	571	494
302-1	Energy usage – fossil-free fuel	GWh	46	51	42	82
302-1	Energy usage – purchased electricity	GWh	417	408	414	464
302-1	Energy usage – purchased thermal energy, incl. remote heating	GWh	49	47	50	46
302-3	Energy usage per FTE[11]	MWh/FTE	57.4	60.3	59.5	65.9
302-3	Energy usage per revenue turnover[11]	MWh/NOK mill.	26.0	27.7	28.6	28.9

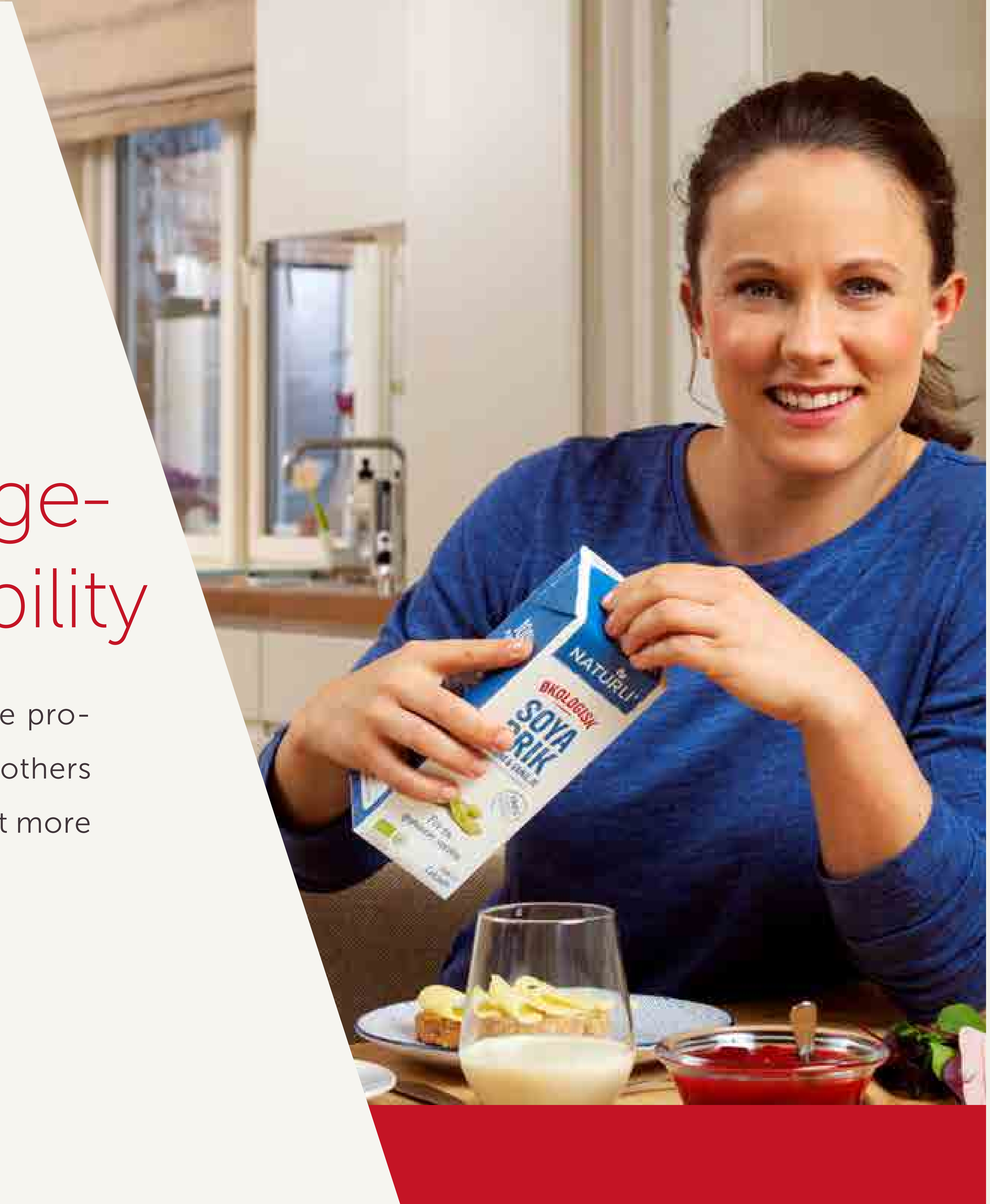
[7]Calculations are based on the Greenhouse Gas Protocol Initiative (GHG Protocol). Include CO_2, CH_4, N_2O, HFC, PFC, SF_6 and NF_3.
[8]Raw materials and packaging estimated to account for 90-95% of emissions from Scope 3 activities. For 2016 and 2017, previously reported figures have been adjusted for acquired companies with the exception of Hamé raw material consumption. The figures for 2014 have not been adjusted for subsequently acquired companies.
[9]ODS; Ozon depleting substances. There is a plan for phasing out these cooling media in the few factories where in use (India and Russia).
*Market-based emissions take into account the effect of Guarantees of Origin for electricity (GHG protocol appendix)
[10]Includes use of natural gas, propane, oil, diesel, petrol. Orkla uses standard translation factors for different types of fuel..
[11]Total energy usage in own operations, all types.

Continued on next page

GRI-ref.	Indicators	Unit	2018	2017	2016	Base year 2014
Efficient resource use						
303-1	Total water withdrawal, own operations	Million liter	7.6	8.2	8.1	8.2
303-1	Water withdrawal from external water works	Million liter	5.0	5.1	4.9	7.3
303-1	Water withdrawal from groundwater	Million liter	2.6	3.2	3.2	0.8
303-1	Water withdrawal from collected rainwater and surface water	Million liter	0.0	0.0	0.0	0.0
303-3	Water recycled in own operations	%	13%	12%	12%	N/A
303-4	Discharge of effluents to seawater	Million liter	0.1	0.0	0.1	N/A
303-4	Discharge of effuents to external treatment plants	Million liter	3.6	3.9	3.3	7.0
303-4	Discharge of effluents to surface water	Million liter	1.9	2.0	2.2	0.4
303-4	Emissions to water – BOD	Tonnes	5 760	5 428	4 882	4 874
303-4	Emissions to water – COD	Tonnes	5 451	6 046	4 112	5 895
303-4	Discharge of effluents in areas of water scarcity	Million liter	0.1	0.1	0,1	0.1
306-2	Organic waste	Tonnes	65 906	74 845	86 603	90 033
306-2	Non-hazardous waste – sorted	Tonnes	11 925	13 344	13 695	17 476
306-2	Non-hazardous waste – mixed	Tonnes	14 864	11 672	11 231	10 691
Others						
306-2	Hazardous waste	Tonnes	296	216	233	392
306-3	Significant spills	Number	6	19	-	-
307-1	Fines and sanctions for non-compliance with environmental laws and/or regulations	Number	1	1	-	-
307-1	Fines for non-compliance with environmental laws and/or regulations	NOK mill.	0	0	0	0

Strong local engagement for sustainability

We at Orkla want to contribute to sustainable production and consumption. By partnering with others we can make a real difference and help make it more attractive to choose sustainable solutions.



The big picture

If we are to succeed in mitigating climate change and ensuring sustainable resource use, we must be prepared for a genuine transition. Strong global competition, combined with new technology and innovation, is giving rise to innovative thinking about how value is created. At the same time, the UN Sustainable Development Goals offer new business opportunities for trade and industry. Many countries are struggling with growing economic inequality and high unemployment. These challenges underscore the vital role played by the business community in creating new jobs, increasing productivity and fostering respect for fundamental rights. Cooperation and new partnerships between business and industry, the authorities and other key social players will be crucial to creating growth that is economically, environmentally and socially sustainable.

Our influence

Given our presence in many countries, it is important that Orkla finds local answers to the major global challenges. That is why we work to integrate sustainability into our operations and make it an increasingly significant source of innovation and growth. Our efforts support the achievement of the UN's global goals. We are committed to partnering with others to make it attractive to choose sustainable solutions and to make this a profitable endeavour in the long term. Orkla wants to be an attractive employer that offers good working conditions and fair and competitive terms for all its employees. By investing in skills development and working systematically to ensure good occupational health and safety, we make a positive contribution to our employees' job satisfaction, health and personal development.

Orkla's 2025 sustainability targets

- Create strong local engagement for sustainability
- Be a responsible employer
- Create healthy workplaces with zero injuries
- Create a culture of integrity everywhere
- Create local engagement that makes a positive difference

Orkla's sustainability pledge

"Be the change we want to see"

The Orkla companies also create economic ripple effects for local communities in the form of jobs, tax revenues and procurement from local suppliers.

We contribute to the achievement of the UN's global Sustainable Development Goals SDG 12 and SDG 15.

Orkla's approach

Orkla has adopted a systematic, coherent approach to promoting care for people and society, which includes focus on stakeholder dialogue and social engagement, being a responsible employer, integrity and occupational health and safety. A detailed description of procedures and work processes may be found on Orkla's website under "Results and reporting".

Partnering to promote sustainable development

Partnerships are crucial to achieving global sustainability goals. Through dialogue and collaboration with others, Orkla can make a real positive difference and contribute to attaining the UN's global Sustainable Development Goals.

A good stakeholder dialogue

At Orkla we engage in an ongoing dialogue with our different stakeholder groups in order to understand their concerns, discuss important topics that affect our operations, and thereby be able to adapt to changes in society. Partnering with other companies, customers, authorities, research communities and advocacy organisations also makes it possible for us to aim for larger solutions and make more progress than we would be able to do on our own. We consider it important to adopt a common approach to stakeholder dialogue in all our key markets, and in 2018 we strengthened this dialogue in several areas, including our aim to establish a circular value chain for plastic packaging. We have continued to pursue our dialogue with government authorities and politicians at national level and in the EU on trade policy framework conditions, other factors relating to our operations and the efforts to promote good public health and achieve the global Sustainable Development Goals. We have also held dialogue meetings with retailers, investors and voluntary organisations to discuss our sustainability work. Our most important stakeholders and the topics addressed in our dialogue in 2018 are summarised in a separate illustration and described in the respective thematic chapters.

Strong local engagement

The Orkla companies partner with local authorities, schools and organisations to make a positive contribution to their local communities. In 2018, Orkla contributed a total of NOK 30.5 million through several local projects, including:

- **Sponsoring school meals:** Through its partnership with the Akshaya Patra Foundation, MTR Foods helps to ensure that more than 6 000 schoolchildren in 60 schools in the Karnataka region of India receive nutritious school meals. The company has pledged to provide 1 million meals per year.
- **The Salvation Army:** The Toro, KiMs and Pierre Robert brands jointly contributed NOK 1.5 million to enable the Salvation Army to give more people a full belly and warm feet.
- **Fotballstiftelsens Gatelag:** Orkla Foods Norge has actively supported street football teams for many years, providing food and drink and guidance on a healthy diet.
- **Spreading joy:** Orkla Health's Vitaminbjørner vitamin bears have donated over NOK 2 million since 2015 to the Sykehusklovnene hospital clowns in Norway, Denmark and Finland.
- **Good experiences for children:** Hamé collaborates with a number of orphanages and other children's institutions in the Czech Republic on providing children with good experiences at summer camps and in other social activities.
- **No bullying!** Orkla Foods Sverige partners with the Friends organisation in Sweden to combat bullying. Orkla Eesti supports a programme run by Kiusamisvaba Kool to prevent bullying in Estonian schools.
- **Soup to the People:** TORO works closely with the Salvation Army in the Soup to the People programme, donating around 200 000 portions of soup every year.
- **Helping children**: Orkla Suomi in Finland partners with the Lasten Päivän Säätiö foundation which gives all its profits to support disadvantaged children.

Promoting the UN's Sustainable Development Goals #taketheball

In spring 2018, we launched Orkla's new sustainability targets up to 2025 at a breakfast meeting in Oslo that was attended by Prime Minister Erna Solberg. At meetings with heads of state all over the world, she uses a sustainability football to symbolise a concrete challenge to pick up the ball and mobilise to achieve sustainability goals. In 2015, Orkla President and CEO Peter A. Ruzicka responded to the call for business and industry to contribute to meeting the UN Sustainable Development Goals (SDG), and signed the Businessworthy Pledge.

At the breakfast meeting, we rose to the Prime Minister's challenge to mobilise a strong business team to help realise the global SDG, and invited ten other Norwegian companies that have set sustainability high on their agenda to join us. Our request to these companies was that they support the global SDG, focus special attention on a particular SDG, and participate in a joint communications campaign to promote the UN SDG. On 1 August, during the Norway Cup international youth football tournament, ten top executives from NorgesGruppen, Coop, Rema, Tine, Mills, Storebrand, Jotun, DNB, PWC and DNV-GL trooped onto the football field with Orkla's President and CEO. There they played against a team of Norwegian television and sports celebrities, in a unique event indicating our companies' intention to mobilise to achieve the UN Sustainable Development Goals.

Promoting more sustainable consumption

At Orkla we are committed to making sustainability an integral part of our operations and an increasingly important source of innovation and growth. Several of our companies are engaged in initiatives to promote more sustainable consumption.

In 2018, we at Orkla and our brands carried out various campaigns and initiatives to inspire consumers to adopt healthier, more sustainable consumption habits. We also launched several new products that make it easier to make good environmental choices in everyday life.

Ready for a greener everyday life

To make products that consumers want to use, the team behind Orkla's lifestyle brand Klar (Ready) considers it essential to work closely with the people who actually use the products and involve them in the testing process. In the closed Facebook group "We are ready for a greener everyday life", the members have the opportunity to submit new products launched to thorough testing. This gives the Klar team vital, concrete and honest feedback, both praise and criticism, on the products. Decisions regarding names, fragrances and the colour of the packaging are based on the comments received, before the products are finally placed

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Naturli' Social Food Room

Naturli's new store in Copenhagen is about much more than selling green groceries over the counter. For Naturli' it's a question of meeting consumers in their everyday world, and creating a strong social community in which they provide assistance, including helping people in need find a job. That's why the store is called the Naturli' Social Food Room. Naturli' has a long history of actively involving consumers in product development and testing, and through the Plant Movement the company engages in a close dialogue with people interested in a plant-based lifestyle. Through the store that opened in autumn 2018, they also meet consumers face to face. Every day, they deliver plant-based products to customers in the local community who are unfortunately unable to come to the store themselves.

on store shelves. Three new effective, green product offerings from Klar in 2018 were the Nordic Swan eco-labelled laundry powder detergent with 0% fragrance, a kitchen spray and a spray for glass and mirrors.

Investing in an online store for sustainable products

In 2018, Orkla Venture invested in the start-up company Tise, and signed a partnership agreement that gives Orkla access to a digital platform with focus on sustainability that targets the rapidly growing millennials user group. The reuse app Tise is an online second-hand store that sells fashion and interior design items. Tise also has a dedicated online store for sustainable products that are hard to buy used, where Orkla can offer a variety of relevant products. As part of the agreement, Tise is to enable as many Orkla companies as possible to maintain an active presence on the platform.

Meaningful campaigns

Pierre Robert Group continued its #Imadeyourclothes campaign in 2018 by interviewing and filming some of the people who work at the factories that manufacture their garments. By showing the videos, Pierre Robert aims to build consumer awareness and highlight the value inherent in every single little garment: someone has spent time sewing this sock or shirt, so take care of it, repair it and recycle it. Several of the Norwegian companies collaborate with the Salvation Army and other organisations by contributing an amount for each product sold to support their work.

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Orkla Home & Personal Care supported the Pink Ribbon campaign with eight of its biggest brands in a major store campaign conducted jointly with the Coop grocery chain. The Pink Ribbon campaign is an annual event to raise funds for the Norwegian Cancer Society and is earmarked for efforts to prevent breast cancer. For one month, the Milo, Klar, Omo, Comfort, Dr Greve, Blenda, Define and Lano donated NOK 2.50 for each product sold, contributing a total of NOK 3 million to the Norwegian Cancer Society's breast cancer prevention work.

More recycling and reuse of clothing

Through the 2018 Norwegian Textiles campaign, Pierre Robert and others in the fashion industry sought to take responsibility and inspire consumers to recycle and reuse their clothing more often. A total of 18 players participated under a joint manifesto describing both what the industry intends to do and what consumers must do if we are to achieve more sustainable consumption in practice. Pierre Robert participated in breakfast meetings and debates, and organised activities in social media to generate interest and provide inspiration. Among other things, they showed a video made by Tise in which summer dresses are styled with wool garments from Pierre Robert to demonstrate how the same clothes can be worn in several seasons.

Kalles Kaviar #påminn-pappa (Remind Daddy)

In November, 600 000 tubes of Kalles Kaviar creamed cod roe spread were given a new look. To support the Swedish Prostate Cancer Federation's campaign and remind daddies how important it is to take a prostate cancer test, Kalle now has a moustache. Prostate cancer is the most common type of cancer in Sweden, and 27 men are diagnosed with the disease every day. To focus attention on this issue, one of Sweden's best known faces was given a moustache. Kalle has essentially looked the same since the product was first launched in 1954. His revamped appearance is all for a good cause. Through the #PåminnPappa campaign, Kalles Kaviar wanted to take advantage of every breakfast and every supper to remind all fathers how important it is to get tested.

Participating in business-relevant research projects

To gain new insight and develop solutions for sustainable production and consumption, Orkla takes part in a number of research projects, including:

- **Plant proteins:** Orkla Foods Norge is participating in the Innovative and Sustainable Exploration of Plant Proteins in Future Foods project. The project aims to promote increased consumption of plant-based food, which has a positive environmental impact, makes it easy for consumers to make good, sustainable food choices and creates higher value in a circular bio-economy.
- **Algae:** Through the Energy-efficient Processing of Macroalgae in Blue-green Value Chain project, Orkla Foods Norge is exploring the field of algaculture. The purpose of the project, which was concluded in 2018, was to see how cultivating algae can have a positive effect on climate change and be a nutritious biological resource in food production.
- **Circular business models:** Orkla Home & Personal Care is taking part in a research project with the NHH Norwegian School of Economics to define the circular business models of the future.
- **The environmental impact of food:** Orkla Foods Sverige is participating in a joint project run by the RISE Research Centre of Sweden to develop new tools for documenting and sharing information on the environmental impact of food products.

Important topics addressed in Orkla's dialogue with stakeholders in 2018

Employees
- Working environment and job satisfaction
- Skills development
- Restructuring of businesses
- Business strategy and 2025 sustainability targets

Authorities
- Circular value chain for plastics
- Sustainable food production
- Partnership for better public health
- Negative effects of taxes on chocolate and sugar
- Deforestation-free supply chains
- Ongoing dialogue with supervisory authorities
- Act on good trading practices
- Agricultural policy and customs issues
- Supply chain due diligence

Customers and consumers
- Healthier products
- Food allergies
- Plastic and environmentally friendly packaging
- Reduction of food waste
- Sustainable raw materials
- Animal welfare
- Recycling of textiles and packaging
- Product safety
- Contingencies
- Product issues

Suppliers
- Deforestation-free supply chains
- Sustainable packaging
- Sustainable fish and seafood
- Improvement work cocoa (Ivory Coast)
- Improvement work cashew nuts
- Sustainable textile production
- Animal welfare
- Compliance with Orkla's Supplier Code of Conduct

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Important topics addressed in Orkla's dialogue with stakeholders in 2018

Local communities*
- Environmental initiatives
- Restructuring of businesses
- Working environment
- Collaboration on vocational training
- Building projects

*In 2018, five Orkla companies received complaints from neighbours concerning noise or odours from production operations, and all of them have taken action to minimise the problems.

Advocacy organisations
- Circular value chain for plastics
- Marine environment protection
- Animal welfare
- Reduction of food waste
- Textile recycling system
- Renewable energy
- Reduction of supply chain greenhouse gas emissions
- Deforestation-free supply chains
- Sustainable fishing
- Supply chain due diligence

Reseach communities
- Circular business models
- Recycling of plastic
- Reduction of greenhouse gas emissions (Science Based Targets)
- Products' environmental impact
- Development of healthy, sustainably produced food
- Efficient resource use
- Food waste
- Omega-3 and fish

Investors
- Orkla's sustainability strategy
- Climate risk
- Risk management
- Reporting

A responsible employer

In 2018 Orkla continued its efforts to develop good workplaces characterised by respect and consideration, human resource development, equal opportunities and fair working conditions.

Developments in 2018

Respect for human rights

Orkla's Responsible Employer and Human Rights Policy, which was revised in 2016-2017, was implemented in all the business areas in 2018. The companies carried out training activities and assessed the risk of undesirable practices in the fields covered by the policy. The assessment showed that the risk of breaches of workers' rights in Orkla's operations is generally low in every part of the Group. The companies have formal procedures for wage setting and employment contracts that prevent discrimination, safeguard the right to negotiated collective agreements and ensure necessary protection of employee rights. None of Orkla's businesses have employees under the age of 15, and most of them apply a minimum age limit of 18 years for all employees. In connection with implementation of the policy, we have drawn up detailed guidelines for efforts to prevent discrimination and harassment, fulfil the right to employee consultation and ensure that all employees receive a wage that meets their fundamental needs. In the course of the year, the companies elaborated plans to further strengthen efforts to realise our goal of being a responsible employer.

Comprehensive skills development

Orkla wants to help provide good opportunities for development at all levels and in every country. In the past few years, we have significantly strengthened our human resource development work by improving its organisation, reviewing Orkla's central competence-building programme and increasing use of digital training. In 2018, we implemented MyLearning, a new portal solution for skills development that facilitates better, far more efficient training. To enhance expertise and further professionalise our HR work, we also conducted an HR skills development programme across business areas and countries in 2018. As part of Orkla's central skills development programme, a number of courses and digital training

programmes were held with focus on both specialised and leadership skills. Furthermore, the companies provided extensive local training in work-related topics such as environment, health, safety and food safety.

A harmonised process and common IT tools for evaluating and following up on management staff and administrative employees were applied in around 70% of the companies, and our aim is for all the companies to undergo this process. The companies also have their own employee follow-up procedures. The goal is for all employees to have regular development interviews.

Active employee involvement

In 2018, Orkla conducted an employee opinion survey for the entire Group, the results of which have been used to identify improvement initiatives and involve employees in developing the businesses. The level of participation in the survey was good, with a response rate of 84%. The results showed that Orkla has a large percentage of highly engaged employees. Many of them are proud to work for the company, and feel that they are able to influence their own work. Key areas of improvement are related to collaboration across departments and companies and efficiency of internal work processes. We also see a need to do even more to facilitate employees' career development. The results of the survey have been reviewed in all the companies, and the employees have been involved in discussions on improvement initiatives.

Good formal arrangements for dialogue between management and employee representatives play an important role in ensuring collaboration on business strategy and appropriate handling of matters affecting employee interests. In 2018, the corporate agreement that governs collaboration between Orkla and employee unions was extended until 2020. To supplement the central corporate democracy arrangements, we consider it important to ensure that every company in the Group has formal consultation channels. Around 87% of Orkla employees work in companies that have established such channels. Besides wage negotiations, the main topics of management-employee dialogue in 2018 were the employee opinion survey, occupational health and safety and the restructuring projects described on page 122. When changes are carried out that affect the employees, the employee representatives must be involved at an early stage, in line with a process agreed on with Orkla's main employee representatives. The period of notice at local level varies depending on national legislation and the type of matter involved, but four to eight weeks' notice is typically given in connection with major changes.

Diversity and equal opportunity

Orkla strives to promote diversity and equality of opportunity. In 2018, several of the companies drew up diversity policies based on Orkla's central diversity guidelines, and a number of companies have implemented awareness-raising and training programmes.

Orkla has worked systematically for many years to increase the percentage of women in management positions. This has resulted in a positive trend in the percentage of women at all management levels, and our goal is to attain an even gender balance in management staff by 2025. In connection with the formal annual employee evaluations that are carried out in every part of the Group, we make a point of looking for women candidates for management positions, and when recruiting new management team members at company or business area level, we adhere to the requirement that there must always be at least one woman candidate.

Orkla has formal, harmonised recruitment and wage-setting procedures that are designed to prevent discrimination. Nevertheless, internal wage analyses show that there are certain differences in pay between female and male employees that cannot be explained by the formal criteria for wage determination. We make targeted efforts to avoid such disparities, and have developed a database solution that makes it easier for companies to analyse wage information with a view to detecting undesirable differences.

In the past few years, Orkla has improved its internal procedures for handling and reporting complaints and whistle-blowing matters. In 2018, there was one case of possible discrimination in connection with wage determination or employment, but no blameworthy circumstances were revealed.

The way forward

Efforts to promote human resource development, employee consultation and diversity will continue in 2019, and the areas of improvement identified through the risk assessment and the employee opinion survey in 2018 will be followed up. We will review and further improve Orkla''s leadership development programme for younger management staff and continue to implement Orkla's system of development interviews and career planning.

Celebration of International Women's Day

MTR Foods in India is one of many companies that carry out activities to increase awareness of the importance of diversity. In connection with International Women's Day on 8 March, the company has conducted training programmes and celebrated its female employees for many years. In 2018, the day was devoted to training in self-defence. During the year, MTR Foods also provided e-learning training in the company's ethical guidelines and prevention of sexual harassment for all employees.

Integrity

Orkla seeks to build a corporate culture based on integrity and good business practices, and in 2018 intensified its efforts to promote good judgement and prevent ethical risk.

Developments in 2018

Corruption and other unethical business practices limit the possibilities for economic development and hamper competition on equal terms. In 2018, we continued our long-term efforts to ensure broad knowledge of Orkla's Code of Conduct and prevent undesirable conduct. Orkla has zero tolerance for corruption, price-fixing agreements, market sharing, or other measures that impede free competition. Orkla's anti-corruption manual, competition law manual and Code of Conduct describe the Group's standards and guidelines in this area. In 2018, we launched a new, improved whistle-blowing function that makes it easier to communicate concerns anonymously. Orkla discovered that management staff at one of our recently acquired factories were taking advantage of their own positions for financial gain. The managers concerned have been replaced and internal control procedures have been improved.

We have provided e-learning training in anti-corruption for a substantial number of employees. We also carried out other training activities related to anti-corruption and Orkla's Code of Conduct in several of the companies. Under Orkla's Supplier Code of Conduct, suppliers are required to have zero tolerance for corruption, and suppliers are monitored if necessary. In connection with acquisitions and large investments, Orkla assesses the risk of becoming involved in breaches of anti-corruption and competition law, and we take risk-mitigating action whenever we consider the risk to be obvious.

Capital employed by geographical area

Norway	16 237	41%
Sweden	6 894	18%
Denmark	5 454	14%
Finland and Iceland	2 554	7%
Baltics	1 920	5%
Rest of Europe	5 258	13%
Rest of World	823	2%
Total (NOK mill.)	**39 140**	

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Orkla's influence in local communities

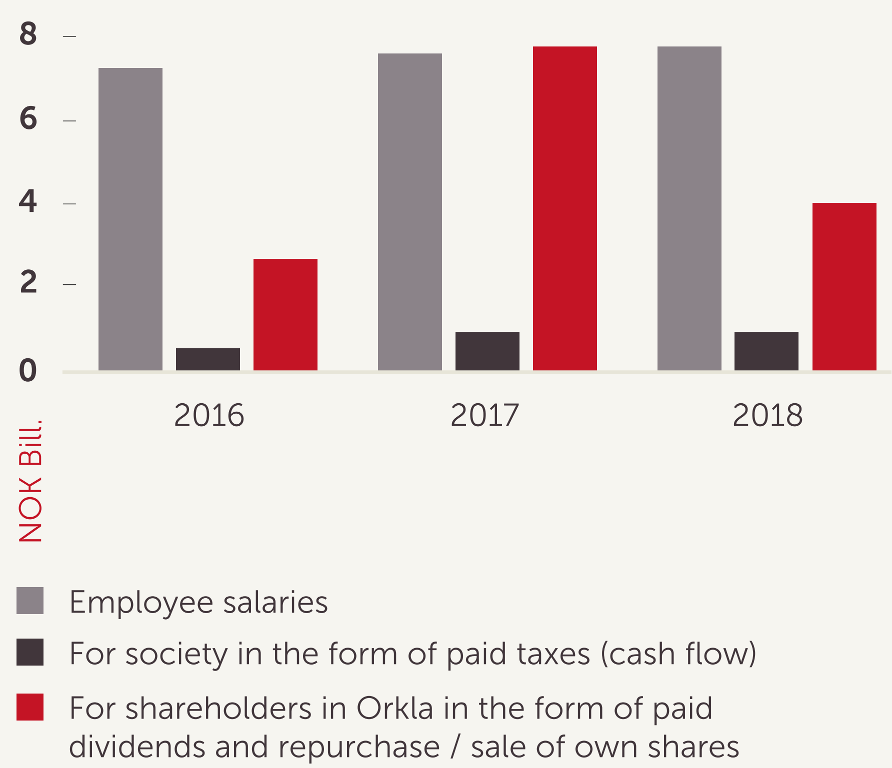
To ensure long-term competitive operations, Orkla made a number of investments in 2018 in production improvements and some major restructuring projects. We launched a five-year programme of investments in pizza production at Stranda, Norway, developed our dilutable fruit drink production operations in Kumla, Sweden, invested in expanding and upgrading our food production operations in Eslöv, Sweden, and prepared for the construction of a new, modern chocolate factory in Latvia. These increased investments create positive ripple effects in the form of jobs and sourcing from local suppliers. The manufacturing facilities in Ålesund, Norway and Ringkøbing, Denmark have been closed down, and Orkla has decided to close down production operations in Kungälv, Sweden and Åbo, Finland. Employee representatives have been involved in the restructuring projects through regular consultation meetings, and the 40 employees who have lost their jobs in connection with the factory closures have been helped to find new employment or acquire further training. Orkla has also emphasised the importance of openness and dialogue with key stakeholders in the local community.

In the 2016-2018 period, Orkla reinforced its internal control procedures for collecting, processing and storing personal data. Among other things, the Group's policies were revised, internal guidelines were drawn up and extensive training was provided. The Group's processes for handling personal data on employees and consumers were also improved.

The way forward

Efforts to provide internal training and raise awareness of ethical issues will continue in 2019, and we will update Orkla's anti-corruption manual. Orkla will also continue to implement new, improved tools for identifying and monitoring risk related to breaches of legislation and internal guidelines. This will include the continued implementation of the Group's programme for compliance with the EU's General Data Protection Regulation.

Value creation at Orkla



Good, responsible marketing

Orkla is committed to responsible marketing to children and young people, and has adopted a restrictive practice in this respect. In connection with the implementation of Orkla's 2025 sustainability targets, the companies have laid plans to follow up on the principles governing responsible marketing set out in the EU Pledge. In Norway, Orkla has played a key role in establishing the voluntary trade collaboration body, the Food and Drink Industry Professional Practices Committee, and sits on the Committee's Board. In 2018, the Orkla companies had no significant matters related to the regulatory framework for marketing or the voluntary guidelines with which we have pledged to comply. Two cases concerning product labelling non-conformances were reported. In one of the cases, the supervisory authorities upheld Orkla's claim. Proceedings were still in progress in the other case at the start of 2019. In Norway, the authorities have taken the initiative of establishing guidelines for influencer marketing aimed at reducing body-related pressure. Orkla has participated in drawing up voluntary guidelines, in collaboration with Mediebedriftenes Landsforening, the national association of media companies, and Annonsørforeningen, the Norwegian advertisers' association.

Occupational health and safety

We at Orkla want to promote our employees' good health. We apply the same occupational health and safety requirements in every country in which we operate, and our companies work systematically to prevent injuries and foster a health-promoting environment.

A safe, healthy working environment is a fundamental right for all employees, and essential to ensuring stable, efficient operations. Orkla's ambition is to operate with zero injuries. We will achieve this goal by means of effective risk management and systematic efforts to prevent injury and work-related diseases and by involving all our employees. Orkla wants all its companies to establish principles for health-promoting workplaces, adapting the principles to conditions in the individual countries.

The companies' EHS work is based on the requirements and guidelines set out in Orkla's EHS Standard. Our systematic improvement efforts focus on establishing a high level of knowledge and awareness, taking preventive action and ensuring effective rehabilitation. Risk analysis lays the foundation for establishing effective action plans, and all the companies have prepared such analyses. A significant proportion of the risks across companies and countries are related to ergonomics, use of machinery, falls, storage and handling of chemicals, the psychosocial working environment and inadequate knowledge of safety risks and procedures.

Developments in 2018

Systematic training and follow-up

Our EHS work is monitored at company and business area level through the submission of status reports to the management teams, the Group Executive Board and Orkla's Board of Directors. In the 2014-2018 period, audits were conducted of all Orkla factories, and newly acquired companies were quickly introduced to Orkla's EHS standard. In addition to ensuring that the entities operate in compliance with laws and regulations, the purpose of the audits is to promote learning through systematic observation and feedback.

One Orkla EHS culture

In 2018, we developed the Orkla Golden Rules to strengthen our EHS culture and underpin our efforts to achieve zero-injury operations. The Golden Rules underscore key areas of the Group's EHS Standard that must be complied with by all our employees, and are based on learning acquired in our EHS work and from incidents at Orkla. Orkla held an initial Group-wide network meeting to involve all of Orkla in developing the Golden Rules. In week 42, a special EHS week was organised with a wide range of activities and training at all Orkla offices and factories. On this occasion, the Golden Rules were introduced, and all our employees wrote what

EHS means to them on special posters. MTR Foods received an award for its implementation. Orkla also held courses, workshops and network gatherings at which specialist personnel were able to exchange experience and share expertise. In 2018, around 28 000 hours of organised EHS training were provided at Group and company level for some 13 500 employees.

Health-promoting work

The recorded sickness absence rate at Orkla was 4.8% in 2018, on a par with the rate in 2017. The sickness absence rate is a complex issue determined by many factors at different levels which influence each other in different ways and to different degrees. The rate varies substantially from one country and company to another, and there is continuous focus on improving follow-up of absences and carrying out preventive activities. In addition to the broad range of activities related to training and improvement of internal procedures, several companies carried out initiatives in 2018 aimed at promoting good health. Preventive activities are important for avoiding future sickness absence, and we therefore also identify health risk so that we can take appropriate action. A number of the Orkla companies have carried out risk assessments that show that ergonomics and the psychosocial/organisational working environment are the factors that have the greatest impact on sickness related to work and occupational health. Visible leadership and follow-up of employees are crucial to achieving results, and working environment surveys are used as a tool in identifying key areas of improvement. Many of the companies have made long-term plans for improving the working environment based on the results of Orkla's global employee opinion survey.

Injuries

The number of injuries resulting in absence declined from 2017. The Lost Work Day Rate (LWDR) in 2018 was 4.1, compared with 5.7 in 2017. In 2018, there were few occupational accidents in which employees were severely injured. Most of the injuries were of a less serious nature, such as cuts, blows or crushing injuries. All the incidents were followed up in the respective companies. Reporting and investigating EHS incidents provide important information for preventing future accidents and incidents, and for ensuring continuous improvement. This helps create greater understanding and awareness of risk within the organisation.

Although the number of occupational accidents in Orkla is not satisfactory, many companies saw improvement in the course of 2018. Many of the companies recorded no injuries leading to absence during the year. The companies have taken a variety of steps to prevent injuries. In addition to extensive training and improvements in internal procedures, various types of safety measures were implemented such as increased use of personal safety equipment, better labelling and replacement of old equipment. With a view to achieving our vision of zero injuries, Orkla Foods Sverige and Orkla at central level worked to promote understanding of the importance of management-employee safety dialogues. Information materials were prepared and training was provided which will be further implemented in all areas of Orkla.

The way forward

We will continue to maintain full focus on preventing injuries and promoting health in every part of the organisation, so as to reduce both sickness absence and the number of injuries. Experience shows that by working in accordance with key EHS principles, we can achieve improvement. We must therefore continue to concentrate on and emphasise the application of these important principles throughout our organisation, while also introducing new measures to ensure that further progress is made towards our goal of zero injuries.

Care for people and society

GRI-ref.	Indicators	Unit	2018	2017	2016
Stakeholder dialogue and social engagement					
203-1	Support for external organisations and projects				
	- Investment in local infrastructure	NOK million	1.5	-	-
	- Financial support for projects beneficial to the community	NOK million	17.6	17.3	16.5
	- Value of products and work (pro-bono)	NOK million	11.4	12.3	4
415-1	Financial support received from government during the year				
	- Subsidies for operational investments, labour and environmental measures	NOK million	40.8	14.6	17.9
	- Raw material price compensation	NOK million	159.8	161.2	173.6
202-2	Percentage of management team members recruited from the country where the business is located	%	91	95	-
415-1	Total value of political contributions	NOK million	0	0	0
417-2	Formal complaints and matters related to product labelling laws and regulations	Number	2	3	2
417-3	Formal complaints and matters related to marketing laws and regulations	Number	0	2	1

Responsible employer

405-1	Employee diversity				
	- Total number of employees	Number	18 510	18 178	18 154
	- Percentage of administrative employees	%	47.0	40.5	39.4
	- Percentage of blue-collar workers	%	53.0	59.5	60.6
	- Percentage of employees under 30 years old	%	13.0	-	-
	- Percentage of employees 30-50 years old	%	51.7	-	-
	- Percentage of employees over 50 years old	%	35.3	-	-
	- Total percentage of women employees	%	47.8	48.7	48.5
	- Percentage of women administrative employees	%	47.5	47.4	48.6
	- Percentage of women blue-collar workers	%	48.1	49.7	48.4

GRI-ref.	Indicators	Unit	2018	2017	2016
Responsible employer					
405-1	Diversity in management				
	- Total number of managers at all levels	Number	1 847	1 824	1 751
	- Total percentage of women in management	%	41.4	40.0	37.5
	- Total percentage of managers under 30 years old	%	1.7	-	-
	- Total percentage of managers 30-50 years old	%	61.5	-	-
	- Total percentage of managers over 50 years old	%	36.8	-	-
	- Managers on Orkla's Group Executive Board	Number	10	9	9
	- Percentage of women on Orkla's Group Executive Board	%	20	11	11
	- Managers in management teams at Group, business area and company level	Number	338	382	407
	- Percentage of women in management teams at Group, business area and company level	%	34.9	34.3	35.1
401-1	Workforce changes				
	- Number of new employee hires	Number	2 054	1 810	-
	- Employee turnover (new employees/total number of employees)	%	14*	10	-
404-1	Average hours of organised training per employee	Hours	6.8	7.0	8.2
412-1	Human rights risk assessment				
	- Number of business units that have carried out risk assessments during the year	Number	35	-	-
	- Percentage of business units that have carried out risk assessments during the year	%	83	-	-
412-2	Employee training on human rights issues				
	- Total number of hours of training	Hours	29 700	26 700	22 800
	- Percentage of employees who have received training during the year	%	74	45	39
404-3	Percentage of employees covered by procedures for regular career development interviews				
	- Total number of employees	%	61	59	63
	- Management	%	86	97	93
	- Administrative employees	%	85	76	83
	- Sales personnel	%	88	83	81
	- Blue-collar workers	%	48	45	49
406-1	Formal complaints or cases related to breaches of anti-discrimination rules	Number	1	2	0

*Includes new employee hires and former employees assigned to a new job in merged companies

GRI-ref.	Indicators	Unit	2018	2017	2016
Integrity					
	Anti-corruption training				
205-2	- Number of employees trained during the year	Number	3 946	1 807	671
	- Percentage of employees trained during the year	%	21.3	9.9	3.7
205-3	Formal complaints and cases related to breaches of anti-corruption rules	Number	1	0	0
206-1	Formal complaints and cases related to breaches of competition law	Number	0	0	0
418-1	Formal complaints and cases related to breaches of privacy rules	Number	0	-	-
	Non-compliance with laws and regulations in the social and economic area				
419-1	- Value of significant fines	NOK million	0	-	-
	- Number of non-monetary sanctions	Number	0	-	-
	- Number of cases brought through dispute resolution mechanisms	Number	4	-	-

Occupational health and safety

GRI-ref.	Indicators	Unit	2018	2017	2016
	Sickness absence[12]				
403-10	- Sickness absence, total	%	4.8	4.7	4.3
	- Sickness absence, Norway	%	5.9	5.3	5.6
	- Sickness absence, Nordics (excl. Norway)	%	4.4	4.4	4.5
	- Sickness absence, rest of world	%	4.8	4.8	3.1
	Injuries[12]				
403-9	- Lost Workday Rate[13] (LDWR), total		4.1	5.7	5.4
	- Lost Workday Rate, Norway		2.3	3.8	3.5
	- Lost Workday Rate, Nordics (excl. Norway) and Baltics		5.4	7.2	7.7
	- Lost Workday Rate, rest of world		3.5	5.3	3.7
	- Total Recordable Rate (TRR)[14], total		8.9	12.7	10.8
	- Total Recordable Rate (TRR), Norway		8.7	9.3	9.1
	- Total Recordable Rate, Nordics (excl. Norway) and Baltics		11.9	16.2	15.4
	- Total Recordable Rate, rest of world		6.2	8.7	5.6
	- Work-related fatalities		0	0	0

[12]Figures for 2018 include several recently acquired businesses not previously included in the reporting.
[13] Number of injuries leading to absence per million hours worked.
[14] Number of injuries leading to absence, need for medical treatment or restricted work per million hours worked.

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INCOME STATEMENT, EARNINGS PER SHARE AND STATEMENT OF COMPREHENSIVE INCOME

The Income Statement *presents revenues and expenses for the companies consolidated in the Group and measures the results of companies that are reported using the equity method. Results for the accounting period are measured in accordance with International Financial Reporting Standards (IFRS). All internal matters have been eliminated. The income statement distinguishes between what is deemed to be the Group's operations and what is deemed to be of a more financial nature. Special matters related to operating activities are presented on a separate line as "Other income and expenses". Material divestments are presented on the line for "Discontinued operations". The notes explain the contents of the different lines of the statement.*
Earnings per Share *are calculated on the basis of profit or loss for the year attributable to owners of the parent divided by the average number of shares outstanding.*
The Statement of Comprehensive Income *shows the result of all income and expenses that are credited/charged to equity, but are not included in profit or loss for the year and are not transactions with owners.*

Amounts in NOK million	Note	2018	2017
INCOME STATEMENT			
Sales revenues	7, 9	40 629	39 324
Other operating revenues	7, 9	208	237
Operating revenues	7, 9	40 837	39 561
Cost of materials	10	(20 348)	(19 718)
Payroll expenses	11, 12	(7 734)	(7 567)
Other operating expenses	13	(6 764)	(6 457)
Depreciation, amortisation and write-downs	7, 19, 20	(1 214)	(1 184)
Operating profit before other income and expenses (EBIT adj.)	7	4 777	4 635
Other income and expenses	7, 14	(482)	(201)
Operating profit	7	4 295	4 434
Profit/loss from associates and joint ventures	6	264	313
Interest income	15	24	90
Interest costs	15	(183)	(239)
Other financial income	15	7	76
Other financial costs	15	(49)	(103)
Profit/loss before taxes		4 358	4 571
Taxes	16	(1 004)	(980)
Profit/loss after taxes from continuing operations		3 354	3 591
Gains/loss/profit discontinued operations	38	-	5 066
Profit/loss for the year		3 354	8 657
Profit/loss attributable to non-controlling interests	33	82	75
Profit/loss attributable to owners of the parent		3 272	8 582

Amounts in NOK million	Note	2018	2017
EARNINGS PER SHARE			
Earnings per share (NOK)	17	3.24	8.43
Earnings per share for continuing operations (NOK)	17	3.24	3.46
STATEMENT OF COMPREHENSIVE INCOME			
Profit/loss for the year		3 354	8 657
Items after tax not to be reclassified to profit/loss in subsequent periods			
Actuarial gains and losses pensions	12, 16	(66)	(30)
Changes in fair value shares		(4)	-
Items after tax to be reclassified to profit/loss in subsequent periods			
Change in unrealised gains on shares	16, 24	-	(53)
Change in hedging reserve	16, 31	70	75
Items charged to equity in associates and joint ventures and discontinued operations	6, 38	10	(1 026)
Translation effects		10	1 259
Hedging of net investment in foreign operations	31	(50)	(171)
Comprehensive income		3 324	8 711
Comprehensive income attributable to non-controlling interests		82	90
Comprehensive income attributable to owners of the parent		3 242	8 621

STATEMENT OF FINANCIAL POSITION

***The Statement of Financial Position** presents the Group's assets, broken down into non-current and current items, and shows how they have been financed, broken down into equity and non-current and current liabilities. All internal matters between companies in the Group have been eliminated. IFRS-based financial statements are oriented towards the statement of financial position and only items that satisfy the criteria for definition as assets and liabilities may be recognised in the statement of financial position. Equity is a residual.*

The different standards determine how the items in the statement of financial position are to be treated. The statement of financial position items are explained in the notes to the financial statements.

Amounts in NOK million	Note	2018	2017
ASSETS			
Property, plant and equipment	7, 18, 20	12 760	11 683
Intangible assets	7, 18, 19	20 577	19 881
Deferred tax assets	16	33	40
Investments in associates and joint ventures	6, 7	3 849	3 683
Other assets	21	488	425
Total non-current assets		37 707	35 712
Inventories	22	5 875	5 684
Inventory of development property	22	132	113
Trade receivables	23	5 990	6 165
Other receivables	23	814	883
Shares and financial assets	24	13	17
Cash and cash equivalents	25	1 978	4 834
Total current assets		14 802	17 696
Total assets		52 509	53 408

Amounts in NOK million	Note	2018	2017
EQUITY AND LIABILITIES			
Paid-in equity	32	1 971	1 995
Retained earnings		31 658	32 413
Non-controlling interests	33	451	430
Total equity		34 080	34 838
Interest-bearing liabilities	28, 29	4 775	4 820
Deferred tax	16	1 566	1 604
Provisions and other liabilities	26	3 060	3 130
Total non-current liabilities		9 401	9 554
Interest-bearing liabilities	28, 29	455	359
Income tax payable	16	686	583
Trade payables	27	4 907	4 940
Other liabilities	27	2 980	3 134
Total current liabilities		9 028	9 016
Total equity and liabilities		52 509	53 408

STATEMENT OF CASH FLOWS

The Statement of Cash Flows *in accordance with IFRS shows how the Group's cash flows are broken down into cash flow from operating, investing and financing activities, according to the indirect method. The cash flow statement explains the general changes in the Group's liquidity since the previous accounting period. Orkla also prepares a separate cash flow statement that is used for internal management purposes and is part of the basis for the comments in the Report of the Board of Directors and the presentation in the segment information; see Note 40.*

Amounts in NOK million	Note	2018	2017
Profit before taxes		4 358	4 571
Amortisation, depreciation and write-downs		1 270	1 330
Changes in net working capital, etc.		(314)	(268)
Profit/loss from associates and joint ventures	6	(264)	(313)
Dividends received from associates and joint ventures	6, 38	183	1 720
Gains, losses and write-downs shares and financial assets, moved to investing activities	15	-	(47)
Financial items without cash flow effect	15	59	8
Taxes paid		(904)	(934)
CASH FLOW FROM OPERATING ACTIVITIES		4 388	6 067
Sale of property, plant and equipment	8	38	142
Investments in property, plant and equipment and intangible assets	8	(2 332)	(1 729)
Sold companies	5, 6, 38	47	12 345
Acquired companies	5, 6	(972)	(801)
Net sale of shares and financial assets	24	-	43
Other capital transactions		(42)	69
CASH FLOW FROM INVESTING ACTIVITIES		(3 261)	10 069

Amounts in NOK million	Note	2018	2017
Dividends paid		(2 685)	(7 790)
Sale of treasury shares		57	163
Buy-back of treasury shares		(1 435)	(113)
Net paid to shareholders	32	(4 063)	(7 740)
Proceeds from borrowing		9	381
Repayments of borrowings		(9)	(4 774)
Net change in short-term debt/current liabilities		(36)	(468)
Net change in interest-bearing receivables		120	78
Net cash flow from/(used in) financing acitivites[1]	29, 40	84	(4 783)
CASH FLOW FROM FINANCING ACTIVITIES		(3 979)	(12 523)
Currency effect on cash and cash equivalents		(4)	17
Change in cash and cash equivalents		(2 856)	3 630
Cash and cash equivalents 1 January		4 834	1 204
Cash and cash equivalents 31 December	25	1 978	4 834
Change in cash and cash equivalents		(2 856)	3 630

[1]Reported excl. interest-bearing liabilities and receivables that are part of company acquisition and divestiture transactions; see the reconciliation in Note 40.

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STATEMENT OF CHANGES IN EQUITY

***Equity** changes from one period to the next in accordance with the Group's comprehensive income. Furthermore, transactions with owners will be presented as separate items. This applies to matters such as dividends to shareholders, share issues and the Group's purchase and sale of treasury shares. Equity cannot be distributed to shareholders in its entirety. The equity in Orkla ASA (see the annual financial statements for Orkla ASA) constitutes the basis of calculation for and the limitation on the dividends paid to the Group's shareholders.*

Amounts in NOK million	Share capital	Treasury shares	Premium fund	Total paid-in equity	Unrealised gains shares[1]	Hedging reserve[2]	Items charged to equity in associates and JV[3]	Net translation effects	Other retained equity	Total Group	Non-controlling interests	Total equity
Equity 1 January 2017	1 274	(1)	721	1 994	53	(303)	1 082	649	29 999	33 474	402	33 876
Profit/loss for the year	-	-	-	-	-	-	-	-	8 582	8 582	75	8 657
Items in comprehensive income	-	-	-	-	(53)	75	(868)	915	(30)	39	15	54
Group comprehensive income	-	-	-	-	(53)	75	(868)	915	8 552	8 621	90	8 711
Dividends paid	-	-	-	-	-	-	-	-	(7 738)	(7 738)	(52)	(7 790)
Net purchase of treasury shares	-	1	-	1	-	-	-	-	49	50	-	50
Change in non-controlling interests (see Note 33)	-	-	-	-	-	-	-	-	1	1	(10)	(9)
Equity 31 December 2017	1 274	0	721	1 995	0	(228)	214	1 564	30 863	34 408	430	34 838
Profit/loss for the year	-	-	-	-	-	-	-	-	3 272	3 272	82	3 354
Items in comprehensive income	-	-	-	-	-	70	10	(40)	(70)	(30)	-	(30)
Group comprehensive income	-	-	-	-	-	70	10	(40)	3 202	3 242	82	3 324
Dividends paid	-	-	-	-	-	-	-	-	(2 643)	(2 643)	(42)	(2 685)
Net purchase of treasury shares	-	(24)	-	(24)	-	-	-	-	(1 354)	(1 378)	-	(1 378)
Change in non-controlling interests (see Note 33)	-	-	-	-	-	-	-	-	-	-	(19)	(19)
Equity 31 December 2018	1 274	(24)	721	1 971	0	(158)	224	1 524	30 068	33 629	451	34 080

[1]See Note 24 for unrealised gains before tax. [2]See Note 31 for the hedging reserve before tax. [3]Items charged to equity in associates and joint ventures (JV).

Oslo, 13 March 2019
The Board of Directors of Orkla ASA

Stein Erik Hagen
Chairman of the Board

Grace Reksten Skaugen
Deputy Chair of the Board

Peter Agnefjäll

Ingrid Jonasson Blank

Lars Dahlgren

Liselott Kilaas

Nils K. Selte

Terje Utstrand

Karin Hansson

Sverre Josvanger

Roger Vangen

Peter A. Ruzicka
President and CEO

(This translation from Norwegian of the Annual Financial Statements has been made for information purposes only.)

Notes Group

NOTE 1 GENERAL INFORMATION

This general information provides an overview of the financial statements presented, who approves them and where the company is listed on a stock exchange. Individual events that are unusual in this year's financial statements and any changes in accounting principles compared with previously presented financial statements are also described.

General

The consolidated financial statements for Orkla ASA, including notes, for the year 2018 were approved by the Board of Directors of Orkla ASA on 13 March 2019. Orkla ASA is a public limited company and its offices are located in Nedre Skøyen vei 26, Oslo in Norway. Orkla ASA's organisation number is NO 910 747 711. The company's shares are traded on the Oslo Stock Exchange. The Orkla Group operates primarily in the branded consumer goods, renewable energy and real estate sectors. The business areas are described in the segment information in Note 7.

The financial statements for 2018 have been prepared and presented in full compliance with applicable International Financial Reporting Standards (IFRS), as adopted by the EU.

Changes were made in Orkla's Group Executive Board as of 1 October 2018. The former Orkla Foods has been restructured internally as Orkla Foods Nordic and Baltics and Orkla Foods International, but is still presented as a single operating segment externally. In the segment information, HQ is aggregated with Branded Consumer Goods. HQ activities are chiefly related to Branded Consumer Goods.

The Orkla-format statement of cash flows has been adapted to the new reporting structure and begins by presenting "Cash flow from operations Branded Consumer Goods incl. HQ". Orkla Hydro Power and Financial Investments are similarly presented as an aggregated item. This statement of cash flows is presented in the Report of the Board of Directors and in Note 40.

The Group adopted two new IFRS standards as of 1 January 2018, IFRS 9 and IFRS 15.

Implementation of *IFRS 9 Financial Instruments* has little impact on the Group and none of the standard's rules regarding classification, impairment testing or hedge accounting will materially affect the financial statements. Historical figures have not been restated and no changes have been made in the statement of changes in equity. The hedging relationships that qualify for hedge accounting under IAS 39 will continue to qualify under IFRS 9. In future, moreover, more hedging relationships may qualify for hedge accounting under IFRS 9. This will not have any material effect on the financial statements either. As at 31 December 2018, Orkla had only a limited number of financial assets in the statement of financial position. A new set of rules prescribing whether changes in the value of this type of asset are to be recognised in the ordinary income statement or merely reflected in the statement of comprehensive income will therefore have no material effect. The Group has decided that shares of this type are to be reported in the comprehensive income statement. The switch from an "incurred loss model" to an "expected loss model" has no material effect on the valuation of trade receivables.

IFRS 15 Revenue from Contracts with Customers provides a comprehensive framework for revenue recognition. The main message in IFRS 15 is that different performance obligations in the contract must be identified and expected consideration must be reported as revenue according to a pattern that reflects the transfer of the delivery, goods or services to the customer. Having examined in detail the companies' recognition of revenue in the light of the new standard, Orkla has determined that the standard does not entail material changes in revenue recognition compared with earlier years. The Group's deliveries largely consist of sales of consumer goods to wholesalers. On the whole, sales are considered to be isolated performance obligations that have been satisfied and recognised in income when goods are transferred to the counterparty, either when they leave the Group's factory premises or when they arrive at the customer's property. Sales are recognised as revenue at the expected value of the consideration after deducting benefits to customers including estimated bonus payments, discounts, joint marketing activities and reduction in the price of seasonal goods. The sales revenue is presented after deduction of value-added tax and other types of indirect taxes such as a sugar tax. The Group has applied a retrospective method for implementing the new revenue recognition standard. Implementation has not entailed any changes in comparative figures nor any effect on the Group's statement of changes in equity.

No changes have otherwise been made in IFRS framework conditions that have a material effect on this year's financial statements. For information regarding future changes in financial standards, see Note 3.

The Group has amended its Long-Term Incentive (LTI) programme; see Note 11. The new programme is based on a new entitlement model and will apply as from 2019. The bonuses in the current programme were earned in full in 2017; see Note 11 and Note 5 in the financial statements for Orkla ASA.

Accounting principles and estimate uncertainty are largely incorporated into the individual notes. The principles have been highlighted with a "P" (P) and estimate uncertainty is marked with an "E" (E). Estimate uncertainty will vary, and the areas in which estimates will be most significant will be specified in both Note 4 and in the relevant notes, with cross-references. In addition, certain sustainability elements have been presented in relevant notes and marked with an "S" (S).

Note 1 cont.

Apart from the changes described above, the Group has made no other changes in presentation or accounting principles nor applied any new standards that materially affect its financial reporting or comparisons with previous periods.

Alternative performance measures (APM)
Orkla uses EBIT (adj.) in both the income statement and in its presentation of segment results. EBIT (adj.) is defined as "Operating profit or loss before other income and expenses". "Other income and expenses" are items that only to a limited degree are reliable measures of the Group's current earnings. The main matters are disclosed in Note 14.

Orkla uses the terms "Organic growth" and "Underlying EBIT (adj.) growth" to explain changes in operating revenues and EBIT (adj.), respectively. "Organic growth" and "Underlying EBIT (adj.) growth" are not accounting terms, but are used in the Report of the Board of Directors and in Note 7. Both terms have been adjusted for currency translation effects, acquisitions and disposals.

The term "Replacement and expansion investments" is used in the "Orkla-format cash flow presentation" and in Note 7 Segments.

The definitions of the various alternative performance measures, may be found on page 224.

Sale and purchases of companies
Acquisitions and disposals of companies are presented in Note 5. The biggest acquisition in 2018 was Health and Sports Nutrition Group HSNG AB.

Other matters
Orkla has no loan agreements containing financial covenants.

Impairment tests that have been carried out confirm that the capitalised value as at 31 December 2018 of the Group's most exposed assets is intact; see Note 18.

The Norwegian krone weakened to some extent against the EUR and strengthened against the SEK. Overall, this resulted in the recognition of NOK 30 million in negative translation differences.

The Group sold its 50% stake in Sapa at the end of September 2017. The results from Sapa are presented on a separate line as "Discontinued operations" in the comparative figures; see Note 38.

SUSTAINABILITY

A good dialogue with stakeholders is essential to fulfilling Orkla's responsibility towards various stakeholder groups, adapting to changes in society and building trust in Orkla's operations. Orkla is engaged in an active dialogue with customers, suppliers, employees, shareholders, authorities and civil society actors, and wishes to provide an insight into the way the Group deals with matters of importance for the Group's operations and key stakeholder groups. Orkla reports on the progress made in its efforts to address environmental and social issues in a Sustainability Report, which is included as a separate section in Orkla's Annual Report. Further information on the reporting criteria may be found on page 63.

NOTE 2 BASIS FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

It is crucial to understanding these financial statements that the user is informed of the fundamental principles for the recognition of items and the consolidation of the Group. Similarly, the use of parentheses and the currency in which the financial statements are presented will be significant for the correct understanding of the financial statements.

The assets in the statement of financial position are recognised on the basis of the purchase cost, and this will largely determine their further accounting treatment. Normally, the purchase cost will be the highest value at which an asset may be recognised. However, this does not apply to the treatment of financial assets and accounting hedges, which are reported at fair value on an ongoing basis. Assets that no longer justify their value are written down to the recoverable amount, which is the higher of value in use and fair value minus selling costs.

The financial statements are prepared on the basis of the underlying assumptions of the accrual accounting principle and the going concern assumption. In general, the latter can be justified by Orkla's financial strength with an equity ratio of 64.9% as at 31 December 2018 and good liquidity that more than covers the Group's liabilities in the next 12 months; see Note 29.

An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it consists of cash or cash equivalents on the statement of financial position date or when the entity concerned does not have an unconditional right to defer payment for at least 12 months. Other items are non-current. A dividend does not

Note 2 cont.

become a liability until it has been formally approved by the General Meeting. Discontinued operations and assets held for sale are presented on separate lines as current items.

All amounts are in NOK million unless otherwise stated. Figures in parentheses are expenses or disbursements (cash flow). The functional currency of the parent company (Orkla ASA) is NOK and the Group's reporting currency is NOK.

The information in *italics* preceding the income statement, statement of financial position, statement of cash flows and notes is provided to give a more detailed explanation of the various presentations.

Consolidation principles and recognition of companies in the Group

The consolidated financial statements show the overall financial results and the overall financial position when the parent company Orkla ASA and companies in which the Group has sole control (subsidiaries) are presented as a single economic entity. All the companies that are consolidated have applied consistent principles and all intercompany matters have been eliminated. In addition, joint ventures and associates are presented using the equity method, while any minor assets in other companies are presented at fair value, with changes in value reported in the comprehensive income statement.

Interests in companies in which the Group alone has controlling interest (subsidiaries) have been consolidated, line by line, on a 100% basis in the consolidated financial statements from the date the Group has control and are consolidated until the date that such control ends. The Group will have control if it has the power to govern the subsidiary, has exposure or rights to variable returns from the subsidiary and can affect the amount of the returns in the subsidiary. If the Group has control, but owns less than 100% of the subsidiaries, the companies are still consolidated, line by line, on a 100% basis, while the non-controlling interests' share of profit or loss after tax and their share of equity are presented on separate lines. As at 31 December 2018, no companies were consolidated in the Group based on the rules regarding de facto control, i.e. that the Group has < 50% ownership, but by virtue of the ownership composition nonetheless in fact has control.

Profit or loss from joint ventures and associates will be presented on an ongoing basis as part of the Group's profit or loss. These are both presented using the equity method. This applies to interests in companies in which the Group together with others has controlling interest (joint ventures) and interests in companies where the Group has significant influence (associates). Both these categories are disclosed in Note 6.

Smaller ownership interests in other companies are disclosed in Notes 21 and 24. These financial investments are largely treated as "fair value and recognised in comprehensive income" and capitalised at fair value with both changes in value and any gains or losses taken to comprehensive income.

Principles for translating foreign currency

Revenues and expenses in subsidiaries with a different functional currency from that of the parent company are translated monthly at the average exchange rate for the month and accumulated. Statement of financial position items in subsidiaries with a different functional currency are translated at the exchange rate on the statement of financial position date. Translation differences are reported in comprehensive income. Translation differences arise from two different situations. The first is when an income statement with a different functional currency than that of the parent company is translated at the average monthly exchange rate, while the statement of changes in equity is translated at the closing rate. The second is when the opening and closing rates of the statement of changes in equity differ. When the average exchange rate in the income statement and the opening rate in the statement of changes in equity differ from the closing rate, the changes in equity will necessarily be explained in part by translation differences. Translation differences related to borrowing and lending in another functional currency, identified as net investment, are also reported in comprehensive income. This is shown as a separate item. All exchange rates have been obtained from Norges Bank.

Main exchange rates on consolidation against NOK

	Average of monthly exchange rates		Closing rate 31 December	
	2018	2017	2018	2017
EUR	9.60	9.33	9.95	9.84
SEK	0.94	0.97	0.97	1.00
DKK	1.29	1.25	1.33	1.32

Transactions in foreign currencies are recognised at the exchange rate on the date of the transaction. Financial receivables and liabilities in foreign currencies are presented at the exchange rate on the statement of financial position date, and any gain/loss is reported in the income statement as a financial item. Other monetary items (e.g. accounts receivable and accounts payable) in a foreign currency are presented at the exchange rate on the statement of financial position date, and any gain/loss is reported in the income statement as an operating item.

NOTE 3 PRESENTATION OF THE FINANCIAL STATEMENTS AND FUTURE DEVELOPMENTS

Key accounting principles elaborate on the basic principles and describe how individual items in the financial statements have been treated. All the principles are consistent with current IFRS, but choices, interpretations and adaptations must nonetheless be made which may affect the preparation and presentation of financial statements to varying degrees. Accounting is constantly evolving and changes in rules can to some extent give rise to significant changes in accounting practices.

As stated by way of introduction, the disclosure of accounting principles has been presented in the relevant notes. This has been done so as to give financial statement users as clear an overview as possible when they consult the various notes.

The financial statements

The complete set of financial statements consists of an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows and a statement of changes in equity. The financial statements present one comparative year.

The income statement shows the Group's ordinary profit or loss, is divided into lines for various income and expense items and culminates in the Group's profit or loss for the year. Orkla has chosen to present its income statement based on a traditional classification of expenses by nature.

The statement of comprehensive income is based on the Group's profit or loss for the year and presents items that are recognised in equity, but not included in ordinary profit or loss for the period. Actuarial gains and losses on pensions and gains or losses and changes in the value of share investments are recognised in equity with permanent effect, while the other items are recognised in equity temporarily and reversed when the related assets/items are sold or settled. Corresponding items in associates and joint ventures are reported in the same way.

The statement of financial position is traditionally structured, the assets section starting out with non-current assets and ending with cash and cash equivalents. Interest-bearing receivables except for cash and cash equivalents are not presented on separate lines, based on materiality considerations. The interest-bearing items are disclosed in notes. In the equity and liabilities section, a distinction is made between equity, interest-bearing and non-interest-bearing items.

The statement of cash flows is structured using the indirect method, presenting cash flows from operating, investing and financing activities, and explains changes in "Cash and cash equivalents" in the reporting period.

Orkla also presents an Orkla-format cash flow statement in the Report of the Board of Directors and in Note 40. The bottom line of the statement shows the change in net interest-bearing liabilities. Segment information refers to this statement, as the Group's cash flows are reported and managed in this way. Cash flow from operations is an important management parameter at Orkla; see Note 7.

The statement of changes in equity presents all the items reported in equity, including items from the comprehensive income statement. Other items in addition to the latter consist of transactions relating to shareholders, such as dividends, the purchase and sale of treasury shares and transactions relating to non-controlling interests.

Future changes in standards

The consolidated financial statements will be affected by future changes in IFRS. The International Accounting Standard Board (IASB) has both published standards and is working on projects that will affect the Orkla Group's financial statements to varying degrees. The most important standard that will entail changes is the new IFRS 16 Leases (enters into force in 2019). Work is also in progress on changes in the IFRS Conceptual Framework and a new standard for Insurance Contracts (IFRS 17). IFRS 17 is not expected to have a material impact on Orkla's financial statements.

IFRS 16 will impose a requirement to capitalise all non-immaterial leases. The capitalisation requirement will result in changes in the cost picture with reductions in other operating costs, higher depreciation and financial costs due to capitalisation and the effects of the discounting of liabilities that arise. EBIT (adj.) will increase due to the classification of the interest effect as financial costs. In the statement of financial position, the value of property, plant and equipment will be higher, liabilities will be correspondingly higher, and the equity ratio will fall. More detailed calculations are presented in Note 34.

NOTE 4 USE OF ESTIMATES AND ASSUMPTIONS IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The preparation of financial statements entails that the executive management must make decisions on the closing date on the basis of the information and discretionary assessments available on the date in question. This may apply to estimates and assumptions relating to financial statement items or other matters that may also have a material influence on the valuation of the company. Any material change in value up until the time the Board of Directors presents its report will be reflected in either the financial statements or in the notes.

Areas of greatest estimate uncertainty

The management has made use of estimates and assumptions in preparing the consolidated financial statements. This applies to assets, liabilities, revenues, expenses and supplementary information related to contingent liabilities.

Fair value assessments are affected by estimates of required rates of return. The required rate of return is determined by using the capital asset pricing model and is affected by estimates of risk-free interest and risk premium.

Most statement of financial position items will be affected to some degree by estimate uncertainty. This is disclosed in the respective notes. Some areas are substantially affected by estimate uncertainty, and the areas where estimates will have the greatest significance will be:

Amounts in NOK million

Accounting item	Note	Estimate/assumptions	Carrying value
Goodwill	18, 19	Net present value future cash flows/NSV[1]	14 673
Trademarks with indefinite life	18, 19	Net present value future cash flows/NSV[1]	5 438
Property, plant and equipment	7, 18, 20	Net present value future cash flows/NSV[1]	12 670
Discounts, reduces prices of seasonal goods, etc.	9, 27	Estimated need for provision in line with agreements	(1 376)

[1]NSV: Net sales value

The areas where there is the greatest risk of material changes are capitalised goodwill and trademarks with an indefinite useful life. This is because the amounts involved are substantial and the value of the asset is based on recognition principles from purchase price allocations. Valuations relating to these long-term assets are described in Note 18. It is important to be aware that proprietary trademarks are not capitalised and consequently do not entail any risk in relation to the statement of financial position.

The valuation and estimated useful life of property, plant and equipment are based on future information and will always involve a degree of uncertainty. Especially in a situation where the Group is planning major changes in its manufacturing structure and number of production sites, there will be extra focus on the assessments made of different production facilities. The various production sites are routinely assessed based on a going concern approach, but in a situation where a change in organisational structure could mean that some plants will be closed or reorganised, these assessments will have to be changed on an ongoing basis and could lead to the identification of both excess and deficit values.

Similarly, the Group's decision to invest in a common ERP platform may make it necessary to write down some currently used IT systems. A valuation of the IT systems concerned will be made on the date the various companies formally confirm their investment in a new ERP system. (For more information on the new ERP system, see Note 19.)

In Branded Consumer Goods, discounts amount to a substantial total. The discounts do not appear directly in the financial statements. It is net turnover after discounts that is presented as the Group's operating revenues. The majority of the discounts are netted in the invoices. Provisions are made for the share of discounts that are not recognised directly in the invoice. This will chiefly apply to matters such as accrued annual bonuses, chain discounts and joint marketing.

Discounts for which provisions are made are reported as a current liability as at 31 December and amount to NOK 1.4 billion in 2018. Discounts for which provisions are made are related to contractual arrangements that are largely based on agreements with chains and reported sales. The discount structure is complex and discounts are calculated on the basis of various discount matrices and agreements, and entail an inherent risk of estimate variance.

Other sales revenue reductions such as reductions in the price of seasonal goods, etc. must be estimated, due to the fact that externally-sourced data will not be available until after the financial statements have been prepared and presented. These arrangements also entail an inherent risk of estimate variance. There have been no material variances between provisions for and actually reported reductions in the past few years.

Note 4 cont.

After the sale of its stake in Sapa in 2017, Orkla retained certain liabilities arising from its former ownership. These are primarily liabilities related to guarantees and specific indemnities given to Norsk Hydro. Since the balance sheet date, Orkla has learned that an agreement-in-principle has been reached between subsidiaries of Norsk Hydro and the US Department of Justice (DOJ), Civil and Criminal Divisions, related to the case referred to in Note 6 of Orkla's Annual Financial Statements for 2016, whereby Hydro's subsidiaries will, subject to further terms that still have to be agreed, pay approximately NOK 400 million. Orkla is to indemnify Norsk Hydro for 50% of the final amount. In accordance with IAS 39, Orkla has made a provision equivalent to around 4% of the sale proceeds to reflect the uncertainty attached to the liabilities. To date, there is otherwise no material change in valuations of the liabilities related to Orkla's former ownership and their inherent uncertainty, and the provision will cover Orkla's share of the claim. See Note 26 and Note 41.

Other estimates and assumptions are disclosed in various notes, and any information that is not logically included in other notes is presented in Note 39.

Looking ahead

Future events and changes in operating parameters may make it necessary to change estimates and assumptions. Orkla's partnership agreements with customers are mainly entered into for limited periods of time, as is the case for the rest of the industry. The parameters for the partnership are thus normally renegotiated at regular intervals. These negotiations can result in changes in both the conditions and positions covered by the individual partnership agreement. Agreements with individual customers are normally entered into by the Orkla companies (business units).

New standards and new interpretations of current standards may result in changes in the choice of accounting principles and presentation. Such changes will be recognised in the financial statements when new estimates are prepared and whenever new requirements regarding presentation are introduced. These matters are disclosed in both the description of principles and in notes.

Exercise of judgement

The financial statements may be affected by the choice of form of presentation, accounting principles and exercise of judgement. This applies, for instance, to the assessment of whether a "Discontinued operation" should be presented on a separate line and the date on which this should be done. Items that only to a limited degree are reliable measures of the Group's current earnings are presented as "Other income and expenses" on a separate line of the income statement. These are included in the Group's operating profit, but not in EBIT (adj.) broken down by segment.

Orkla has also chosen to present profit or loss from associates and joint ventures after operating profit or loss.

Use of a different set of assumptions for the presentation of the financial statements could have resulted in significant changes in the different lines of the income statement presented. However, the bottom line would have been the same.

SUSTAINABILITY

The global challenges related to climate change, resource scarcity, nutrition and health affect Orkla's activities in the form of a risk of changes in raw material availability, costs, consumer preferences and political framework conditions. The Group monitors developments closely through an active dialogue with stakeholders and ongoing analyses. Orkla's sustainability strategy covers the topics considered particularly important for the Group based on a combined sustainability and business perspective. Through its sustainability work, Orkla's ambition is to contribute towards achieving the global sustainability goals, ensure effective risk management and exploit sustainability-related opportunities to create growth, trust and long-term profitability. The business risk for Orkla related to the global sustainability challenges is described in greater detail on page 60.

Note 5 cont.

NOTE 5 DISPOSALS AND ACQUISITIONS

Sales and purchases of companies affect the comparison with the previous year's figures, and the changes in the various notes must be seen in the light of this factor. Purchased companies are presented in the financial statements from the date on which control transfers to the Group. Sold companies, which are not covered by the rules regarding "Discontinued operations", cease to be included in the financial statements from the date the Group no longer has control.

PRINCIPLE

Disposals of companies
When a business is divested, the gain is measured as the difference between the selling price and book equity, minus any remaining excess value related to the business. Any sales expenses incurred will reduce the gain/increase the loss. Accumulated translation differences and any hedging reserves related to the divested business will be recognised in profit or loss as part of the gain, with a corresponding contra entry in comprehensive income. Sales expenses incurred will be reported as "Other income and expenses" (M&A) in the period prior to the agreement date and will be recognised as a part of the gain upon completion of the agreement. The gain will be reported before tax and the business's associated tax will be recognised on the tax line of the income statement. The real gain is reflected in the sum total of the gain and the tax. If the sold business qualifies for recognition as "Discontinued operations", all the effects associated with the gain will be reported on the line for "Discontinued operations" in the income statement; see Note 38.

Acqusitions of companies
Business combinations are accounted for using the acquisition method. When a subsidiary is acquired, a fair value assessment is carried out, and assets and liabilities are valued at their fair value at the time of acquisition. The residual value in the acquisition will be goodwill. The acquisition is reported in the financial statements from the date the Group has control. The date of control is normally the date on which the acquisition agreement takes effect and has been approved by all the relevant authorities, and will normally be after the contract date. If there are non-controlling interests in the acquired company, these will receive their share of allocated assets and liabilities, except for goodwill. Transactions with the non-controlling interests will be recognised in equity. In companies where the Group already owned interests prior to the business combination, any change in the value of earlier interests will be recognised in the income statement. The Group's equity will therefore be affected by the fact that the assets are repriced as if the entire acquisition had been made at this time. The same procedure will in principle be carried out in connection with the establishment of a joint venture and with the acquisition of an associate. However, these are not considered to be business combinations because the Group does not obtain control. M&A costs and subsequent integration costs are recognised as "Other income and expenses".

Note 5 cont.

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02
03
04
05

Sale of companies
In the fourth quarter, Orkla Foods Sverige sold 100% of the Mrs Cheng's brand to Continental Foods, in order to concentrate activities on fewer categories. The brand, which has a product portfolio of soya sauces and Thai casserole bases in Sweden, had net sales totalling SEK 23.5 million (approx. NOK 21.6 million) in 2017. The sales price totalled NOK 47 million.

Acquisition of companies
Orkla Care purchased the Swedish company Health and Sports Nutrition Group HSNG AB ("HSNG"). HSNG runs the e-commerce portals Gymgrossisten and Bodystore, and is the biggest online health and sports nutrition player in the Nordic region. HSNG has around 170 employees.

Orkla Food Ingredients purchased a majority shareholding in the Swedish sales and distribution company Werners Gourmetservice AB ("Werners"). Werners is market leader in Sweden for premium products for restaurants, confectioners and professional chefs, and has also established a presence in Denmark, Finland and Norway. Werners has a total of around 60 employees.

Orkla Foods purchased the Danish bakery Struer Brød A/S ("Struer"). Struer produces breakfast cereals and breadcrumbs, and Orkla was its most important customer. Struer has 44 employees.

Financial Investments purchased 67% of the Danish pizza restaurant chain Gorm's. Gorm's is market leader in the premium pizza restaurant segment in Denmark. The investment in Gorm's is aligned with Orkla's strategic ambition of increasing its exposure to growth in the out-of-home sector. Under the agreement, Orkla will have the opportunity to increase its stake to 100% ownership after an agreed period of time.

Orkla Food Ingredients purchased the British chocolate and caramel manufacturer County Confectionery Ltd. The company has 95 employees, and has been a long-term supplier to Orkla.

Other acquisitions
Orkla Food Ingredients purchased the Danish marmalade and fruit fillings manufacturer Igos A/S. The company has 17 employees, and had a turnover of DKK 44 million (approx. NOK 56 million) and EBIT of DKK 2.9 million (approx. NOK 3.7 million) in 2017. The company was consolidated into Orkla's financial statements as of 1 July 2018.

In December, Orkla Foods purchased Pama, a local brand for porridge rice products for consumers in Denmark and Sweden. Orkla Foods Denmark is currently distributor for Pama products on behalf of PepsiCo. The agreement covers the purchase of the Pama brand, and includes no employees or production facilities.

Orkla has purchased 11% of the shares in the company Kotipizza; see further information in Note 39.

Other matters relating to purchase price allocations
Capitalised goodwill related to acquisitions comprises synergies, assets related to employees, other intangible assets that do not qualify for separate capitalisation, future excess earnings and the fact that deferred tax in accordance with IFRS is not discounted.

None of the purchase price allocations for the acquisitions made in 2018 had been finalised as at 31 December 2018, due to uncertainty attached to certain valuation factors.

The purchase price allocations for all companies acquired in 2017 were completed in 2018. No material changes were made in the purchase price allocations.

Operating revenues and EBIT (adj.) for the largest acquisitions, before and after the acquisition, are presented in the table on the next page.

See Note 39 for information on agreements entered into on the purchase of companies.

A total of NOK 64 million (NOK 46 million in 2017) was expensed in acquisition costs in 2018.

Ⓔ ESTIMATE UNCERTAINTY
In company acquisitions, the assets taken over are valued at fair value at the time of purchase. The various assets are valued on the basis of different models, and goodwill is the residual in this type of purchase price allocation. Errors in estimates and assumptions can lead to an error in the split of the value between the various assets, but the sum of the total excess values will always be consistent with the purchase price paid.

Note 5 cont.

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02
03
04
05

Acquired companies

	Acquisition			Allocation of excess and deficit values					Operating revenues		EBIT (adj.)	
Amounts in NOK million	Date of control	Interest acquired (%)	Acquisition cost	Trade-marks	Property, plant and equipment	Other	Deferred tax	Goodwill	After acquisition date	Before acquisition date	After acquisition date	Before acquisition date
2018												
Health and Sports Nutrition Group (HSNG), Orkla Care	February	100	356	95	-	(40)	(12)	273	631	69	18	2
Werners Gourmetservice, Orkla Foods Ingredients	May	92[2]	146	-	5	-	(1)	117	114	47	7	3
Struer Brød, Orkla Foods	February	100	117	-	(3)	1	(1)	70	134	11	7	1
Pizza restaurant chain Gorm's, Financial Investments	April	67[2]	64	-	-	-	-	111	86	19	3	1
County Confectionery, Orkla Foods Ingredients	October	100	49	-	-	2	-	3	16	70	3	5
Other acquisitions			106	-	-	-	-	29				
Acquisitions at enterprise value			**838**	**95[3]**	**2**	**(37)**	**(14)**	**603**				
Investments in associates and joint ventures			75									
Purchase of treasury shares			167									
Acquisitions in segments, enterprise value (see Note 40)			**1 080**									
Interest-bearing liabilities acquisitions			(108)									
Cash flow effect acquisitions[1]			**972**									
2017												
Riemann, Orkla Care	June	100	442	74	(44)	(6)	(5)	283	73	103	8	35
Orchard Valley Foods, Orkla Foods Ingredients	April	85	134	-	-	(1)	-	136	215	80	7	4
Arne B. Corneliussen, Orkla Foods Ingredients	December	100	109	-	-	1	-	80	15	185	0	14
Agrimex, Orkla Foods	December	100	62	-	-	-	-	13	7	96	0	7
SR Foods, Orkla Foods Ingredients	May	80	58	-	-	-	-	54	113	55	12	7
Other acquisitions			86	-	-	13	-	54				
Reallocation of excess values Harris and Hamé			-	(87)	(50)	(124)	50	211				
Acquisitions at enterprise value			**891**	**(13)**	**(94)**	**(117)**	**45**	**831**				
Investments in associates and joint ventures			10									
Acquisitions in segments, enterprise value (see Note 40)			**901**									
Interest-bearing liabilities acquisitions			(100)									
Cash flow effect acquisitions[1]			**801**									

[1]Equivalent to compensation for equity adjusted for cash and cash equivalents. Cash and cash equivalents in acquisitions totalled NOK 14 million in 2018 (NOK 42 million in 2017).
[2]The companies have been recognised on a 100% basis due to option agreements entered into at the time of acquisition.
[3]Does not include the value of directly purchased trademarks, amounting to NOK 35 million, see Note 19.

Note 5 cont.

Acquired companies statement of financial position

Amounts in NOK million	Total 2018 Fair value	2018 HSNG	Total 2017 Fair value
Property, plant and equipment	170	10	52
Intangible assets	123	85	(9)
Other long-term assets	1	0	(103)
Inventories	148	85	109
Receivables	105	45	188
Shares in other companies	0	0	1
Assets	547	225	238
Provisions	26	15	(37)
Non-current liabilities, non interest-bearing	79	0	21
Current liabilities, non interest-bearing	207	127	193
Non-controlling interests	0	0	1
Net assets	235	83	60
Goodwill	603	273	831
Acquisition cost at enterprise value	838	356	891

Ⓢ SUSTAINABILITY

Orkla purchased several companies in 2018 that enhance the Group's ability to promote sustainable consumption. Through its investment in the company Tise, Orkla has gained access to a digital platform for consumer dialogue and online shopping with focus on reuse and sustainability. The establishment of a data-driven marketing company, in collaboration with DNB, strengthened the Group's capacity to analyse and use consumer data effectively and responsibly through the development of new technology and innovative solutions. The acquisition of the Danish bakery Struer Brød A/S has increased Orkla's production capacity in the healthy breakfast cereal segment, and the purchase of Danish Igos A/S has expanded Orkla's range of organic products.

NOTE 6 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates and joint ventures are investments in companies where the Group has significant, but not controlling influence. In order to show the financial performance of such companies they are consolidated on a single line of the income statement and the statement of financial position using the equity method.

Ⓟ PRINCIPLE

The equity method

Investments in associates are investments in companies in which the Orkla Group has significant influence by virtue of its ownership interest. These are usually companies in which Orkla owns a 20-50% stake. Joint ventures are investments in companies where the Group, together with others, has controlling influence. Both of these types of investment are accounted for using the equity method. The Group presents its share of the companies' results after tax and non-controlling interests on a separate line in the income statement and accumulates the results reported for the share on a single line in the statement of financial position. Any excess value that is to be amortised is deducted from profit according to the same principles as for consolidated companies. Goodwill is not amortised. Dividends received are reported against the ownership interest in the statement of financial position and are regarded as repayment of capital. The value presented in the statement of financial position thus represents the original cost price plus profit or loss accumulated up to the present date, minus any amortisation of excess value and accumulated dividends received. Account is also taken of the share of any translation differences and the like. Any write-downs of the value of the ownership interest are presented on the same line.

Associates and joint ventures

Orkla's 42.6% interest in Jotun is presented as an associate. In addition, Orkla has some smaller associates.

Orkla House Care increased its ownership stake in the joint venture company Anza Verimex NV to 50%. At the same time, Orkla took over 50% of the painting tool operations in PGZ International B.V. ("PGZ"). Combined, these companies are market leader in this category in the Netherlands and Belgium. The companies had an aggregate turnover of just under EUR 20 million (approx. NOK 190 million) in 2017 and around 20 employees. The company was consolidated into Orkla's financial statements as of 1 April 2018.

Note 6 cont. ➔

Figures for associates and joint ventures which do not report in accordance with IFRS are restated prior to inclusion in the consolidated financial statements. Orkla has no contingent liabilities, either on its own or jointly with other investors, in associates or joint ventures.

Associates and joint ventures

Amounts in NOK million	Jotun	Other	Total	Sapa	Total
Book value 1 January 2017	3 354	271	3 625	8 883	12 508
Additions/disposals	5	(32)	(27)		
Share of profit/loss	307	6	313		
Dividends	(219)	(1)	(220)	(1 500)	(1 720)
Items charged to equity	(8)	-	(8)	(1 018)	(1 026)
Book value 31 December 2017	3 439	244	3 683	-	-
Additions/disposals	7	68	75		
Share of profit/loss	258	6	264		
Dividends	(182)	(1)	(183)		
Items charged to equity	8	2	10		
Book value 31 December 2018	3 530	319	3 849	-	-
Cost price 31 December 2018	187	-	-		
Ownership interest (%)	42,6[1]	-	-	-	-

[1]The Group has 38.4% of the voting rights in Jotun.

Jotun
Jotun is one of the world's leading manufacturers of paints and powder coatings, with 53 subsidiaries, three joint ventures and six associates. Jotun has 39 production plants distributed across all of the world's continents. Jotun's activities consist of the development, manufacture, marketing and sale of paint systems for the residential, shipping and industrial sectors. Jotun is divided into four segments: Decorative Paints, Marine Coatings, Protective Coatings and Powder Coatings.

Orkla has been an active minority shareholder in Jotun for almost 50 years. The cost price for Jotun is NOK 187 million, while the carrying value using the equity method is NOK 3,530 million. Orkla's equity interest serves as the basis for recognition using the equity method, while Orkla has 38.4% of the voting rights. Orkla owns 42,179 A shares and 103,446 B shares in the company. An A share carries 10 times as many votes as a B share.

Ⓔ ESTIMATE UNCERTAINTY

Jotun is a family-controlled group and Orkla, with its 42.6% ownership interest, is to be considered a minority shareholder. The value of Orkla's interest in Jotun must be seen in the light of this situation. A valuation of Jotun substantiates that there is considerable excess value in Orkla's investment in Jotun in relation to its carrying value.

The following tables show 100% figures for Jotun.

Items in the income statement and statement of financial position

Amounts in NOK million	2018	2017
Operating revenues	17 660	16 401
Operating profit/loss	1 361	1 354
Profit/loss after tax and non-controlling interests	605	721
Other comprehensive income after non-controlling interests	596	703
Current assets	8 971	8 407
Non-current assets	7 743	7 301
Total assets	16 714	15 708
Current liabilities	5 680	5 072
Non-current liabilities	2 565	2 382
Total liabilities	8 245	7 454

Reconcilation of equity Jotun against Orkla's share

Equity in Jotun	8 469	8 254
Non-controlling interests	224	178
Owners of the parent's equity	8 245	8 076
Orkla's share of equity (42.6%)	3 530	3 439

NOTE 7 SEGMENTS

In the segment information, sales revenues, organic growth, profit and loss, cash flows and capital employed, together with operating margin and the number of man-years are broken down between different business areas. Sales revenues are also broken down geographically based on the customer's location.

Branded Consumer Goods

Orkla Foods offers well-known local branded products to consumers in the Nordics, Baltics, Central Europe and India. The business area holds leading market positions in a number of categories, including pizza, ketchup, soups, sauces, bread toppings and ready-to-eat meals. Orkla Foods primarily sells its products through the grocery retail trade, but also holds strong positions in the out-of-home, convenience store and petrol station sectors. Norway and Sweden are Orkla Foods' two largest markets.

Orkla Confectionery & Snacks is market leader in the confectionery, biscuits and snacks categories, with well-known local brands in Norway, Sweden, Denmark, Finland, Latvia and Estonia. The business area also develops bran and crispbread products, as well as healthy, high-energy snack meals. Over 85% of its turnover comes from the Nordic and Baltic markets. Norway is its largest single market.

Orkla Care consists of seven branded consumer goods companies serving markets in the Nordics, Baltics, the UK, Poland and Spain. The companies in the business area are Orkla Home & Personal Care (cleaning products, toothbrushes and personal hygiene products), Lilleborg (full-range supplier of hygiene and cleaning solutions to the professional market), Orkla Health (dietary supplements and health products), Pierre Robert Group (basic garments sold through the grocery channel), Orkla House Care (painting tools and cleaning products), Orkla Wound Care (wound care products) and HSNG (Nordic online player in the health and sports nutrition category).

Orkla Food Ingredients is the leading supplier of bakery ingredients in the Nordics and Baltics, in addition to holding growing positions in Europe. Sales and distribution companies in a total of 21 countries ensure proximity to the customer market. The largest product categories are margarine and butter blends, yeast, bread and cake improvers and mixes, marzipan and ice cream ingredients.

Headquarters (HQ)

Activities at Orkla's headquarters include the Group's top executive management and the corporate and common functions Communications, Legal Affairs, Sales & Business Development, Marketing & Innovation, Operations, Mergers & Acquisitions, Human Resources, Accounting/Finance, Compliance and Internal Audit. HQ is presented as a separate segment, but is aggregated with the Branded Consumer Goods business. Most of the activities at Orkla's headquarters are related to Branded Consumer Goods.

Orkla Investments

Orkla has a number of investments besides Branded Consumer Goods, which are organised under Orkla Investments. The business area comprises Hydro Power and Financial Investments, in addition to the associate Jotun (ownership interest 42.6%); see Note 6.

Hydro Power
Hydro Power consists of power plants in Sarpsfoss and Orkla's 85% interest in AS Saudefaldene. The energy operations produce and supply power to the Nordic power market, and have actual mean annual production (2011-2018) of 2.5 TWh. A total of 1.1 TWh of AS Saudefaldene's production is subject to special contract conditions with Statkraft that apply until 31 December 2030; see Note 35.

Financial Investments
Financial Investments consists of Orkla Eiendom and Orkla Venture.

Orkla Eiendom is responsible for Orkla's industrial properties and real estate development projects.

Orkla Venture was established to promote innovation and creative thinking and to enable direct investment in start-up companies. The ambition is to build up a project portfolio comprising exciting, relevant growth companies with high potential. Investments will initially be concentrated in the Nordics and Baltics, in line with Orkla's other core operations.

Further information on the individual business areas:
For a complete overview of Orkla companies, reference is made to page 259.

Note 7 cont.

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Ⓟ PRINCIPLE

Orkla has business areas as operating segments. Internally, Orkla Foods is reported as two operating segments, but externally is presented as a single operating segment. The operating segments otherwise correspond to the way in which the business areas report figures to the Group Executive Board (chief operating decision maker), but are limited to an expedient number.

Sales revenues are broken down by geographical market based on the customer's location. The accounting principles on which segment reporting is based are the same as for the rest of the consolidated financial statements.

Transactions between business areas are priced on market terms. Orkla ASA provides services to the companies in the Orkla Group and charges them for these services based on the aforementioned principles.

Segment information

The operating profit or loss in the segment information is identical to the information presented in the income statement for the Group. The operating costs in the segment presentation are equal to the sum total of the costs of materials, payroll expenses and other operating expenses. The Orkla Group has a central finance function and the financing of the various segments does not necessarily reflect the real financial strength of the individual segments. Financial items are therefore presented for the Group as a whole. The same applies to tax expense. Cash flow figures were taken from the Orkla-format cash flow statement; see Note 40.

Orkla has four operating segments in Branded Consumer Goods. A further breakdown of selected KPIs is presented in reporting to the Group Executive Board and the Board of Directors. The characteristics of the different segments vary somewhat. Orkla Foods and Orkla Confectionery & Snacks consist mainly of homogeneous operations in countries with a relatively similar risk profile. Orkla Care is more differentiated, but largely operates in homogeneous markets with approximately the same risk profile. Orkla Food Ingredients also has relatively similar operations, on the whole, in the ingredients segment in many European countries, with sales primarily to industrial customers and wholesalers.

The segment information tables show sales broken down by market, based on the customers' location. The table below shows the revenues generated by various products and services. Orkla has three customers who each account for around 10% of turnover in Branded Consumer Goods.

Net operating capital is defined in a separate table below. Orkla makes only very limited use of financial products such as factoring or supply chain financing to reduce receivables or increase liabilities.

Specification net working capital Branded Consumer Goods incl. HQ

Amounts in NOK million	2018	2017
Trade receivables	5 963	6 152
Other current receivables	565	597
Inventories	5 864	5 677
Trade payables	(4 858)	(4 893)
Value added tax, employee taxes etc.	(764)	(803)
Other current liabilities	(1 907)	(2 088)
Net working capital	4 863	4 642

Figures showing the geographical breakdown of capital employed, investments in property, plant and equipment and the number of man-years are also presented in Note 8.

Note 7 cont.

Segments 2018

Amounts in NOK million	Orkla Foods	Orkla Confectionery & Snacks	Orkla Care	Orkla Food Ingredients	HQ	Elimin-ations	Branded Consumer Goods incl. HQ	Hydro Power	Financial Investments	Elimin-ations	Orkla
REVENUES/PROFIT/LOSS											
Norway	4 668	1 784	3 234	1 095	1	-	**10 782**	973	-	-	**11 755**
Sweden	4 261	1 313	1 485	1 425	-	-	**8 484**	-	-	-	**8 484**
Denmark	1 029	642	563	1 815	-	-	**4 049**	-	87	-	**4 136**
Finland and Iceland	949	1 004	713	677	-	-	**3 343**	-	-	-	**3 343**
The Baltics	487	1 099	77	339	-	-	**2 002**	-	-	-	**2 002**
Rest of Europe	3 487	338	1 540	3 942	-	-	**9 307**	-	38	-	**9 345**
Rest of the world	1 002	49	421	91	1	-	**1 564**	-	-	-	**1 564**
Sales revenues	15 883	6 229	8 033	9 384	2	-	**39 531**	973	125	-	**40 629**
Other operating revenues	17	6	24	13	32	-	**92**	52	64	-	**208**
Intercompany sales	100	11	18	165	562	(853)	**3**	-	11	(14)	**0**
Operating revenues	16 000	6 246	8 075	9 562	596	(853)	**39 626**	1 025	200	(14)	**40 837**
Organic growth (Branded Consumer Goods)	*1.5%*	*-3.4%*	*-1.8%*	*1.2%*			*-0.2%*				
Operating expenses	(13 401)	(5 005)	(6 850)	(8 854)	(828)	853	**(34 085)**	(580)	(195)	14	**(34 846)**
Depreciation, amortisation and write-downs	(551)	(235)	(141)	(175)	(52)	-	**(1 154)**	(55)	(5)	-	**(1 214)**
EBIT (adj.)	2 048	1 006	1 084	533	(284)	-	**4 387**	390	0	-	**4 777**
Other income and expenses	(165)	(61)	(158)	(44)	(29)	-	**(457)**	-	(25)	-	**(482)**
Operating profit/loss	1 883	945	926	489	(313)	-	**3 930**	390	(25)	-	**4 295**
CASH FLOW (see Note 40)											
Cash flow from operations	1 941	863	882	433	(657)	-	**3 462**	462	(436)	-	**3 488**
Of this replacement expenditures	(468)	(256)	(122)	(224)	(323)	-	**(1 393)**	(5)	(365)	-	**(1 763)**
Expansion investments	(356)	(38)	(68)	(69)	-	-	**(531)**	-	-	-	**(531)**
CAPITAL EMPLOYED											
Net working capital	2 029	418	1 378	1 383	(345)	-	**4 863**	11	89	-	**4 963**
Investments in associates and joint ventures	3	-	110	1	-	-	**114**	-	3 735	-	**3 849**
Intangible assets	8 492	5 049	5 191	1 666	42	-	**20 440**	19	118	-	**20 577**
Property, plant and equipment	4 382	1 888	1 114	1 481	437	-	**9 302**	1 894	1 564	-	**12 760**
Pension liabilities	(771)	(195)	(289)	(150)	(563)	-	**(1 968)**	(18)	(3)	-	**(1 989)**
Deferred tax, excess values	(426)	(408)	(174)	(8)	-	-	**(1 016)**	-	(4)	-	**(1 020)**
Capital employed	13 709	6 752	7 330	4 373	(429)	-	**31 735**	1 906	5 499	-	**39 140**
KEY FIGURES											
Operating margin EBIT (adj.)	12.8%	16.1%	13.4%	5.6%	na	-	**11.1%**	38.0%	-	na	**11.7%**
Total man-years 31 December	7 511	2 923	3 149	3 409	385	-	**17 377**	47	209	-	**17 633**

Note 7 cont.

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Segments 2017

Amounts in NOK million	Orkla Foods	Orkla Confectionery & Snacks	Orkla Care	Orkla Food Ingredients	HQ	Elimin-ations	Branded Consumer Goods incl. HQ	Hydro Power	Financial Investments	Elimin-ations	Orkla
REVENUES/PROFIT/LOSS											
Norway	4 789	2 128	3 137	917	3	-	**10 974**	814	-	-	**11 788**
Sweden	4 358	1 314	1 093	1 355	-	-	**8 120**	-	-	-	**8 120**
Denmark	1 318	589	557	1 656	-	-	**4 120**	-	-	-	**4 120**
Finland and Iceland	895	927	579	663	-	-	**3 064**	-	-	-	**3 064**
The Baltics	456	1 093	70	326	-	-	**1 945**	-	-	-	**1 945**
Rest of Europe	3 237	312	1 623	3 577	-	-	**8 749**	-	45	-	**8 794**
Rest of the world	976	51	380	80	6	-	**1 493**	-	-	-	**1 493**
Sales revenues	16 029	6 414	7 439	8 574	9	-	**38 465**	814	45	-	**39 324**
Other operating revenues	11	15	12	5	36	-	**79**	52	106	-	**237**
Intercompany sales	86	10	28	124	586	(816)	**18**	-	10	(28)	**0**
Operating revenues	16 126	6 439	7 479	8 703	631	(816)	**38 562**	866	161	(28)	**39 561**
Organic growth (Branded Consumer Goods)	*1.4%*	*3.1%*	*2.9%*	*0.5%*			*1.6%*				
Operating expenses	(13 541)	(5 170)	(6 272)	(8 074)	(903)	816	**(33 144)**	(489)	(137)	28	**(33 742)**
Depreciation, amortisation and write-downs	(530)	(224)	(133)	(160)	(60)	-	**(1 107)**	(61)	(16)	-	**(1 184)**
EBIT (adj.)	2 055	1 045	1 074	469	(332)	-	**4 311**	316	8	-	**4 635**
Other income and expenses	2	(23)	(170)	33	(46)	-	**(204)**	-	3	-	**(201)**
Operating profit/loss	2 057	1 022	904	502	(378)	-	**4 107**	316	11	-	**4 434**
CASH FLOW (see Note 40)											
Cash flow from operations	2 330	1 016	777	263	(337)	-	**4 049**	356	(290)	-	**4 115**
Of this replacement expenditures	(381)	(233)	(182)	(201)	(51)	-	**(1 048)**	(2)	(331)	-	**(1 381)**
Expansion investments	(132)	(6)	-	(68)	-	-	**(206)**	-	-	-	**(206)**
CAPITAL EMPLOYED											
Net working capital	2 006	348	1 405	1 337	(454)	-	**4 642**	34	125	-	**4 801**
Investments in associates and joint ventures	4	-	33	3	-	-	**40**	-	3 643	-	**3 683**
Intangible assets	8 438	5 073	4 844	1 500	2	-	**19 857**	19	5	-	**19 881**
Property, plant and equipment	4 149	1 820	1 085	1 264	205	-	**8 523**	2 002	1 158	-	**11 683**
Pension liabilities	(763)	(192)	(276)	(145)	(558)	-	**(1 934)**	(19)	(3)	-	**(1 956)**
Deferred tax, excess values	(431)	(413)	(192)	(7)	-	-	**(1 043)**	-	(3)	-	**(1 046)**
Capital employed	13 403	6 636	6 899	3 952	(805)	-	**30 085**	2 036	4 925	-	**37 046**
KEY FIGURES											
Operating margin EBIT (adj.)	12.7%	16.2%	14.4%	5.4%	na	-	**11.2%**	36.5%	na	-	**11.7%**
Total man-years 31 December	7 809	2 836	3 272	3 150	368	-	**17 435**	46	88	-	**17 569**

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NOTE 8 GEOGRAPHICAL BREAKDOWN OF CAPITAL EMPLOYED, INVESTMENTS AND NUMBER OF MAN-YEARS

Capital employed, investments and number of man-years are broken down by geographical markets based on the location of the companies. The note shows to what extent and in which countries/areas the Orkla Group has a physical presence.

	Capital employed		Investments[1]		Number of man-years	
Amounts in NOK million	2018	2017	2018	2017	2018	2017
Norway	16 237	15 320	1 228	678	3 053	3 058
Sweden	6 894	6 310	444	355	3 105	2 863
Denmark	5 454	4 885	238	223	1 483	1 439
Finland and Iceland	2 554	2 574	74	113	761	780
The Baltics	1 920	1 907	75	80	1 865	1 836
Nordic region and the Baltics	33 059	30 996	2 059	1 449	10 267	9 976
Rest of Europe	5 258	5 201	226	188	5 586	5 611
Rest of the world	823	849	46	126	1 780	1 982
Total	39 140	37 046	2 331	1 763	17 633	17 569
Link between segments and "Investments":						
Net replacement expenditures, from segments (see Note 7)			1 763	1 381		
Sale of property, plant and equipment (see cash flow statement)			38	142		
Expansion investments (see Note 7)			531	206		
Changes in accounts payable investments			(1)	34		
Total			2 331	1 763		

[1]Does not apply to property, plant and equipment acquired through purchases of companies.

PRINCIPLE

Capital employed is a measure of the enterprise's net capitalised productive capital and is defined in the segment note as the net of segment assets and liabilities. Goodwill and intangible assets constitute a large share of capital employed. Investments are the total of replacement expenditures and expansion investments. The number of man-years is the number of employees adjusted for fractional posts in the current reporting period. See Note 7 for segment information.

The increase from 2017 to 2018 in capital employed and investments in Norway is largely related to investments in a new headquarters, a new common ERP platform and investments in a new pizza factory at Stranda, Norway. The increase in capital employed and the number of employees in Sweden and Denmark is largely attributable to acquisitions in 2018.

SUSTAINABILITY

Many Orkla companies are major employers, and both employees and management are chiefly recruited from the country in which the business is located. By developing profitable workplaces, Orkla creates positive ripple effects for society in the form of skills development, new jobs at supplier companies and in the public sector, and payment of direct and indirect taxes. To ensure long-term, competitive operations, Orkla made a number of changes in its manufacturing footprint in 2018. Along with the acquisition of new companies, this resulted in substantial investments in Norway, Sweden, Denmark, Finland, the Czech Republic and Latvia.

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NOTE 9 REVENUE RECOGNITION

The date on which revenue is recognised and the principles applied will be decisive in determining the profit or loss in the reporting period. In the same way, both the principles applied to and the definition of the term "sales revenue reductions" (discounts, etc.) will play a role in determining the total amount of operating revenues.

Ⓟ PRINCIPLE

IFRS 15 Revenue from Contracts with Customers establishes a theoretical framework for recognition and valuation of revenue. The date on which the revenue is recognised is determined through a five-step model, the main points of which are identification of a contract with the customer, identification of separate performance obligations, fixing of a transaction price, allocation of the transaction price to separate performance obligations and recognition of revenue upon fulfilment of the performance obligations. Recognition means the date on which an amount is to be taken to income and valuation means how much is to be reported in income. An enterprise fulfils a performance obligation by transferring control of the agreed product or service to the customer, and income is recognised at the time the performance obligation is fulfilled.

Sales revenues are presented after deducting discounts, value added tax and other government charges and taxes such as the sugar tax. The Orkla Group sells goods and services in many different markets.

Generally speaking, the point in time at which revenue is recognised will be clear in most cases.

Branded Consumer Goods' deliveries consist largely of sales of consumer goods to wholesalers. A sale is chiefly defined as an isolated delivery obligation that has been fulfilled and is recognised in income when the goods are transferred to the counterparty, either when they leave the Group's factory premises or when they arrive at the customer's property. Sales are recognised in income at the expected value of the consideration after deducting benefits to customers, including estimated bonus payments, discounts, joint marketing activities and reductions in the price of seasonal goods. As at 31 December 2018, an provision of NOK 1.4 billion (NOK 1.4 billion in 2017) was made for total discounts. These are mainly yearly discounts that will be paid out in subsequent years.

In Orkla Investments, external sales of electric power are recognised in income on the basis of the price agreed with the customer upon delivery. Electric power is mainly sold by the Saudefaldene and Sarpsfoss plants. In Eiendom (real estate), rental revenues are recognised in income when they are earned. Any sales of companies are taken to income when the agreement is completed. Payments related to housing projects for which the company has profit and loss responsibility are recognised in income upon delivery. This means that a long period of time may elapse between the start of a building project and the recognition of revenues. In the intervening period, incurred project expenses are reported as inventories.

Interest revenues are recognised when they are earned, while dividends are taken to income on the date they are approved by the company paying the dividend.

Gains or losses on the sale of shares and financial assets are presented in the comprehensive income statement, along with ongoing changes in the value of similar assets.

Other operating revenues consist of matters such as rental revenues and gains on the sale of minor assets.

Ⓔ ESTIMATE UNCERTAINTY

The estimate uncertainty relating to sales revenue reductions in the Branded Consumer Goods business is disclosed in Note 4.

Ⓢ SUSTAINABILITY

Orkla strives to foster a corporate culture characterised by good judgement and the ability to comply with rules and regulations and deal with ethical challenges. The Group has zero tolerance for corruption, price-fixing agreements, market sharing or other practices that hamper free competition.

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NOTE 10 COST OF MATERIALS

The cost of materials is by far the largest cost item in the income statement and accounts for close to 50% of operating revenues. The cost of materials consists of the cost of all raw materials, goods for resale, packaging, etc. that are necessary to be able to sell the quantity of goods recognised in the sales revenues.

Ⓟ PRINCIPLE

The cost of materials is incurred as goods are sold according to the price-related "first in, first out" inventory method. Changes in stocks of internally manufactured finished goods will have a virtually neutral impact on profit or loss based on the full cost pricing method. The cost of goods is correlated with the sale of the goods and accounted for on an accruals basis through changes in inventory. This applies to both purchased raw materials and goods for resale. Purchased goods are not recognised as a cost until the goods are in the manufacturing process.

The cost of goods is mainly estimated and recognised through standard cost systems. Goods in inventories are counted at least once a year as a verification of standard costing. Due to materiality considerations, the change in stocks of internally manufactured finished goods is presented on the line for cost of materials.

Ⓢ SUSTAINABILITY

The challenges posed by climate change and commodity scarcity entail a risk of increased raw material costs, reduced availability of certain raw materials and breaches of Orkla's Supplier Code of Conduct. Orkla helps to ensure responsible production of raw materials by monitoring suppliers, applying certification systems, participating in industry initiatives and collaborating on projects with authorities and specialised organisations. The Group's goal is to ensure that the raw materials used in Orkla products are sustainably produced by 2025. To reduce the risk of raw material shortages, the Group has alternative suppliers for at-risk raw materials.

Orkla seeks to prevent plastic pollution and achieve efficient use of resources by contributing to circular value chains for packaging materials. This work includes increased use of recycled packaging materials, development of packaging solutions that can be recovered, and collaborating with other players in the value chain on actions to increase recovery.

In 2018, the biggest product categories were (figures in parentheses show the category ranking in 2017):

1. (1.) Packaging
2. (2.) Animal products
3. (3.) Food additives
4. (4.) Vegetable oil and margarine
5. (5.) Vegetables
6. (6.) Grain-based products
7. (8.) Marine products
8. (10.) Fruit and berries
9. (9.) Nuts and seeds
10. (7.) Sugar
11. (12.) Chemicals
12. (11.) Cocoa and chocolate

NOTE 11 PAYROLL EXPENSES

Payroll expenses are the total disbursements relating to remuneration of personnel employed by the Group and of Group officers. These expenses concern only the Group's own employees, not contract manpower.

Ⓟ PRINCIPLE

Payroll expenses comprise all types of remuneration to personnel employed by the Group and are expensed when earned. Ordinary pay can be both fixed pay and hourly wages and is earned and paid periodically. Holiday pay is earned on the basis of ordinary pay and is normally paid in the holiday months of the following year. Bonuses (see below) are earned and calculated on the basis of various performance targets, and are paid in arrears. The employer's national insurance contribution is calculated and expensed for all payroll-related expenses, and is normally paid in arrears every other month. Pensions are earned in accordance with special rules (see Note 12). Other payroll expenses largely consist of the remuneration of the Board of Directors, which is earned on an ongoing basis in accordance with special agreements approved by the General Meeting.

Ⓢ SUSTAINABILITY

Orkla wants to be an attractive employer that offers good working conditions and fair and competitive conditions for all employees. Pay is determined locally, based on the Group's general guidelines and using external benchmarking tools for pay and conditions. All full-time employees shall, as a minimum, receive pay and additional benefits that are adequate to meet their fundamental needs.

Note 11 cont. ➔

Amounts in NOK million	2018	2017
Wages	(6 232)	(6 144)
Employer's national insurance contributions	(1 040)	(964)
Pension costs[1]	(427)	(405)
Other remuneration etc.	(35)	(54)
Payroll expenses	(7 734)	(7 567)
Average number of man-years (continuing operations)	17 667	17 705

[1]Pension costs are disclosed in further detail in Note 12.

General comments on remuneration at Orkla
Orkla has a reward policy that determines the different elements of the Group's overall compensation. The policy aims to ensure that Orkla is able to recruit, develop and retain personnel with the necessary competence to create results and shareholder value. Orkla's reward policy is adopted by the Board of Directors and administered by the Board's own Compensation Committee.

Orkla operates in 26 different countries, and compensation elements are organised locally in accordance with local practice, thereby ensuring that the compensation plans are competitive but not leading. The companies in the various countries must adhere to the principles of Orkla's reward policy, which is based on the market median for fixed remuneration and above market median for variable remuneration.

(i) Fixed salaries

Orkla uses internationally recognised job assessment systems to determine the "right" level of job position and compensation. Jobs are assessed in relation to their local market (country) and a pay range of the median +/- 20% is applied. The employee's responsibilities, results and performance determine the amount of compensation. Fixed salaries at Orkla must be competitive in the different countries in which the Group operates.

(ii) Bonus programmes

Orkla has bonus programmes in the various countries which reflect local practice for ensuring competitiveness. Orkla's practice is to have variable reward systems at levels higher than the market median. The annual bonus programmes in the different countries are based on guidelines ensuring that they underpin the Group's strategy and reflect Orkla's central annual bonus programme for executive management and senior managers and key personnel.

a) Orkla's central annual bonus programme

Orkla has an annual bonus programme for around 200 senior executives and key personnel in the Group (2018).

The purpose of Orkla's central annual bonus programme is to:
- Reward annual performances in line with externally communicated targets for the Group
- Incentivise desired behaviour in accordance with Orkla's values and leadership principles
- Ensure that the organisation works to achieve prioritised targets that underpin the Group's strategy

Under the central annual bonus programme, a maximum bonus equivalent to 100% of the employee's annual salary may be paid. A "good performance", defined as achievement of results in line with externally communicated financial targets, can result in a bonus of approximately 30% of the employee's annual salary. Historical outcomes averaged around 32% in 2014-2017.

Certain adjustments are being made in the annual bonus programme from 2019 (to be paid out in 2020). These adjustments are described below.

The elements of Orkla's central annual bonus programme for 2018 (bonuses to be paid out in 2019)
The annual bonus programme consists of five elements:
- Financial quantitative measures (80% weighting)
  - Underlying[1] EBIT (adj.)[2] improvement "own level"[3] (25% weighting)
  - Underlying EBIT (adj.) improvement "level above"[4] (25% weighting)
  - Organic growth[5] "own level" (20% weighting)
  - Improvement in current capital[6] "own level" (10% weighting)
- Individual measures (20% weighting):

Bonus calculation for the financial quantitative bonus elements
Profit growth is the main measure for the bonus programme with a weighting of a total of 50%. To incentivise collaboration within the Group, part of the profit element of the bonus programme is linked to "level above" performance.

Note 11 cont.

01 02 03 04 05

The bonus model is designed in such a way that an EBIT (adj.) improvement scale is linked to a fixed bonus scale with a starting point and maximum point for both improvement and bonus payout.

Underlying EBIT (adj.) improvement at "own level" and "level above"
The calculation of bonuses earned is linked to underlying EBIT (adj.) improvement as a percentage of EBIT (adj.) in the previous year at "own level" and at the "level above" and is based on a fixed bonus scale with a starting point and maximum point for both improvement and bonus payout.

Organic growth
The calculation of bonuses earned for organic sales growth is tied to the level of the position of the individual manager. The organic growth is linked to a fixed scale with a starting point and maximum point for both improvement and bonus payout.

Improvement in current capital
The calculation of bonuses earned for improvement in current capital is tied to the level of the position of the individual manager. Improvement in current capital is defined as the key figure "rolling 12-month current capital as a percentage of operating revenues in the last 12 months" compared with the level of the same key figure for the previous 12 months. Here, too, improvement is linked to a fixed scale for bonus achievement with a starting point and a maximum point for both improvement and bonus payout.

Bonus calculation for the individual measures
The individual measures are based on behaviour in line with Orkla's leadership principles and One Orkla. The amount paid out is based on qualitative assessments of the achievement of the agreed measures.

The elements of Orkla's central annual bonus programme as from 2019 (bonuses to be paid out in 2020)
The annual bonus programme consists of five elements:
- Financial quantitative measures (70% weighting)
  - Underlying EBIT (adj.) improvement "own level" (15% weighting)
  - Underlying EBIT (adj.) improvement "level above" (25% weighting)
  - Underlying improvement in contribution margin[7] "own level" (10% weighting)
  - Improvement in current capital "own level" (20% weighting)
- Individual measures (30% weighting):

The bonus calculation model for the financial quantitative elements for 2019 is the same as that for 2018, even though the weighting of some of the elements has been changed. A new bonus element, "Underlying contribution margin improvement", has been added in 2019, replacing organic growth.

Underlying contribution margin improvement
Calculation of bonuses earned for underlying contribution margin improvement as a percentage of contribution margin improvement the previous year is tied to the company level of the position of the individual manager, with a fixed scale with a starting point and a maximum point for both improvement and bonus payout.

Concluding discretionary assessment
After bonuses have been determined on the basis of the financial quantitative measures and individual performance, each manager must make a discretionary assessment of employee bonuses, attaching weight to individual contributions to support One Orkla, value chain simplifications and exploitation of new business opportunities.

Note 11 cont.

[1]Underlying improvement /growth – definition under "Alternative Performance Measures (APM)", see page 224.
[2]EBIT (adj.) – definition under "Alternative Performance Measures (APM)", see page 224.
[3]"Own level" is the company level which the individual manager is part of. This will differ for each participant in the bonus programme, and may be an operational company, a business area or the entire Branded Consumer Goods business at Group level.
[4]"Level above" will be the reporting level above the level which the individual manager is part of. For participants employed in an operational company, it will be the business area of which the operational company is a part. For participants in business areas, the "level above" will be the entire Branded Consumer Goods business. For programme participants at Group level, there is no "level above", but they will be measured based on an equal weighting of performance in underlying EBIT (adj.) in the Branded Consumer Goods business areas.
[5]Organic growth – definition under "Alternative Performance Measures (APM)", see page 224.
[6]Current capital is defined as trade receivables plus inventory minus trade payables
[7]Contribution margin is defined as sales revenues minus variable costs. Variable costs are costs directly linked to volumes produced and sold. This primarily applies to intermediate goods such as raw materials, packaging, payroll expenses (which will vary according to volume produced) and energy costs. For goods produced by a third party, margin contribution is defined as sales revenues minus the purchase costs of goods sold.

b) Long-term incentive (LTI) programme

Orkla has an LTI programme that is cash-based as well as being tied to share price performance.

The purpose of the programme is to:
- Reward long-term value creation and One Orkla behaviour
- Establish a long-term community of interests with shareholders
- Help to retain necessary expertise (management/key personnel)
- Maintain competitive overall compensation conditions for management/key personnel

Participants in the LTI programme are nominated on a yearly basis and awards are made for one year at a time subject to the approval of the President and CEO. In 2018, 86 persons were awarded an LTI bonus. Participants in the Group's LTI programme will normally also be covered by Orkla's annual bonus programme.

The LTI programme that was offered until the end of 2017 (bonuses awarded in 2018) is described in Note 5 in the financial statements for Orkla ASA. As from awards made in 2019, a decision has been made to unlink the level of the amount awarded from the annual bonus programme. Bonus awards will be determined on the basis of assessments of individual performances in relation to predefined long-term criteria set in 2018. The aim is for the award to be equivalent to 30% of the employee's annual salary for a "good performance", according to the predefined criteria. The award may not exceed 50% of the employee's annual salary, nor may the aggregate value of an award under the annual bonus programme and the LTI bonus awarded in a year exceed one year's salary. As before, the amount awarded is adjusted in accordance with the Orkla share price performance until the bonus is paid out. The closing price on the day after the Annual General Meeting is used. Under the LTI programme, the employee may request, at the earliest, that one third of an LTI award be paid out after 24 months, one third after 36 months and one third after 48 months. After a maximum of 60 months, the LTI award will be paid out in its entirety.

(iii) Other compensation elements

Discounted shares for employees:
For several years the Group has implemented a programme whereby employees may buy a limited number of shares at a discount on the market price. For 2018, employees were given the opportunity to purchase shares for three different amounts: NOK 28,000, NOK 15,000 and NOK 8,000 (amounts after discount). In 2018 the discount was 25% on the market price. The lock-in period for shares purchased is two years.The costs of the employee share purchase programme in 2018 totalled NOK 16 million.

The Board of Directors recommends to the General Meeting that the employee share purchase programme be continued, with the same purchase options and conditions as in 2018.

Share-based incentive programmes

PRINCIPLE

The sale of shares to employees at less than market price is accounted for by recognising the difference between the market value of the shares and the purchase price as a payroll expense.

From 2019, awards under the Long-Term Incentive (LTI) agreement will be determined on the basis of individual performances in relation to predefined long-term criteria set in 2018. The aim is for the award to be equivalent to 30% of the employee's annual salary for a "good performance", according to the predefined criteria. The award may not exceed 50% of one year's salary, nor may the aggregate value of an award under the annual bonus programme and the LTI bonus awarded in a year exceed one year's salary. As before, the amount awarded will be adjusted in accordance with the Orkla share price performance until it is paid out. Under the LTI programme, the employee may request, at the earliest, that one third of a LTI award be paid out respectively after 24 months, 36 months and 48 months. After a maximum of 60 months, the LTI award will be paid out in its entirety. Accounting for the award will reflect the vesting period and expensing of the new programme will begin after awards are made in 2019.

NOTE 12 PENSIONS

The Group has both defined contribution and defined benefit pension plans. In a defined contribution pension plan, the company is only responsible for paying regular amounts to the employee's pension plan, while the employee is responsible for choosing the yield profile and will personally bear the risk for the future increase or reduction in the value of his or her own pension assets. In a defined benefit pension plan, the company will have full responsibility for and bear the risk attached to paying a future pension to the employee based on his or her final pay on retirement. The majority of Orkla's pension plans are defined contribution plans.

Ⓟ PRINCIPLE

In a **defined contribution pension** plan, the company is responsible for making an agreed contribution to the employee's pension assets. The future pension will be determined by the amount of the contributions and the return on the pension savings. Once the contributions have been paid, there are no further payment obligations attached to the defined contribution pension, and there is no liability to report in the statement of financial position. The pension costs related to defined contribution plans will be equal to the contributions to employees' pension savings in the reporting period.

A **defined benefit pension** plan is based on a promise by the company to the employees that they will receive a certain level of pension upon retirement, normally defined as a percentage of final pay. The company is responsible for the amount of the future pension benefit and the financial value of this obligation must be reported in the income statement and statement of financial position.

The accrued obligation is calculated on a straight-line accruals basis, and is measured as the present value of the estimated future pension payments that are vested on the statement of financial position date. The capitalised net liability is the sum of the accrued pension obligation minus the fair value of associated pension fund assets.

Changes in the liability for defined benefit plans due to changes in pension plans are reported in their entirety in the income statement in the case of changes that give rise to an immediate paid-up policy entitlement. Other variances from estimates are recognised in equity through other comprehensive income in the period in which they arise. The discount effect of the pension obligation and expected return on pension assets are presented net under "Other financial costs" in the income statement.

Defined contribution plans

Most of the employees in the Orkla Group are covered by pension plans classified as defined contribution plans. Defined contribution plans also comprise pension plans that are common to several companies and where the pension premium is determined independently of the demographic profile in the individual companies (multi-employer plans).

Orkla has contribution rates for the companies in Norway that are aligned with the regulation-based limits for contribution rates for private company pension plans. See Note 5 to the financial statements for Orkla ASA.

Defined benefit plans

The Group has some pension plans that are classified as funded defined benefit plans and some defined benefit plans that are financed from operations. A large part of the Group's defined benefit plans are in Sweden and Norway. These countries account for around 63% and 34%, respectively, of the Group's net carried pension liabilities.

Sweden

The pension plans in Sweden are "net plans" that do not link the Group's obligations to changes in Swedish social security. The plans are largely determined by collective agreements. They are not funded, but provisions are made in the companies' statement of financial position. To secure accrued pension rights, companies must take out a credit insurance in the PRI Pensionsgaranti insurance company which records and calculates the companies' pension obligations. According to the collective agreements, all employees born in 1979 or later must be covered by a defined contribution plan, which means that the number of defined benefit plans will gradually be reduced.

The Group also has some pension plans, primarily related to executive management, financed through endowment insurances. The gross amount of these plans is reported in the financial statements.

Account has been taken of payroll tax on the pension obligations in Sweden.

Norway

Net pension obligations in Norway mainly consist of unfunded pension plans for former key personnel, early retirement schemes for the Group Executive Board, and carried liabilities related to contribution-based plans for employees who earn more than twelve times the Norwegian basic amount (12G).

Note 12 cont. ➔

The pension plan for employees in Norway who earn more than 12G is a contribution-based plan, but is treated as a defined benefit plan in accordance with IFRS. The actual deposits and interest accrued in the plan are reported as at 31 December.

The AFP contractual pension scheme is a multi-employer defined benefit plan, but is recognised as a defined contribution plan, in line with guidelines issued by the Ministry of Finance. Companies that participate in the AFP scheme are jointly responsible for two-thirds of the payable pension. The majority of Orkla companies in Norway participate in the AFP scheme. In 2018, the AFP premium was 2.5% of total payments of wages between 1 and 7.1 times the average basic amount.

Assumptions relating to defined benefit plans
The discount rate in Norway is fixed on the basis of Norwegian covered bonds (OMF). The Norwegian Accounting Standards Board considers the OMF market to be a sufficiently deep market to be used for computing the discount rate. Orkla has chosen a discount rate based on the average life of the pensions in each company and in each pension plan. In cases where the life exceeds 15 years, the OMF yield curve has been extrapolated on the basis of the swap rate.

The discount rate is adjusted to the interest rate level in each country. In Norway, the discount rate varies between 2.0% and 2.5%, depending on the life of the pension.

The discount rate in Sweden is based on Swedish covered bonds and was reduced to 2.30% for 2018, from 2.50% in 2017. The estimate for expected inflation was also increased slightly, from 1.75% to 1.80%. These two changes will result in slightly higher obligations with a recognised effect in other comprehensive income (OCI).

Parameters such as wage growth, increase in the basic amount (G) and inflation are determined in accordance with recommendations in the various countries.

The mortality estimate is based on mortality tables for the various countries that are as up-to-date as possible. In Norway the K2013 life table is used and in Sweden the DUS14. The actuarial gains and losses are recognised in other comprehensive income (OCI) and are essentially related to changes in economic assumptions.

Pension plan assets
Virtually all the Group's pension plans with pension plan assets are now in the UK. Pension plan assets are mainly invested in bonds and shares. The estimated return will vary depending on the composition of the various classes of assets. A breakdown of pension plan assets is presented below. Contributions of pension plan assets in 2019 are expected to total NOK 4.4 million.

Ⓔ ESTIMATE UNCERTAINTY

Defined benefit plans are calculated on the basis of a set of selected financial and actuarial assumptions. Changes in parameters such as discount rates, future wage adjustment, etc. could have substantial impacts on the estimated pension obligation. Similarly, changes in the selected assumptions for the return on pension assets could affect the amount of the pension assets. The Group will not be materially affected by a reasonable expected change in key assumptions. Changes in these parameters will mainly be reported in comprehensive income. Orkla has determined parameters in line with recommendations in the individual countries.

	Norway		Sweden	
	2018	2017	2018	2017
Discount rate	2.0–2.5%	1.7–2.3%	2.30%	2.50%
Future wage adjustment	2.25%	2.25%	2.50%	2.50%
G-multiplier[1]	2.25%	2.25%	2.50%	2.50%
Adjustment of benefits	0%	0%	1.80%	1.75%
Turnover	0–5%	0–5%	3.00%	3%
Expected average remaining vesting period (years)	6.8	7.3	13.3	13.7

[1]As at 31 December 2018, 1G was NOK 96,883.

Breakdown of net pension costs

Amounts in NOK million	2018	2017
Contribution plans	(370)	(337)
Current service cost (incl. national insurance contributions)	(57)	(68)
Curtailments and settlements pension plans	0	34[1]
Pension cost defined as payroll expenses	(427)	(371)
Interest on pension obligations	(31)[2]	(79)
Expected return on pension plan assets	14	21
Pension cost defined as financial costs	(17)	(58)
Net pension costs	(444)	(429)

[1]Related to the conversion of the pension plan in Sonneveld and is presented as "Other income and expenses".
[2]The decrease in interest expense is partly due to a negative return on the plan for employees with salaries over 12G.

Note 12 cont.

Breakdown of net pension obligations as at 31 December

Amounts in NOK million	2018	2017
Present value of funded pension obligations	(436)	(458)
Pension plan assets (fair value)	436	456
Net funded pension liabilities	0	(2)
Present value of unfunded pension obligations	(1 989)	(1 954)
Capitalised net pension liabilities	(1 989)	(1 956)
Capitalised pension liabilities	(2 019)	(1 988)
Capitalised plan assets	30	32

Breakdown of gross pension obligations during the year

Amounts in NOK million	2018	2017
Pension obligations 1 January	(2 412)	(2 534)
Current service cost (incl. national insurance contributions)	(57)	(68)
Interest on pension obligations	(31)	(79)
Actuarial gains and losses reported in statement of comprehensive income	(73)	(67)
Acquisition/sale of companies	0	(1)
Curtailments and settlements pension plans	3	316[1]
Benefits paid during the year	113	133
Currency translation effects	32	(112)
Pension obligations 31 December	(2 425)	(2 412)

[1]Primarily related to the conversion of the pension plan in Sonneveld.

Change in pension assets during the year

Amounts in NOK million	2018	2017
Pension plan assets (fair value) 1 January	456	791
Expected return on pension plan assets	14	21
Actuarial gains and losses reported in statement of comprehensive income	(14)	25
Acquisition/sale of companies	0	0
Curtailments and settlements pension plans	0	(339)[1]
Contributions and benefits paid during the year	(23)	(42)
Currency translation effects	0	45
Effect of asset ceiling	3	(45)
Pension plan assets (fair value) 31 December	436	456

[1]Primarily related to the conversion of the pension plan in Sonneveld.

Breakdown of pension assets (fair value) as at 31 December

	2018	2017
Cash, cash equivalents and money market investments	56%	4%
Bonds	9%	30%
Loans	0%	0%
Shares	35%	66%
Property	0%	0%
Total pension plan assets	100%	100%

Overview of net pension obligations and variances in the last four years

Amounts in NOK million	2018	2017	2016	2015
Pension obligations	(2 425)	(2 412)	(2 534)	(2 256)
Pension plan assets	436	456	791	391
Net pension liabilities	(1 989)	(1 956)	(1 743)	(1 865)
Actuarial gains and losses in pension obligations	(73)	(67)	(91)	(48)
Actuarial gains and losses in pension plan assets	(14)	25	22	26

NOTE 13 OTHER OPERATING EXPENSES

The Orkla Group has chosen to present its income statement based on the nature of the item of income or expense. Operating expenses have been broken down into the following main items: "Cost of materials", "Payroll expenses", "Depreciation/Amortisation" and "Other operating expenses". A breakdown of the most important items in "Other operating expenses" is presented below.

Amounts in NOK million	2018	2017
External freight costs	(901)	(793)
Energy costs (production and heating)	(726)	(645)
Advertising	(1 516)	(1 534)
Repair and maintenance costs	(507)	(460)
Consultants, legal advisors, temporary staff etc.	(519)	(503)
Operating expenses vehicles	(143)	(152)
Rental/leasing	(487)	(453)
Other	(1 965)	(1 917)
Total other operating expenses	(6 764)	(6 457)

Ⓟ PRINCIPLE

Other operating expenses are recognised as and when they are incurred, and are types of costs that are not classified on the lines for cost of materials, payroll expenses or depreciation and write-downs.

Ⓢ SUSTAINABILITY

Orkla's goal is to achieve a 20% reduction in energy consumption for the 2014–2020 period and a 30% reduction up to 2025. To transfer best practices for improving energy efficiency, Orkla prepared a central energy initiative in 2015 as part of its Improved Resource and Energy Efficiency programme. As a result of the programme, a growing number of efficiency improvement projects are being implemented in all the business areas. Adjusted for acquisitions and increased turnover, energy consumption has been reduced by 10% since 2014.

NOTE 14 OTHER INCOME AND EXPENSES

Other income and expenses will largely consist of items that only to a limited degree are reliable explanations of ongoing earnings.The main purpose of this line is to present such items separately to ensure that the changes in and comparability of the lines presented in EBIT (adj.) are more relevant to the company.

Other income and expenses

Amounts in NOK million		2018	2017
M&A and integration costs		(129)	(149)
Final settlement employment relationships etc.		(114)	(89)
Gains/write-downs relating to coordination projects		(1)	192
Other restructuring costs and other items		(238)	(155)
Total		(482)	(201)
Of this:	Write-downs property, plant and equipment	(50)	(146)
	Write-downs intangible assets	(5)	-
	Write-downs inventory (Harris)	(34)	-

Five largest items in other income and expenses:	2018	2017
Acquisition costs (M&A)	(64)	(46)
Restructuring Harris UK (2018) / Integration Harris (2017)	(57)	(37)
Relocation of vegetable and herring production from Finland	(62)	-
Restructuring sales organisation etc.	(39)	-
Relocation of cordial production from Denmark to Kumla in Sweden	(28)	-
Gain and restructuring in connection with sale of K-Salat and Pastella	-	82
Cost new common ERP project (Project One)	-	(42)
Restructuring administrative functions OHPC	-	(40)

Note 14 cont. ➔

PRINCIPLE

"Other income and expenses" are presented after Group profit or loss (EBIT adj.), broken down by segment, and include items such as M&A, restructuring and integration costs, any major gains on or write-downs of both tangible and intangible assets, and other items that only to a limited degree are reliable explanations of ongoing profitability.

M&A costs are costs relating to the acquisition of companies that cannot be capitalised together with the shares. This applies to both completed and uncompleted acquisitions. Accrued expenses arising from the sale of companies are also presented on this line, until the sale is finally completed. At that time, the selling costs will be included in the profit or loss calculation and will be presented together with the latter.

Other income and expenses for 2018 are the sum total of many different projects and initiatives. The largest items are presented in a separate table in this note.

The UK business in House Care has delivered a weak performance since it was acquired in September 2016. A project has been initiated to bring profitability back to at least the level at which Orkla purchased the business. The project was formally approved in the fourth quarter. Inventories have been written down and provisions have been made. The project will generally include a relaunch of the Harris brand with a substantial simplification of the complexity of both product assortment and inventory structure.

Changes are taking place in Orkla's framework conditions, and both Rema 1000 (1 January 2018) and COOP (from 1 July 2019) have terminated their merchandising agreements. As a result, winding-up and restructuring costs relating to the sales organisation are being incurred.

Other net expenses consist of the sale of a brand and the costs of various projects related to the constant development of the Group. One Orkla initiatives have been launched and a number of coordination and improvement projects are in progress. New projects concern the coordination of Orkla Care companies in Sweden and Finland, while the ongoing projects related to chocolate production in Latvia and a competitiveness project in Kungälv, both implemented by Orkla Confectionery & Snacks, coordination projects in Orkla Food Ingredients and several projects in Orkla Foods will continue for some time to come. The pizza project in Stranda has been divided into several stages and early project costs in each stage will be expensed. The main project will be capitalised.

SUSTAINABILITY

In connection with its efforts to develop a long-term, competitive manufacturing footprint, Orkla closed two factories in 2018, and decided to close another two. The purpose of these changes is to strengthen the Group's long-term competitiveness by making more effective use of capacity, improving operational efficiency and increasing the effect of investments in production equipment. Around 440 employees were affected by these changes, and employees who lost their jobs have been helped to seek new employment or training programmes.

NOTE 15 INTEREST AND OTHER FINANCIAL ITEMS

Financial income and financial costs mainly consist of interest income and interest costs related to the Group's total funding. They also include other financial items not related to operational activities.

PRINCIPLE

Interest income and interest costs on loans and receivables are calculated using the effective interest method. Commitment fees and costs related to borrowings are reported as "Other financial costs". The financial element of pension costs is included in "Other financial costs", and is disclosed in Note 12. Borrowing costs related to real estate under construction are recognised in the statement of financial position together with the asset. Foreign currency gains or losses arising from operational assets and liabilities, and the hedging of such, are reported as operating revenues or operating costs. Other foreign currency gains or losses are reported net as financial income and financial costs. The foreign currency gains or losses related to net investments in foreign entities are disclosed in Note 31.

Interest income and interest costs

Amounts in NOK million	2018	2017
Interest income	24	33
Change in fair value recognised as interest income	-	57
Total interest income	24	90
Interest costs	(158)	(240)
Capitalised interest costs	5	1
Change in fair value recognised as financial costs	(30)	-
Total interest costs	(183)	(239)
Net interest	(159)	(149)

Financial income and financial costs

Amounts in NOK million	2018	2017
Gains, losses and write-downs shares and financial assets	-	47
Dividends received	3	7
Other financial income	4	22
Total other financial income	7	76
Net foreign currency losses	(3)	(3)
Net interest pensions (see Note 12)	(17)	(58)
Other financial costs	(29)	(42)
Total other financial costs	(49)	(103)
Total other financial items	(42)	(27)

Reconciliation against cash flow

Interest, net	(159)	(149)
Other financial items, net	(42)	(27)
Total interest and other financial items (A)	(201)	(176)
Items that appear on other lines in the cash flow statement:		
Gains, losses and write-downs shares and financial assets	-	(47)
Dividends received	(3)	(7)
Total items that appear on other lines in the cash flow statement (B)	(3)	(54)
Items without cash flow effect:		
Change in accrued interest etc.	18	(21)
Net interest pensions without cash flow effect	17	58
Change in fair value recognised as interest income/interest costs	15	(29)
Change in fair value recognised as financial income/financial costs	9	-
Total items without cash flow effect, see cash flow statement (C)	59	8
Paid financial items in cash flow statement (see Note 40) (A+B+C)	(145)	(222)

NOTE 16 TAXES

Taxes refer to the authorities' taxation of the profits of the different companies in the Group and in different countries. Value added tax, social security contributions, property tax, special taxes, customs duties and similar indirect taxes are not included in "taxes". Taxes are computed on the basis of accounting profit/loss and broken down into current taxes and change in deferred tax liability. Deferred tax liability is the result of temporary differences between financial accounting and tax accounting.

PRINCIPLE

Current tax liabilities and assets are measured at the amount that is expected to be paid to or recovered from the tax authorities. The tax rates and tax rules used to calculate the amounts are those that have been adopted or substantively adopted by the end of the reporting period in the countries in which the Group operates and generates taxable income.

Deferred tax liabilities and assets are computed for all temporary differences between the tax basis and the carrying amount of an asset or liability in the consolidated financial statements and the tax basis of tax losses carried forward. For deferred tax assets and liabilities, the nominal tax rates expected to apply when the asset is realised or the liability is paid will be used.

Deferred tax assets relating to tax deficits and other tax-reducing temporary differences are recognised to the extent that it is probable that they can be applied against future taxable income.

Deferred tax liabilities related to withholding tax and other tax on dividends are recognised in connection with retained profits in associates and foreign subsidiaries when a dividend is expected to be paid in the foreseeable future.

Deferred tax liabilities for temporary differences associated with investments in subsidiaries and associates are recognised when it is probable that the temporary difference will reverse in the foreseeable future. Deferred tax liabilities or deferred tax assets are not recognised for the initial recognition of goodwill.

Deferred tax liabilities and deferred tax assets are only reported net to the extent that netting is permitted under the tax rules, and the Group intends to make use of the opportunities to consolidate its tax positions by means of Group contributions or other tax consolidation.

Tax expense

Amounts in NOK million	2018	2017
Profit/loss before tax	4 358	4 571
Current tax expense	(996)	(865)
Change in deferred tax	(8)	(115)
Total tax expense	(1 004)	(980)
Tax as % of "Profit/loss before taxes"	23.0%	21.4%
Tax as % of "Profit/loss before taxes" adjusted for associates	24.5%	23.0%

Orkla's effective tax expense adjusted for associates increased by 1.5 percentage points from 23% in 2017 to 24.5% in 2018. This reduction is mainly due to the effect of higher economic rent tax resulting from the energy business in Norway contributing more to profit in 2019. The energy business in Norway has a nominal tax rate of 58.7%.

Reconciliation of the Group's tax rate

In the following table, reported taxes are reconciled with the tax expense based on the Norwegian tax rate of 23% (24% in 2017). The main tax components are specified.

Amounts in NOK million	2018	2017
Norwegian tax rate on profit before taxes	(1 002)	(1 097)
Associates and joint ventures	61	75
Deferred tax on undistributed earnings in associates	4	(1)
Foreign operations with tax rates other than Norwegian tax rate	49	61
Changes in tax laws	10	0
Write-downs of shares, gains/losses and dividends within the tax exemption method	0	29
Non-deductible costs / tax free income	(16)	(7)
Non-deductible transaction expenses	(11)	(15)
Recognised deferred tax assets this year, previously unrecognised	14	41
Unrecognised deferred tax assets	(26)	(7)
Correction previous years' taxes	25	(6)
Other taxes payable (economic rent tax and withholding tax)	(112)	(53)
The Group's total tax expense	(1 004)	(980)

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Orkla's tax bases in Norway, Sweden and Denmark are substantial. The ordinary tax rate for companies domiciled in Norway was reduced from 24% to 23%, effective from 2018. Company taxes in Norway and Sweden were further reduced from 23% and 22% to 22% and 21.4%, respectively, with effect from 2019. The effects of the reduction in the tax rates on the temporary differences at year end are recognition of NOK 4 million and NOK 6 million in Norway and Sweden in the income statement and a credit of NOK 4 million to comprehensive income in Norway.

Orkla's operations in countries with tax rates other than 23% make a net contribution towards reducing the total tax expense. In 2018, the effect of this contribution was a reduction of NOK 47 million in the total tax expense, of which the Swedish, Finnish and Danish subsidiaries accounted for NOK 11 million, NOK 11 million and NOK 5 million, respectively.

Profit from associates is recognised on an after-tax basis and thus does not impact the Group's tax expense. However, a provision has been made for tax on "undistributed earnings" in associates, totalling NOK 23 million, of which NOK 4 million was recognised in the income statement in 2018.

The change in unrecognised deferred tax assets totalling NOK 26 million concerns tax deficits in Poland, Spain, Sweden, France, Germany and Finland. Recognition of previous years' unrecognised deferred tax assets totalling NOK 14 million mainly relates to Orkla Food Ingredients companies in Denmark, Romania and Slovakia, and Orkla's insurance company in Ireland.

The Group operates in the power industry which is subject to a special tax regime in Norway. In 2018, the economic rent tax rate accounted for 2.6 percentage points of the effective tax rate of 23.5%.

Tax disputes related to Saudefaldene

A settlement was reached in March 2018 in the ongoing legal action disputing the Central Tax Office – Company Tax Affairs' administrative decision of 24 April 2014. The result of the settlement was an increase in the deductible share of leasing costs for Saudefaldene from 40% to 46.5%, while the other claims were waived.

SUSTAINABILITY

Through its presence in many countries, Orkla contributes to society by paying a variety of direct and indirect taxes, including company tax. Orkla's corporate tax strategy sets out important tax principles to which all the companies in the Group must adhere. These principles are based on the desire for transparency, compliance with regulatory frameworks and good risk management. Orkla companies must pay tax in accordance with the laws and regulations in the countries in which they operate.

The table below presents the company tax payable in the income statement for Orkla's main geographical areas:

Amounts in NOK million	2018	2017
Norway	488	301
Sweden	233	184
Denmark	83	160
Finland and Iceland	61	55
Rest of world	131	165
Total company tax payable	996	865

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Deferred tax liabilities

Deferred tax liabilities consist of the Group's tax liabilities that are payable in the future. The table below lists deferred tax assets and liabilities relating to the temporary differences between the carrying amount of an asset or liability and its tax base.

Deferred tax on temporary differences

Amounts in NOK million	2018	2017
Hedging reserve in equity	(48)	(68)
Intangible assets	1 135	1 108
Property, plant and equipment	311	328
Net pension liabilities	(257)	(244)
Gain and loss tax deferral	311	341
Other non-current items	277	304
Total non-current items	1 729	1 769
Provisions	(70)	(111)
Other current items	(75)	(50)
Total current items	(145)	(161)
Tax losses carried forward	(138)	(114)
Net deferred tax liabilities	1 446	1 494
Deferred tax hydropower tax regime[1]	(21)	(19)
Deferred tax assets, not recognised	108	89
Net deferred tax liabilities	1 533	1 564
Change in deferred tax	31	(75)
Change in deferred tax discontinued operations	-	(28)
Net deferred tax continuing operations	31	(103)
Change in deferred tax hedging reserve taken to comprehensive income	20	27
Change in deferred tax actuarial gains and losses pensions taken to comprehensive income	(26)	(9)
Acquisitions/sale of companies, currency effects etc.	(18)	24
Hedging of net investments in foreign operations	(15)	(54)
Change in deferred tax income statement	(8)	(115)

[1]Deferred tax liabilities and deferred tax assets related to hydropower taxes have been recognised gross for each power plant.

Net deferred tax presented in the statement of financial position

Amounts in NOK million	2018	2017
Deferred tax liabilities	1 566	1 604
Deferred tax assets	33	40
Net deferred tax	1 533	1 564

Losses carried forward by expiry date

Tax losses carried forward totalling NOK 643 million constitute a deferred tax asset of NOK 139 million, of which only NOK 38 million has been recognised. Unrecognised tax losses carried forward amount to NOK 457 million. A total of NOK 273 million of these have no expiry date, NOK 13 million expire from 2025 onwards, NOK 72 million expire in the period 2022-2024 and NOK 99 million expire in the period 2019-2021.

Amounts in NOK million	2018	2017
2018	-	22
2019	38	23
2020	39	25
2021	26	26
2022	12	20
2023	57	16
2024	7	19
2025 or later	34	35
Without expiry date	430	335
Total tax losses carried forward	643	521

Deferred tax assets are only capitalised to the extent that it is probable that there will be sufficient future taxable profit for the tax asset to be used, either because the entity recently reported a profit or because assets with excess value have been identified. If there are not likely to be future profits sufficient to absorb the tax-reducing temporary differences, deferred tax assets are not recognised. The businesses Orkla Care, Hamé and Harris have tax-reducing temporary differences in Spain, Poland, Eastern Europe and the UK that have not been recognised.

The Norwegian, Swedish and Finnish tax groups have utilised all available tax losses carried forward and were liable to tax in 2018.

Note 16 cont.

A provision of NOK 84 million has been made for tax liability on untaxed undistributed earnings in Estonia, of which NOK 15 million was recognised in 2018. A provision of NOK 8 million has been made for tax liability on untaxed undistributed earnings in Latvia.

Deductible temporary differences with corresponding deferred tax assets

Amounts in NOK million	Deductible temporary differences	Recognised deferred tax assets	Unrecognised deferred tax assets	Total deferred tax assets
Tax losses carried forward by country				
Spain	172	2	41	43
UK	125	13	9	22
Poland	61	1	11	12
Switzerland	55	0	14	14
Denmark	52	8	3	11
Others	178	14	23	37
Total	643	38	101	139
Other deductible temporary differences	1 423	306	7	313
Total deductible temporary differences	2 066	344	108	452
Netted deferred tax	(1 415)	(311)	0	(311)
Net deductible temporary differences	651	33	108	141

NOTE 17 EARNINGS PER SHARE

Earnings per share are one of several indicators that can be used in financial analyses to assess a company's performance. This key figure shows the profit or loss for the year after non-controlling interests per share.

Ⓟ PRINCIPLE

Earnings per share are calculated by dividing the profit or loss for the year after non-controlling interests by the average number of shares outstanding during the reporting period.

Amounts in NOK million	2018	2017
Profit/loss for the year after non-controlling interests for continuing operations	3 272	3 516
Profit/loss/gains discontinued operations	0	5 066
Profit/loss for the year after non-controlling interests	3 272	8 582
Weighted average of number of shares outstanding	1 008 809 691	1 017 472 462
Earnings per share (NOK)	3.24	8.43
Earnings per share for discontinued operations (NOK)	0.00	4.97
Earnings per share for continuing operations (NOK)	3.24	3.46

There are no share-based arrangements in the Group that have a dilutive effect.

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NOTE 18 IMPAIRMENT ASSESSMENTS

The value of long-term capitalised assets will largely be based on discretionary assessment and estimates. It is important that the financial statement users are familiar with the assumptions that apply to the valuation of these assets and the way the Group assesses future earnings. There will be particular focus on assets that are not initially depreciated or amortised. In the Orkla Group's financial statements, this will largely concern goodwill and trademarks with an indefinite useful life.

Routine monitoring of non-current assets
The Orkla Group has material non-current assets in the form of both tangible (property, plant and equipment) and intangible assets. An explanation of the details of and changes in these assets is presented in Note 19 and Note 20. The Group also has other non-current assets that mainly consist of investments in companies recognised using the equity method. These are disclosed in Note 6 and are not covered in the description below.

The capitalised assets are routinely monitored and if there are indications that the value of an asset is no longer recoverable, an impairment test will immediately be carried out to determine whether the asset can still justify its carrying value. If new estimates conclude that the value is no longer recoverable, the asset is written down to the recoverable amount, i.e. the greater of the net sales value and the value in use (discounted cash flow).

Prior to the presentation of financial statements for the third quarter, the Group carried out impairment tests for all intangible assets with an indefinite useful life and for all goodwill, in line with its adopted principles. No intangible assets or property, plants and equipment were written down as a result of these tests. The UK business in House Care has delivered a weak performance since it was acquired in September 2016. A project has been initiated to bring profitability back to at least the level at which Orkla purchased the business. The situation at Harris will be closely monitored, and sub-targets have been defined in the project that must be achieved to prevent asset impairment. Further information is provided in Note 14.

An updated assessment was also carried out of the value of the Sauda power plants. Legal proceedings in both tax cases and real estate tax cases relating to Saudefaldene are still in progress; see Notes 16 and 39. The valuation of Sønnå Høy is based on future estimates of power prices and contract-based production in the lease period, as well as the value of the plants at the time they are returned to Statkraft. The WACC applied reflects lower risk than for the other Group companies. The valuation justifies the Group's investment in Saudefaldene.

No other deficit values related to property, plant or equipment or intangible assets were identified in the Group.

Ⓟ PRINCIPLE

Goodwill and intangible assets with an indefinite useful life are not amortised on a regular basis. These assets are therefore tested at least annually for impairment. At Orkla, impairment testing is carried out in the third quarter. If there are special indications of a reduction in value, impairment testing is carried out more frequently. Cash flows relating to the assets are identified and discounted. Future cash flow is based on specified assumptions (see separate table in this note) and the plans adopted by the unit. If the discounted value of future cash flows is lower than the capitalised value of the unit's capital employed, the assets are written down to the recoverable amount. If the discounted value is higher than the capital employed, this means that the value of the intangible asset or goodwill is recoverable. In cases where the discounted value exceeds the capital employed by less than 20%, a further sensitivity analysis is carried out to check the calculation. Capital employed is defined through the presentation of segments in Note 7. Where relevant, assumptions and estimates are reviewed and the robustness of the investment is measured in relation thereto. Alternatively, the sales value of the asset will be calculated to determine whether it justifies maintaining the carrying value.

Trademarks with an indefinite useful life are tested for impairment by discounting estimates of the future sales value of the trademark and measuring them against the trademark's carrying value. This process is based on a model whereby the trademark's discounted value is calculated on the basis of a percentage rate that indicates the strength of the trademark. This strength was assumed at the time of acquisition and is basically maintained in the impairment testing.

Note 18 cont. ➔

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Cash-generating units

A cash-generating unit (CGU) is the lowest level at which independent cash flows can be measured. The highest level of a CGU will be a reported segment. None of the reported segments as at 31 December 2018 constituted a separate CGU.

Some of the operations in Orkla Foods are in companies that have been part of the Group for a very long time. No capitalised intangible assets are associated with these companies. Rieber & Søn Norge, acquired in 2013, has been fully integrated into Orkla Foods Norge, and excess value associated with the acquisition must be justified by the unit as an aggregate. The same applies to the Rieber & Søn businesses that were taken over in Sweden (Frødinge integrated into Orkla Foods Sverige) and Denmark (Rieber & Søn Danmark integrated into Orkla Foods Danmark). Here, too, the excess value must be justified by the aggregate units. Orkla Foods Sverige (formerly Procordia and Abba Seafood) was acquired in 1995, and goodwill associated with these operations was amortised by 1/20 per year in the period from the acquisition to 1 January 2004 when the Group switched to reporting under IFRS. This means that the original goodwill from these acquisitions has been approximately halved in relation to the acquisition cost.

Orkla Confectionery & Snacks' business operations have been structured as one company per country. This means that goodwill impairment will be tested at that level.

In Orkla Care, Orkla Home & Personal Care (OHPC) has been in the Group for a long time. Both the Jordan acquisition (excl. House Care) (2012) and the part of the Cederroth acquisition (2015) that is Home Care and Personal Care have been fully integrated into the OHPC part. The aggregate unit must justify the excess values from these acquisitions.

Companies acquired by Orkla Health in 2005 and 2006 (Collett Pharma and Dansk Droge) have also been fully integrated into existing operations. It is impossible to identify the different cash flows, and the units in Orkla Health are therefore tested for impairment on an aggregate basis. The integration with the units that were already part of Orkla prior to the acquisition generates an aggregate return that well exceeds the required rate. The part of Cederroth (2015) included in Orkla Health has been fully integrated, and the excess value from the acquisition will have to be justified by the unit as an aggregate. Orkla Health is part of Orkla Care.

The Orkla Wound Care part of the Cederroth acquisition (SalveQuick wound care products, etc.) and Orkla House Care (the painting tool part of the Jordan acquisition) are separate CGUs and must justify their value on a separate basis. For the time being, the acquired company Harris is included as an independent unit in Orkla House Care and tested on an individual basis. In the long term, Harris is expected to be incorporated into an aggregated Orkla House Care.

Orkla Food Ingredients consists of many different units, which are mainly separate CGUs and are tested individually. Around 20 CGUs are tested.

Trademarks

In the case of trademarks, a new organisational structure will normally not change the possibility of measuring the strength of the various trademarks. The trademarks continue to exist in the new organisation and will, in most cases, be identifiable in future. The value of a trademark will be dynamic and new products launched under the trademark in question will help to maintain its value.

Budget assumptions

The Branded Consumer Goods business is basically relatively stable in the face of market fluctuations. Future cash flows are estimated on the basis of a number of assumptions. This applies both to factors such as assumptions concerning economic trends and factors such as assumptions concerning the estimated useful life of important trademarks. Cash flow estimates are sensitive to changes in raw material prices and thereby other purchase prices and the associated ability to maintain margin assumptions and market shares. Future cash flows are estimated on the basis of the budget for next year and the following four forecast years. As from year six a terminal value is calculated. The largest CGUs are shown in a separate table, by segment. The main companies in each segment are presented and the main factors on which the impairment tests are based are summed up. The CGUs operate in different markets, and the table is intended to provide an overview of the primary drivers. See also the separate brand table in Note 19 for an overall picture of trademarks that have been capitalised, capitalised through goodwill or have not been capitalised.

Note 18 cont.

Discount rate
The discount rate applied is based on the Group's cost of capital, which is estimated to be 7.2% before tax, based on a weighted average of required rates of return for the Group's equity and debt (WACC). The required rate of return on the Group's equity is estimated by using the capital asset pricing model (CAPM). The required rate of return on debt is estimated on the basis of a long-term risk-free interest rate to which is added a credit margin derived from Orkla's marginal long-term borrowing rate. External information sources are used to calculate the cost of equity and the cost of loan capital. The discount rate is adjusted for country risk, the level of inflation and operational risk, depending on the particular value being calculated.

Sensitivity
The largest trademark and goodwill items are related to businesses that are developing well. As mentioned above, the performance of the UK business in House Care has been weak since it was acquired in September 2016. To be able to justify its value, it is very important that the company develops as anticipated.

A comparison of the book value of capital employed in Branded Consumer Goods with an average "sum of the parts" (SOTP) value based on analysts' valuation of the corresponding area shows substantial excess value. The excess value varies from one business area to another, but all four Branded Consumer Goods business areas show that the SOTP value is clearly higher than the respective carrying values.

Greatest uncertainty is attached to the companies recently acquired. In these cases, plans and assumed growth rates are based on trends in markets that are relatively new for the Group. Based on the assumptions and expectations applied in both the acquisition cases and further plans, however, these businesses also justify their capitalised value. See, however, the information on Harris above.

Even a 2% change in either WACC or growth in the terminal value will not, all else being equal, result in impairment of the value of material trademarks and goodwill items.

The goodwill and trademark items are shown in tables on the following pages.

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Key assumptions for estimating future performance

	Orkla Foods (OF)					Orkla Confectionery & Snacks (OC&S)				
		Goodwill		Trademarks			Goodwill		Trademarks	
Amounts in NOK million	Units	2018	2017	2018	2017	Units	2018	2017	2018	2017
Units in segment	OF Norway	3 344	3 344	1 260	1 260	OC&S Norway	534	534	205	205
	OF Sweden	1 500	1 481	87	90	OC&S Sweden	840	866	382	390
	OF Denmark	99	98	59	22	OC&S Denmark	589	584	405	402
	OF Fenno-Baltic	161	159	45	44	OC&S Finland	589	582	727	723
	MTR Foods	305	315	114	118	OC&S Baltics	473	468	266	263
	OF Central Europe	596	587	489	487					
	OF Others	211	211	-	-					
	Total	**6 216**	**6 195**	**2 054**	**2 021**	**Total**	**3 025**	**3 034**	**1 985**	**1 983**
		2018		2017			2018		2017	
	Total capital employed 31 Dec.	13 709		13 403		Total capital employed 31 Dec.	6 752		6 636	
	EBIT (adj.)	2 048		2 055		EBIT (adj.)	1 006		1 045	
Factors that affect the discount rate	Operates largely in the Nordic and Baltic markets, low industry risk; budgets in NOK, SEK, DKK, EUR. Also has operations in Austria, Czech Republic, Slovakia, Russia, Ukraine, Hungary and India.					Operates largely in the Nordic and Baltic markets, low industry risk; budget in NOK, SEK, DKK, EUR.				
Raw material prices are estimated on the basis of the market situation at the time of calculation	Key raw materials: meat and eggs, vegetables, dairy products, fish, spices and other additives, fruits and berries, glass and metal packaging.					Key raw materials: sugar, potatoes, nuts, cocoa, flour, vegetable oil, spices, milk powder and packaging				
Production site	Production is carried out in the Nordics, Baltics, Austria, Czech Republic, Slovakia, Russia and India.					Production is largely carried out in the Nordics and Baltics. Goods manufactured under licence are imported.				
Contribution margin is based on past performance, adjusted for future expectations	Contribution margin is affected by innovations, productivity, retail chain price negotiations and raw material prices which overall are expected to remain stable or rise slightly.					Contribution margin is affected by innovations, productivity, retail chain price negotiations and raw material prices which overall are expected to remain stable or rise slightly.				
Customisation and ability to develop products in collaboration with customers	Orkla Foods follows consumer trends – growth is expected in existing segments.					OC&S follows consumer trends – growth is expected in existing segments.				
Economic conditions and market outlook	Markets and turnover are expected to remain normal – Orkla Foods is generally little affected by market trends.					Markets and turnover are expected to remain normal – OC&S is generally little affected by market trends.				
Terminal value	Growth rate 0.5–5%.					Growth rate 0.5%.				

Note 18 cont.

Key assumptions for estimating future performance

	Orkla Care					Orkla Food Ingredients (OFI)				
		Goodwill		Trademarks			Goodwill		Trademarks	
Amounts in NOK million	Units	2018	2017	2018	2017	Units	2018	2017	2018	2017
Units in segment	Orkla Home & Personal Care	1 430	1 452	310	310	KåKå	347	228	-	-
	Orkla Health	1 350	1 350	704	704	Idun	617	596	-	-
	Pierre Robert Group	98	97	37	38	Credin	198	197	-	-
	Lilleborg	18	18	-	-	Odense	93	87	-	-
	Orkla House Care	472	471	151	151	Others	347	348	4	4
	Orkla Wound Care	134	138	98	101					
	HSNG	274	-	95	-					
	Total	**3 776**	**3 526**	**1 395**	**1 304**	**Total**	**1 602**	**1 456**	**4**	**4**
		2018		2017			2018		2017	
	Total capital employed 31 Dec.	7 330		6 899		Total capital employed 31 Dec.	4 373		3 952	
	EBIT (adj.)	1 084		1 074		EBIT (adj.)	533		469	
Factors that affect the discount rate	Operates largely in the Nordic markets and the Baltics, Poland, Spain and the UK; low industry risk; budgets in local currency					Operates in several countries; moderate industry risk; budgets in local currency.				
Raw material prices are estimated on the basis of the market situation at the time of calculation	Key raw materials: crude oil, fish oil, milk protein, vitamins, plastic packaging, plastic components, cardboard and paper-based packaging, tensides, wool and cotton.					Key raw materials: vegetable oil, butter, molasses, sugar and flour.				
Production site	Own production mainly in the Nordics, and in the UK and China for Orkla House Care and Malaysia for the part of Jordan included in OHPC. Wound care products are produced in Spain. Pierre Robert largely purchases its production from Italy and Asia. Orkla Health, OHPC and Lilleborg also primarily purchase goods for resale from Europe.					Own production mainly in Scandinavia. Other production in the Netherlands and at certain production units in Central and Eastern Europe.				
Contribution margin is based on past performance, adjusted for future expectations	Contribution margin is affected by innovations, productivity, retail chain price negotiations and raw material prices that overall are expected to remain stable or rise slightly.					Contribution margin is affected by companies' competitive strength in delivery of products and services. This strength is supported by ability to develop good "cost in use" products. OFI seeks to offset changes in raw material costs in customer markets.				
Customisation and ability to develop products in collaboration with customers	Orkla Care follows consumer trends – growth is expected in existing segments.					OFI follows consumer trends and collaborates closely with its customers, who are manufacturers and suppliers. This collaboration will be further strengthened.				
Economic conditions and market outlook	Markets and turnover are expected to remain normal – Orkla Care is generally little affected by market trends.					Markets and turnover are expected to remain normal in the markets in which OFI operates.				
Terminal value	Growth rate 0.5–2%.					Growth rate 0.5%.				

NOTE 19 INTANGIBLE ASSETS

Intangible assets and goodwill are non-physical assets that have largely been capitalised in connection with the acquisition of a company. Intangible assets classified as non-amortisable are chiefly trademarks, have an indefinite useful life and it is impossible on the balance sheet date to foresee when the asset will cease to have value. Goodwill is not regularly amortised either. Intangible assets and goodwill will be subject to considerable estimate uncertainty.

Ⓟ PRINCIPLE

Research and development (R&D) expenditure is the expenses incurred by the Group in conducting research and development, studies of existing or new products, production processes, etc. in order to secure future earnings. Expenditure on research is always expensed directly, while expenditure on development may be recognised in the statement of financial position. However, there is considerable uncertainty throughout the decision-making process, and the fact that only a small percentage of all development projects culminate in commercial products means that no projects end in capitalisation. At the same time, the expenses that qualify for recognition in the statement of financial position are relatively small.

Expenditure on internally generated or customised IT systems is capitalised and presented as intangible assets.

Expenditure related to internally generated trademarks, etc. (marketing) is expensed directly and will never be capitalised. This is because the future economic benefits to the company cannot be identified and shown to be probable with any degree of certainty at the time the trademark is launched.

Intangible assets taken over by the company through acquisitions are capitalised. Long-established trademarks that have a sound development at the time of acquisition have an indefinite useful life and are not amortised. An indefinite useful life means that it is impossible on the statement of financial position date to estimate the period during which assets will be available for use. Other identified trademarks will be amortised over their anticipated useful life, which is normally 5–10 years. Other intangible assets will be amortised over their useful life. Thus only trademarks that are purchased directly or indirectly through the acquisition of companies are capitalised in the consolidated financial statements, not internally generated trademarks.

Goodwill is the residual value consisting of the difference between the purchase price and the capitalised value of an acquired company. The concept of goodwill comprises payment for synergy gains, assets related to employees, other intangible assets that do not qualify for capitalisation as a separate item, future superprofit and the fact that deferred tax may not be discounted. Capitalised goodwill derives solely from acquisitions; see Note 18.

Ⓔ ESTIMATE UNCERTAINTY

Considerable estimate uncertainty attaches to the value of intangible assets. These have no direct "cost price", which is essentially determined by the Group's own valuations, and are mainly capitalised in connection with the Group's acquisition of a new business. Goodwill is to be seen as a residual value in the same acquisition. The sum of all excess value including goodwill associated with acquisitions is thus basically to be regarded as the market value (fair value) of the total net assets, and the different types of assets (liabilities) are broken down on the basis of that value; see Note 18.

Ⓢ SUSTAINABILITY

Orkla expensed NOK 279 million for research and development in 2018 (NOK 286 million in 2017). This covers internal and external costs related to product development, and includes measures to reduce salt, sugar and saturated fat in foods, develop healthy products and packaging with reduced environmental impacts.

Note 19 cont.

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Intangible assets Amounts in NOK million	Trademarks, not amortisable	Trademarks, amortisable	Other intangible assets	IT	Goodwill	Total
Book value 1 January 2017	4 985	76	125	314	12 741	18 241
Investments	-	-	-	27	-	27
Reclassifications[1]	100	(67)	(33)	52	-	52
Companies acquired[2]	(13)	-	3	1	831	822
Sold companies	-	-	-	(3)	-	(3)
Depreciation/amortisation	-	(4)	(6)	(93)	-	(103)
Translation differences	240	9	7	11	578	845
Book value 31 December 2017	5 312	14	96	309	14 150	19 881
Investments	-	-	-	40	-	40
Reclassifications[1]	-	-	-	128	-	128
Companies acquired[2]	130	-	2	(9)	603	726
Sold companies	-	-	-	-	(9)	(9)
Depreciation/amortisation	-	(5)	(5)	(103)	-	(113)
Translation differences	(4)	-	-	(1)	(71)	(76)
Book value 31 December 2018	5 438	9	93	364	14 673	20 577
Initial cost 1 January 2018	5 411	88	847	870	16 364	23 580
Accumulated amortisation and write-downs	(99)	(74)	(751)	(561)	(2 214)	(3 699)
Book value 1 January 2018	5 312	14	96	309	14 150	19 881
Initial cost 31 December 2018	5 537	89	879	1 123	16 913	24 541
Accumulated amortisation and write-downs	(99)	(80)	(786)	(759)	(2 240)	(3 964)
Book value 31 December 2018	5 438	9	93	364	14 673	20 577
Amortisation	-	10–20%	10–20%	16–33%	-	-

[1]Net reclassifications relate to figures transferred from Note 20.
[2]See Note 5 for information about intangible assets in acquired companies.

Based on the recommendations resulting from a pre-project, a decision has been made to carry out a main project to establish a common ERP platform for the Group. The roll-out of the new platform will begin in 2019 and run for several years. Expenses incurred during the initial stages of the project have been reported as "Other income and expenses", while expenses relating to the establishment of templates and the project roll-out will be recognised in the statement of financial position as intangible assets. The capitalised amounts will be relatively substantial. NOK 260 million had been capitalised in connection with the new ERP system as at 31 December 2018, but were capitalised under "Assets under construction"; see Note 20.

Market positions in selected grocery markets for branded consumer goods

The tables on the next few pages show the Group's trademark positions for each business area.

In addition to the items presented in the table for intangible assets, the Group owns several trademarks that have not been capitalised, such as proprietary trademarks which, under accounting rules, may not be capitalised. These trademarks are presented in the table as "A". When the transition was made to IFRS in 2005, goodwill that had already been capitalised could be maintained and part of the goodwill indirectly consists of trademarks. These trademarks are presented as "B" in the table. Capitalised trademarks are trademarks that have either been directly acquired, or indirectly acquired through purchase price allocations in the acquisition analysis. They are presented as "C" in the table. The classification in the note is based on management's discretionary judgement.

As at 31 December 2018, the Group also had trademark positions in India (MTR Foods).

Note 19 cont.

	NORWAY			SWEDEN			DENMARK			FINLAND			BALTICS			CZECH REPUBLIC & SLOVAKIA			AUSTRIA		
Products	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R
Orkla Foods																					
Frozen pizza	Grandiosa, BigOne, Pizzabakeriet	●	A	Grandiosa	◑	B		○		Grandiosa	◑	B	Grandiosa	◔	B		○			○	
Ketchup	Idun	●	A	Felix	●	B	Beauvais, Bähncke	◑	B A	Felix	●	B	Felix, Spilva, Suslavicius	●	B C	Otma, Hamé	◔	C	Felix	●	B
Jam and marmalade	Nora	●	A	Felix, Önos, BOB	●	B	Den Gamle Fabrik	●	B	Ekströms	○	B	Põltsamaa, Spilva	●	B	Hamé	●	C		○	
Preserved vegetables	Nora	●	A	Felix	●	B	Beauvais, Gårdlykke	●	B	Felix	●	B	Põltsamaa, Spilva	●	B	Znojmia, Hamé	●	C	Felix	◔	B
Dressings	Idun	●	A	Felix	●	B	Bähncke	◑	A	Felix	◑	B	Spilva, Felix, Suslavicius	●	B C		○		Felix	◔	B
Herring, mackerel	Stabburet, Abba	●	A B	Abba	●	B	Glyngøre	◔	B	Boy, Ahti, Abba, Vesta	●	B C		○			○			○	
Cod roe spread		○		Kalles Kaviar	●	B		○		Kallen	●	B		○			○			○	
Cordials/soft drinks (non-carbonated)	FUN Light	◑	A	FUN Light, Önos, Jokk, BOB	●	B	FUN, Grønnegården, Scoop, Blomberg, Den Gamle Fabrik	◑	B C	FUN Light, Ekströms	●	B	Põltsamaa	◑	B A		○			○	
Ready meals (dried, frozen, chilled & canned)	TORO, Trondhjems	●	C A	Abba, Felix, Paulúns, Ekströms, Anamma	◔	B C	Beauvais, Bähncke, PAMA	◑	B A C		○		Põltsamaa, Spilva, Suslavicius	◑	B C	Hamé, Otma, Vitana	●	C A	Felix	◑	B
Cereal	Bare Bra	◔	A	Paulúns	◑	C	Det gode liv, Struer	◔	A		○		Paulúns	◔	C		○		Knusperli	◔	A
Patés	Stabburet	●	A		○			○			○			○		Hamé, Seliko, Májka	●	C		○	
Baby food		○			○			○			○			○		Hamánek	◔	C		○	
Sweet spreads	Nugatti	●	A		○			○			○			○			○			○	
Cured meat/salami	Vossafår	◔	A		○			○			○			○			○			○	

P = Position: ● STRONG no. 1, clearly stronger than no. 2, ◑ GOOD no. 1 or no. 2, equivalent in size to no. 1, ◔ PRESENT no. 2 or weaker, clearly weaker than no. 1, ○ NOT PRESENT/WEAK POSITION
R = Accounting treatment: A - Not capitalised, B - Capitalised through goodwill, C - Capitalised

Note 19 cont.

	NORWAY			SWEDEN			DENMARK			FINLAND			ESTONIA			LATVIA		
Products	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R
Orkla Confectionery & Snacks																		
Snacks	KiMs, Polly, Cheez Doodles Småsulten, Totenflak	◑	A C	OLW, Anyday	●	C A	KiMs, Anyday	●	C A	Taffel, Anyday	●	C A	Taffel	◔	C	Ādažu Čipsi, Taffel	●	A C
Biscuits	Café Bakeriet, Safari, Bixit, Ballerina, Kornmo	●	A	Ballerina, Brago, Singoalla	●	B		○		Kantolan, Ballerina	◔	A B	Selga	●	A	Selga	●	A
Confectionery	Stratos, Crispo, Doc, Smash!, Nidar Favoritter, Laban	◑	A	Panda, Smash!	◔	C A	KiMs	◔	C	Panda	◔	C	Kalev	●	C	Laima	●	C

P = Position: ● STRONG no. 1, clearly stronger than no. 2, ◑ GOOD no. 1 or no. 2, equivalent in size to no. 1, ◔ PRESENT no. 2 or weaker, clearly weaker than no. 1, ○ NOT PRESENT/WEAK POSITION
R = Accounting treatment: A - Not capitalised, B - Capitalised through goodwill, C - Capitalised

Note 19 cont.

	NORWAY			SWEDEN			DENMARK			FINLAND			BALTICS			POLAND			UK		
Products	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R	Major brands	P	R
Orkla Care																					
Cleaning products	Comfort, Jif, Omo, Sun, Zalo	●	A	Grumme	◑	C	Renslet	◔	A	Lumme, WC-Kukka	◔	C		○			○			○	
Personal care products	Define, Dr Greve, Jordan, Lano, Sterilan	●	A C	Bliw, Family Fresh, Jordan, L300, LdB	◑	C	Jordan, P20, Perspirex	◔	C	Bliw, Erittäin Hieno Suomalainen, Jordan, L300, Family Fresh	◔	C	Jordan	◔	C	Dermika, Soraya, Jordan	◔	C	P20	○	C
Dietary supplements	Möller's, Nutrilett, Collett, Maxim, Star Nutrition	●	A C	Nutrilett, Pharbio, Maxim, Active Care, Star Nutrition, Litomove	●	C A	Gerimax, Futura, Pikasol, HUSK, Livol, Unikalk, Star Nutrition	● ◔	C	Möller's, Nutrilett, SanaSol, Star Nutrition	●	A C	Möller's	●	A	Möller's, Gerimax, Colon-C	● ◑ ◔	A C C		○	
Textiles	Pierre Robert, LaMote	●	C A	Pierre Robert, LaMote	◑	C A		○		Norlyn, Black Horse, Pierre Robert	●	C		○			○			○	
Wound Care	Salvequick, Cederroth	●	C	Salvequick, Cederroth	●	C	Salvequick	●	C	Salvequick, Cederroth	●	C		○		Salvequick	◔	C		○	
House Care[1]	Jordan	●	C	Anza	●	A	Spekter	●	A	Anza	●	A		○			○		Harris	●	C

[1]Painting tools for specialised retailers.

	NORWAY			SWEDEN			DENMARK		
Products	Major brands	P	R	Major brands	P	R	Major brands	P	R
Orkla Food Ingredients									
Yeast	Idun Mors Hjemmebakte	●	A	Kronjäst	●	B		○	
Marzipan	Odense	◑	B	Odense	◑	B	Odense	●	B
Margarine Plant based Butter blend spread		○ ○ ○			○ ○ ○		AMA Naturli' Bakkedal	◔ ● ◔	B A B

P = Position: ● STRONG no. 1, clearly stronger than no. 2, ◑ GOOD no. 1 or no. 2, equivalent in size to no. 1, ◔ PRESENT no. 2 or weaker, clearly weaker than no. 1, ○ NOT PRESENT/WEAK POSITION
R = Accounting treatment: A - Not capitalised, B - Capitalised through goodwill, C - Capitalised

NOTE 20 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are various types of assets that are necessary for the Group's operating activities. Unless there are significant changes in operating parameters, these assets will largely necessitate corresponding reinvestment over time. They consist of items such as land, buildings, plants, machinery, fixtures and fittings, IT equipment and vehicles. Annual ordinary depreciation is an indication of the extent of the need for corresponding reinvestment.

Ⓟ PRINCIPLE

Property, plant and equipment are tangible items intended for production, delivery of goods or administrative purposes and have a lasting useful life. They are recognised in the statement of financial position at cost minus any accumulated depreciation and write-downs. Routine maintenance of assets is expensed under operating expenses while major periodical maintenance and expenditure on replacements or improvements are added to the cost price of the assets. Property, plant and equipment with an indefinite useful life (land, etc.) are not depreciated, while other property, plant and equipment are depreciated on a straight line basis over their useful life. Residual value is taken into account (especially in connection with properties), and the depreciation plan is reviewed annually. If there is any indication that the value of an asset may be impaired, the asset will be written down to the recoverable amount if the recoverable amount is lower than the carrying value.

When carrying out a purchase price allocation in connection with an acquisition, excess or deficit values are allocated to the assets concerned, so that these are capitalised at the Group's acquisition cost. Financing expenses related to the production of the Group's own property, plant and equipment are recognised in the statement of financial position; see Note 15.

Ⓔ ESTIMATE UNCERTAINTY

Considerable estimate uncertainty attaches in some cases to the value of property, plant and equipment. Both the valuation and estimated useful life are based on future information that always involves a degree of uncertainty. Tangible assets (property, plant and equipment) are essentially capitalised at the acquisition cost paid, and if they have a limited useful life, they are systematically depreciated over that period. Account is taken of their residual value. Useful life and residual value are based on estimates of future performance; see Note 18.

Uncertainty will be particularly high for a period of time to come during which Orkla plans to restructure its manufacturing footprint; see Note 4.

See Note 36 for disclosures of pledged assets and mortgages related to the Group's property, plant and equipment.

Orkla plans to invest more than NOK 500 million in pizza production at Stranda. The investment programme, which will run for five years, includes investments in both new innovations and improved production efficiency. Approximately NOK 170 million was capitalised for this project as at 31 December 2018. Project costs related to the different stages are recognised as "Other income and expenses".

Note 20 cont.

Property, plant and equipment

Amounts in NOK million	Land, buildings and other property	Machinery and plants	Assets under construction	Fixtures, fittings, vehicles, IT equipment etc.	Total
Book value 1 January 2017	5 746	4 058	725	509	11 038
Investments	231	319	1 053	133	1 736
Disposals/scrapping	(19)	(30)	-	(3)	(52)
Reclassifications[1]	-	-	(55)	3	(52)
Companies acquired	11	30	-	11	52
Sold companies	(141)	(56)	(12)	(5)	(214)
Transferred assets under construction	175	384	(614)	55	0
Write-downs	(147)	(4)	-	(2)	(153)
Depreciation	(238)	(661)	-	(175)	(1 074)
Translation differences	193	182	5	22	402
Book value 31 December 2017	5 811	4 222	1 102	548	11 683
Investments	181	332	1 658	120	2 291
Disposals/scrapping	(9)	(67)	(1)	(3)	(80)
Reclassifications	15[2]	-	(128)[1]	-	(113)
Companies acquired	82	61	9	18	170
Sold companies	-	-	-	-	0
Transferred assets under construction	94	431	(538)	13	0
Write-downs	(19)	(37)	(3)	(3)	(62)
Depreciation	(226)	(682)	-	(186)	(1 094)
Translation differences	(10)	(26)	4	(3)	(35)
Book value 31 December 2018	5 919	4 234	2 103	504	12 760
Initial cost 1 January 2018	9 216	14 315	1 102	2 325	26 958
Accumulated depreciation and write-downs	(3 405)	(10 093)	-	(1 777)	(15 275)
Book value 1 January 2018	5 811	4 222	1 102	548	11 683
Initial cost 31 December 2018	9 844	15 155	2 103	2 345	29 447
Accumulated depreciation and write-downs	(3 925)	(10 921)	-	(1 841)	(16 687)
Book value 31 December 2018	5 919	4 234	2 103	504	12 760
Linear depreciation	2–4%	5–15%	-	15–25% IT equipment: 16–33%	

[1]Reclassifications relate to figures transferred to Note 19.
[2]Reclassifications relate to figures transferred to Note 22.

NOTE 21 OTHER ASSETS (NON-CURRENT)

Other assets (non-current) consist of financial investments of a long-term nature. Shares are presented at fair value with changes in value reported in comprehensive income. Other assets also include net pension assets from companies that have more pension assets than liabilities. Other items are derivatives and receivables with a maturity of more than one year.

Ⓟ PRINCIPLE

Other assets are classified as non-current when they are not part of a normal operating cycle, not held for trading purposes or the entity has an unconditional right to defer payment for at least 12 months. Other receivables are current.

Amounts in NOK million	Measurement level	2018	2017
Share investment Kotipizza (see Note 39)	1	157	-
Share investments	3	81	68
Interest-bearing derivatives	2	79	145
Receivables interest-bearing	3	130	131
Receivables non interest-bearing	3	11	49
Total financial assets		458	393
Pension plan assets		30	32
Total other assets (non-current)		488	425

The principle for valuation of shares is disclosed in Note 24. Non-current and current shares are both treated as "Fair value with changes in value reported in comprehensive income". Receivables are recognised at fair value in accordance with Level 3 valuation, and derivatives according to level 2 valuation. See the measurement hierarchy in Note 31.

NOTE 22 INVENTORIES AND DEVELOPMENT PROPERTY

Inventories are the Group's stocks of all types of goods intended for sale. These consist of raw materials ready for production, finished goods and purchased goods for resale. Packaging to be used for sold goods is included. Any profit from intra-Group sales has been eliminated. During the period in which buildings built by the Group (Orkla Eiendom) for sale are under development, the cost price of the projects will be reflected on the line for inventory of development property until the buildings are sold.

Inventories

Amounts in NOK million	2018	2017
Raw materials	1 860	1 871
Work in progress	448	408
Finished goods and merchandise	3 567	3 405
Total inventories	5 875	5 684
Inventories relating to Branded Consumer Goods:		
Orkla Foods	2 484	2 584
Orkla Confectionery & Snacks	662	597
Orkla Care	1 570	1 395
Orkla Food Ingredients	1 148	1 101
Branded Consumer Goods	5 864	5 677

Ⓟ PRINCIPLE

Inventories are valued at the lower of acquisition cost and net realisable value for the entire Orkla Group. Purchased goods are valued at cost according to the FIFO principle, while internally manufactured finished goods and work in progress are valued at production cost. Deductions have been made for obsolescence. The net realisable value is the estimated selling price minus selling costs. Property under development is valued at the total costs incurred.

An assessment of net realisable value was carried out after deducting selling costs. This resulted in a total write-down of inventories as at 31 December 2018 of NOK 80 million (NOK 85 million in 2017). Inventories valued at net realisable value total NOK 45 million (NOK 38 million in 2017).

Development property

Inventories include development properties recognised at NOK 132 million (NOK 113 million in 2017). The properties are mainly housing projects under development/construction and primarily consist of the projects at Sandakerveien 56 in Oslo and a development project in Larvik.

Ⓔ ESTIMATE UNCERTAINTY

Inventories consist of a great many individual lines of goods in the form of both raw materials and finished goods. The goods are counted and valued at the Group's acquisition cost, and account is taken of obsolescence. The Group has a large number of units in stock at all times, but there is not deemed to be any material form of uncertainty regarding either the quantity or quality of the Group's inventories.

NOTE 23 CURRENT RECEIVABLES

Accounts receivable and other trade receivables are directly linked to the operating cycle. Other receivables (current) can be both interest-bearing and non-interest-bearing.

Accounts receivable and other trade receivables

Amounts in NOK million	2018	2017
Accounts receivable (A - B)	5 826	6 006
Other trade receivables	164	159
Total trade receivables	5 990	6 165

Breakdown of accounts receivable by due date:

Amounts in NOK million	2018	2017
Accounts receivable not due	4 991	5 348
Overdue receivables 1–30 days	599	493
Overdue receivables 31–60 days	117	79
Overdue receivables 61–90 days	43	34
Overdue receivables over 90 days	179	138
Accounts receivable carrying amount 31 December (A)	5 929	6 092

Change in provisions for bad debts:

Amounts in NOK million	2018	2017
Provisions for bad debts 1 January	86	90
Bad debts recognised as expense	17	11
Provisions in acquired companies	9	10
Provisions in sold companies	-	(7)
Final bad debts	(12)	(31)
Translation effects	3	13
Provisions for bad debts 31 December (B)	103	86

Ⓟ PRINCIPLE

Provisions are made for anticipated losses on receivables based on relevant information available at the time of reporting, including historical, current and future information in accordance with an expected loss model. The provision will have to be based on objective criteria. If an invoice is not paid, this will be a clear indication of an increased risk of default.

Accounts receivable are in principle recognised and presented at the original invoice amount and valued at amortised cost using the effective interest rate method. The interest rate element is disregarded if it is immaterial, which is the case for the vast majority of the Group's accounts receivable.

Derivatives are described in Note 31.

Ⓔ ESTIMATE UNCERTAINTY

Accounts receivable constitute a substantial part of the statement of financial position, and an incorrect assessment of customers' ability to pay could result in the account receivable no longer being recoverable and thus having to be written down in profit or loss. Provisions have been made for bad debts, which cover uncertain receivables to a reasonable extent. The credit risk is assessed as acceptable. See also the breakdown of accounts receivable by due date in this note and the disclosure of credit risk in Note 30.

Other receivables (current)

Amounts in NOK million	2018	2017
Non-interest-bearing derivatives	23	21
Interest-bearing receivables	6	55
Other current receivables	267	322
Total financial receivables	296	398
Advance payment to suppliers/earned income	461	441
Tax receivables	57	44
Total current receivables	814	883

Accounts receivable and other trade receivables, as well as financial receivables, are recognised at nominal value and derivatives in accordance with Level 2 valuation. See the measurement hierarchy in Note 31.

NOTE 24 SHARES AND FINANCIAL ASSETS

The securities in the statement of financial position are the remainder of the former Share Portfolio (which the Group decided to sell off in 2011). From time to time there may be other securities with a short-term ownership horizon.

Amounts in NOK million	Fair value 31.12.2018	Fair value 31.12.2017
Unlisted securities	13	17
Of this owned by Orkla ASA	13	17

Profit or loss items related to shares and financial assets are disclosed in Note 15.

Ⓟ PRINCIPLE

Shares and financial assets are investments of a financial nature and are recognised at fair value with changes in value reported through comprehensive income. Shares are immediately recognised at fair value and both changes in value and any gains or losses are presented only in comprehensive income. Dividends received are recognised in the ordinary income statement when they are not to be regarded as a form of capital repayment by the company. Dividends are recognised at the time they are approved by the company paying out the dividend, which usually coincides with the date of payment. Purchases and sales of shares are recognised at trade date. This applies to both shares classified here and longer-term financial assets in Note 21.

NOTE 25 CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents consist of liquid assets necessary for transactions and some current placements. Orkla ASA also has unutilised, long-term, committed credit facilities that may be drawn upon at short notice; see Note 28. Changes in liquid assets in the cash flow statement do not necessarily provide an accurate picture of the Group's financial standing as excess liquidity is routinely used to repay interest-bearing debt.

Ⓟ PRINCIPLE

Cash and cash equivalents consist of cash, bank deposits and current deposits that have a maturity of three months or less, and an immaterial risk of a change in value. Restricted deposits are assets that to a limited degree are available to the rest of the Group.

Cash and cash equivalents are held for the purpose of meeting short-term fluctuations in liquidity rather than for investment purposes. For Orkla, the level of the Group's net interest-bearing liabilities is a more important management parameter than the level of cash and cash equivalents.

Amounts in NOK million	2018	2017
Cash at bank and in hand[1]	1 723	3 703
Current deposits	83	1 016
Restricted deposits	172	115
Total cash and cash equivalents	1 978	4 834

[1]Of "Cash at bank or in hand" a total of NOK 196 million (NOK 214 million in 2017) is in Orkla companies with minority shareholders and in Orkla Insurance Company. These assets are only available to a limited extent to the rest of the Group.

NOTE 26 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Provisions consist of pension obligations and other provisions for liabilities. Pension obligations are disclosed in Note 12. A provision may be reported separately from other liabilities, such as accounts payable, because there is uncertainty as to the settlement date or the amount of the future expenses.

Ⓟ PRINCIPLE

Provisions are recognised in the financial statements for matters such as disputes, potential lossmaking contracts and adopted restructuring measures. The provisions will not cover possible future operating losses. In the case of restructuring provisions, there must be a detailed plan that identifies which parts of the business are to be restructured, and a valid expectation must have been created among those concerned that the restructuring will be carried out. In addition, it must be possible to provide a reliable estimate of the amount of the liability. It is a condition that the restructuring materially changes the size of the business or the way in which it is operated. The provision is calculated on the basis of the best estimate of anticipated expenses. If the effect is material, anticipated future cash flows will be discounted, using a current pre-tax interest rate that reflects the risks specific to the provision.

Contingent liabilities and contingent assets are a possible obligation or a possible asset whose existence is uncertain and will be confirmed by the occurrence or non-occurrence of a future special event, such as the outcome of legal proceedings or the final settlement of an insurance claim. Contingent liabilities are recognised in the financial statements based on estimated outcome, if there is a more than 50% probability that the liability has arisen. If the probability is lower, the matter is disclosed in notes to the financial statements if material and unless the probability of disbursement is very small. An asset will only be recognised in the statement of financial position if it is highly probable (95%) that the Group will receive the asset. The disclosure requirement applies to other contingent assets.

Derivatives are described in Note 31.

Ⓔ ESTIMATE UNCERTAINTY

It is in the nature of a provision that it involves some degree of uncertainty. A provision is made and calculated based on assumptions at the time the provision is made and will be routinely updated as and when new information becomes available.

Provisions and other non-current liabilities

Amounts in NOK million	2018	2017
Pension liabilities	2 019	1 988
Derivatives	242	312
Other non-current liabilities	115	50
Other provisions	684	780
Total provisions and other non-current liabilities	3 060	3 130

Provisions with a maturity of less than 12 months are presented as "Other liabilities" (current).

Break-down of provisions and other non-current liabilities:

Amounts in NOK million	Branded Consumer Goods	Other provisions	Total
Provisions 1 Jan. 2017	24	262	286
New provisions	83	505	588
Utilised	(12)	(32)	(44)
Provisions 31 Dec. 2017	95	735	830
New provisions	30	53	83
Utilised	(10)	(104)	(114)
Provisions 31 Dec. 2018	115	684	799
	Main matters: Restructuring, minor personnel-related provisions and commitments to acquisitions of additional shares in companies	Main matters: Best estimate for uncertainty attached to guarantees and indemnities issued to Norsk Hydro in connection with the sale of Sapa, as well as compensation to property owners and demolition costs related to Saudefaldene, and insurance provisions in Third Party Writer company. Orkla self-insures for losses up to NOK 15 million. There are also some provisions related to discontinued operations.	Conclusion: The provisions cover known matters and as at 31 December 2018 there were no indications of any material change in estimated expenses.

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02
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05

NOTE 27 CURRENT LIABILITIES

Accounts payable and other trade payables are liabilities linked directly to the operating cycle. Other liabilities (current) are other payables, such as unpaid government charges and taxes, unpaid wages and holiday pay and other accruals.

Ⓟ PRINCIPLE

A non-interest-bearing liability is classified as current when it is part of a normal operating cycle, is held for trading purposes and falls due within 12 months. Other liabilities are non-current.

Accounts payable and other trade payables

Amounts in NOK million	2018	2017
Accounts payable	3 328	3 426
Other trade payables	1 579	1 514
Total trade payables	4 907	4 940

Ⓔ ESTIMATE UNCERTAINTY

All types of accruals/provisions will involve a certain estimate uncertainty. Estimate uncertainty associated with customer bonuses, etc. is disclosed in Note 4.

Other liabilities (current)

Amounts in NOK million	2018	2017
Non-interest-bearing derivatives	15	14
Non-interest-bearing current liabilities	204	171
Total financial liabilities non-interest-bearing	219	185
Value added tax, employee taxes	806	830
Accrued wages and holiday pay	1 105	1 164
Other accrued costs	850	955
Total other liabilities (current)	2 980	3 134

NOTE 28 CAPITAL MANAGEMENT AND FUNDING

The level of a company's capital and the way it is managed are important factors in evaluating the company's risk profile and its capacity to withstand unfavourable events

Capital management

Orkla's capital management is designed to ensure that the Group has sufficient financial flexibility, short-term and long-term. One main objective is to maintain a financial structure that, through solidity and cash flow, ensures strong, long-term creditworthiness, as well as a competitive return for shareholders through a combination of dividends and an increase in the share price.

When allocating capital for acquisitions and other investments, a rate of required return on capital is applied, adjusted for project-specific risk. Capital usage and allocation are subject to formalised authorisation limits, and decision processes at applicable levels. External borrowing is centralised at the parent company level, and capital needs in subsidiaries are mainly covered by internal loans, or equity. The capital structure of subsidiaries is adapted to commercial as well as legal and tax considerations. The short-term liquidity of Group companies is managed at Group level through cash pools. For funding of partly owned subsidiaries, Orkla normally either provides loans according to its share of capital jointly with other shareholders, or external funding is established.

Orkla has no official credit rating, but actively monitors quantitative and qualitative measures which affect the creditworthiness of the Group. The target is to ensure that interest bearing liabilities do not exceed 2.5 x EBITDA over time. There were no other changes in Orkla's approach and objectives regarding capital management during 2018.

Ⓢ SUSTAINABILITY

Focus on responsible business operations and effective management of sustainability-related risk is an integral part of the Group's investment assessments. Orkla's sustainability goals necessitate investments in product development and process improvements, and in some cases the desire to acquire a new business. Sustainability-related investments are assessed on the basis of Orkla's criteria for return on investment and risk management.

Note 28 cont.

The Group's interest-bearing liabilities and equity consist of:

Amounts in NOK million	2018	2017
Non-current interest-bearing liabilities	(4 775)	(4 820)
Current interest-bearing liabilities	(455)	(359)
Non-current interest-bearing receivables	209	276
Current interest-bearing receivables	6	55
Cash and cash equivalents	1 978	4 834
Net interest-bearing liabilities	(3 037)	(14)
Group equity[1]	34 080	34 838
Net gearing (net interest-bearing liabilities/equity)	0.09	0.00

[1]The Group's equity also includes the value of cash flow hedges taken to comprehensive income.

Orkla's net interest-bearing liabilities increased by NOK 3.0 billion through 2018, affected by share buy-backs of NOK 1.4 billion and acquisitions totalling NOK 1.1 billion, in addition to ordinary cash-flows and dividend payment. When implementing IFRS 16 from 1 January 2019, reported net interest-bearing liabilities will increase by approximately NOK 1.4 billion as a consequence of leasing agreements and corresponding liabilities being recognised in the statement of financial position.

As an industrial Group, Orkla is not subject to any external capital requirements. The subsidiary Orkla Insurance Company DAC (Ireland) is subject to solvency requirements under applicable laws and regulations in Ireland. These requirements were met in 2018.

Funding

The primary objective of Orkla's treasury policy is to ensure that the Group has sufficient financial flexibility in the short and long term to achieve its strategic and operational objectives.

Orkla's policy with regard to its funding activity is to maintain unutilised, long-term, committed credit facilities which together with available liquid deposits are sufficient to cover loans that fall due and known capital needs over the next 12 months, as well as a strategic reserve. This means that Orkla's credit facilities are normally refinanced one year before maturity and that short-term interest-bearing debt is at all times covered by unutilised long-term credit facilities. Commercial paper and money markets are used as a source of liquidity when conditions in these markets are competitive, as an alternative to drawing on unutilised committed long-term credit facilities. As per 31 December 2018 these credit facilities were undrawn (also undrawn as per 31 December 2017).

Orkla's main funding sources are bilateral loans from Orkla's relationship banks and loans in the Norwegian bond market. Funds raised in the US Private Placement market were repaid during 2017. The Group Treasury also continuously evaluates other funding sources. The term to maturity for new loans and credit facilities is normally 5–10 years.

During 2018 no new long-term loan agreements were entered into, nor were there any repayments of long-term loans. The remaining time to maturity of NOK 1.5 billion of the bilateral long-term credit facilities has been extended by one year.

Orkla has no loan agreements with financial covenants for the Group or for Orkla ASA. The loan agreements include some limitations on disposals of businesses, creation of security interest on assets, borrowing at subsidiary level, and cross default clauses. Bonds issued in the Norwegian bond market are listed on the Oslo Stock Exchange.

NOTE 29 INTEREST-BEARING LIABILITIES

The composition and the level of interest-bearing liabilities plus unutilised credit facilities are managed as part of the Group's funding activity. Changes in net interest-bearing liabilities result from the cash flow of the Group.

PRINCIPLE

Loans and receivables are carried at amortised cost. Thus, changes in fair value resulting from changes in market interest rates during the interest rate period are not reported in the income statement, except for loans which are hedged objects in fair value hedges of interest rate risk (see Note 31). Bonds issued by Orkla, held on own books, are carried at amortised cost and recognised as reduced debt.

Interest-bearing liabilities	Book value		Fair value[1]			Notional		
Amounts in NOK million	31.12.2018	31.12.2017	31.12.2018	31.12.2017	Currency	in ccy [2]	Coupon[3]	Term
Non-current interest-bearing liabilities								
Bonds								
ORK80 (10694680)	941	966	953	990	NOK	1 000	Fixed 4.35%	2013/2024
ORK82 (11731730)	722	722	722	728	NOK	1 500	Nibor +0.69%	2015/2022
ORK83 (11774383)	675	676	673	682	NOK	1 000	Nibor +0.85%	2016/2023
ORK84 (11774391)	260	256	257	265	NOK	1 000	Fixed 2.35%	2016/2026
Other Private Placement	60	65	60	65				
Total bonds	2 658	2 685	2 665	2 730				
Of this current interest-bearing liabilities	-	-	-	-				
Bank loans	2 020	2 035	2 020	2 035				
Other loans	97	100	97	100				
Total non-current interest-bearing liabilities	4 775	4 820	4 782	4 865				
Current interest-bearing liabilities								
Bonds, maturity <1 year	-	-	-	-				
Bank loans, overdrafts	335	291	335	291				
Other loans	16	21	16	21				
Interest-bearing derivatives	104	47	104	47				
Total current interest-bearing liabilities	455	359	455	359				
Total interest-bearing liabilities	5 230	5 179	5 237	5 224				

[1]The fair value of exchange-traded bonds is calculated on the basis of official tax values, whereas book values are used for other loans.
[2]Of the notional amount the Group holds some of its own bonds, which have been deducted in the recognised liabilities.
[3]The nominal interest rate is not an expression of the Group's actual interest cost, as various interest rate swaps have been entered into. Note 30 discloses further details of interest rate level, interest rate risk and a breakdown of the liabilities portfolio by currency.

Note 29 cont.

Maturity profile interest-bearing liabilities and unutilised credit facilities

	Interest-bearing liabilities		Unutilised credit facilities	
Amounts in NOK million	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Maturity <1 year	455	359	-	-
Maturity 1–3 years	480	111	1 067	-
Maturity 3–5 years	2 596	1 197	2 500	3 600
Maturity 5–7 years	1 345	2 989	-	-
Maturity >7 years	354	523	-	-
	5 230	5 179	3 567	3 600

The Group's unutilised credit facilities are multi-currency loan agreements with floating interest rates and flexible amounts and tenors for drawdown. The facility credit limits are denominated in NOK and SEK.

As at 31 December 2018 the average remaining time to maturity of the Group's combined interest-bearing liabilities and unutilised credit facilities was 4.0 years, compared with 4.3 years as at 31 December 2017.

The Group also holds cash pools and bank accounts with short-term credit lines. Unutilised credit lines on these accounts are not included in the table.

NOTE 30 FINANCIAL RISK

This note discloses the Group's financial risks within each business area, and the management of these risks. Market risk related to financial instruments (currency risk, interest rate risk, and price risk for input factors and sold products), liquidity risk and credit risk is described specifically. In addition to loans and receivables, the financial instruments consist of derivatives used for hedging market risk. Derivatives and hedging relationships are described in more detail in Note 31.

(I) ORGANISATION OF FINANCIAL RISK MANAGEMENT

Orkla operates internationally and is exposed to financial risks such as currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. Orkla uses derivatives and other financial instruments in order to reduce these risks in accordance with the Group's treasury policy. The responsibility for managing financial risk in Orkla is divided between business areas, which manage risk related to business processes, and Group level, which manages risk related to centralised activities such as funding, interest rate risk management and currency risk management.

Centralised risk management

Orkla has a centralised Group Treasury. Its most important tasks are to ensure the Group's financial flexibility in the short and long term, and to monitor and manage financial risk in cooperation with individual operational entities. The guidelines for the Group Treasury are laid down in the Group's treasury policy. The Group Executive Board monitors financial risk by means of regular reporting and meetings of the Orkla Treasury Committee. The Group Treasury acts as an internal bank for the Group and is responsible for, and executes, all major external funding and hedging transactions related to currency and interest rate hedging. Each year the Board of Directors grants authorisation for establishing loans and entering into master agreements for financial instruments. Debt and treasury positions are managed in a non-speculative manner, so that all transactions in financial instruments are matched to an underlying business requirement.

Financial risks within each business area

The most important risk factors within each business area of the Group, and the management thereof, are described below. In this context, financial risk is defined as risk related to financial instruments. These may be either instruments hedging underlying risks, or viewed as a source of risk in themselves. Market risk that is not hedged with financial instruments is also discussed in this section.

Note 30 cont.

Branded Consumer Goods
Entities within this area are primarily located in the Nordic and Baltic countries, and Central/Eastern Europe. Production and sales mainly take place in local markets. A significant part of the input factors and some finished goods are imported.

The two primary sources of financial risk within this business area are price risk on agricultural products and ingredients in food production, and currency risk on imported goods. Price risk on raw materials is normally dealt with in commercial contracts. The most significant currency risk results from purchasing in EUR by the Norwegian and the Swedish entities. Contracts and committed transactions are hedged with currency forward contracts against the entities' own functional currency. Currency risk related to expected, non-contractual cash flows is hedged to a limited extent.

Hydro Power
Hydro Power is a significant producer of hydroelectric power (see Note 35). A substantial part of the production is sold under long-term contracts, whereas the remainder is sold in the spot market. Where contractual commitments exceed available power from own production, this is covered through purchases in the power market.

(II) CATEGORIES OF FINANCIAL RISK FOR THE GROUP

Currency risk
As NOK is the presentation currency for the Group, Orkla is exposed to currency translation risk on net investments in foreign entities. Orkla maintains, as far as possible, a distribution of its interest-bearing liabilities across currencies which corresponds to the relative enterprise value distribution across the foreign subsidiaries' home currencies. This ensures approximately the same hedging level in all currencies, where interest-bearing liabilities hedge the currency risk in enterprise value. The currency distribution of interest-bearing liabilities is shown in Table 2b.

In the statement of financial position, translation risk on net investments in foreign entities is reduced by the net interest-bearing liabilities in the same currency. These liabilities consist of hedges of internal loans from Orkla ASA to subsidiaries in their home currency, plus hedges of net investments according to IFRS 9. Orkla primarily uses loans and currency forward contracts to hedge internal loans and net investments in foreign subsidiaries.

At the operational level, transaction risk is hedged against each entity's functional currency as described in (I) "Organisation of financial risk management". Orkla applies hedge accounting for most hedges of future transactions, mainly cash flow hedges. The different types of hedges are described in more detail in Note 31.

The Group's aggregated outstanding currency hedges of future transactions as at 31 December 2018 are shown in Table 1.

TABLE 1
Outstanding foreign exchange contracts[1] linked to hedging of future revenues and costs

Hedged amount in million currency

Purchase currency	Amount in currency	Sale currency	Amount in currency	Maturity
EUR	38	NOK	365	2019
EUR	3	GBP	3	2019
EUR	5	SEK	49	2019
SEK	122	NOK	113	2019
USD	7	DKK	45	2019
USD	5	NOK	40	2019
DKK	21	NOK	27	2019
CZK	76	NOK	28	2019

[1]In currency pairs where the net total of hedges is over NOK 20 million.

Interest rate risk
Orkla's interest rate risk is mainly related to the Group's debt portfolio. This risk is managed at Group level. The Group's policy is that interest costs should mainly follow the general trend in the money market. Further, steps are taken to mitigate the effects of short-term fluctuations in money market rates. Material decisions regarding interest rate hedging are made by the Orkla Treasury Committee.

The interest risk profile of the debt portfolio is determined by the selection of interest periods for the Group's loans and the use of currency and interest rate derivatives. As at 31 December 2018, 61% (62% as at 31 December 2017) of the Group's interest-bearing liabilities was at fixed interest rates for periods exceeding one year, and the average time to the next interest rate adjustment was 3.3 years (4.0 years as at 31 December 2017). The interest rate exposure on interest-bearing liabilities broken down by currency and financial instruments is shown in Table 2a and 2b.

Note 30 cont.

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TABLE 2a
Interest-bearing liabilities by instrument and interest risk profile

Amounts in NOK million	2018	Next interest rate adjustment						2017						
	31.12.2018	0–3 months	3–6 months	6–12 months	1–3 years	3–5 years	5–10 years	31.12.2017	0–3 months	3–6 months	6–12 months	1–3 years	3–5 years	5–10 years
Bonds	2 658	1 458	-	-	-	-	1 200	2 685	1 463	-	-	-	-	1 222
Bank loans	2 031	2 026	-	-	-	5	-	2 051	2 051	-	-	-	-	-
Overdrafts	324	324	-	-	-	-	-	275	275	-	-	-	-	-
Other loans	113	16	97	-	-	-	-	121	21	100	-	-	-	-
Interest rate swaps (fair value hedge)	0	905	250	-	-	-	(1 155)	0	905	250	-	-	-	(1 155)
Interest rate swaps (cash flow hedge)	0	(2 045)	(982)	-	-	557	2 470	0	(2 062)	(976)	-	-	551	2 487
Interest rate derivatives (other)	0	(150)	-	-	150	-	-	0	(150)	-	-	50	100	-
Currency derivatives	104	93	10	1	-	-	-	47	39	7	1	-	-	-
Interest-bearing liabilities	5 230	2 627	(625)	1	150	562	2 515	5 179	2 542	(619)	1	50	651	2 554

TABLE 2b
Interest-bearing liabilities by instrument and currency

Amounts in NOK million	2018 31.12.2018	NOK	SEK	EUR	USD	DKK	Other	2017 31.12.2017	NOK	SEK	EUR	USD	DKK	Other
Bonds	2 658	2 598	-	-	-	29	31	2 685	2 620	-	-	-	32	33
Bank loans	2 031	-	970	1 044	-	5	12	2 051	-	1 000	1 035	-	2	14
Overdrafts	324	20	(25)	278	-	35	16	275	-	(43)	238	(3)	79	4
Other loans	113	72	2	3	-	4	32	121	77	5	4	-	3	32
Currency derivatives	104	(3 703)	550	399	(27)	1 846	1 039	47	(2 489)	492	(157)	48	908	1 245
Interest-bearing liabilities	5 230	(1 013)	1 497	1 724	(27)	1 919	1 130	5 179	208	1 454	1 120	45	1 024	1 328
Interest level borrowing rate (%)	3.3	(0.1)	3.8	4.2	3.1	0.3	3.5	3.7	2.9	3.8	6.6	4.0	0.4	3.8

For currency derivatives the asset and liability components are shown separately per currency, also including those that are recognised as assets.

Note 30 cont.

Liquidity risk

Liquidity risk is the risk that Orkla is not able to meet its payment obligations. The management of liquidity risk has high priority as a means of meeting the objective of financial flexibility.

Orkla's policy for funding activities, described in Note 28, implies that short-term interest-bearing liabilities and known capital expenditures are funded by undrawn long-term credit facilities at least one year prior to maturity. The cash flow from operations, which among other factors is affected by changes in working capital, is managed operationally by the business areas, and is largely stable with the largest net inflow during the fourth quarter. Group Treasury monitors liquidity flows, short- and long-term, through reporting. Interest-bearing liabilities are managed together with interest-bearing assets at Group level.

Due to the measures mentioned, the Group has limited liquidity risk. In order to further reduce refinancing risk, Orkla seeks to ensure that the maturities of loans and credit facilities are well distributed.

Table 3 shows the maturity profile for the Group's contractual financial liabilities, including liabilities which are not recognised in the financial position. The amounts represent undiscounted future cash flows, and may therefore deviate from recognised figures. Derivatives are presented as split between those with gross settlement (currency derivatives), and those with net settlement (interest rate derivatives). The table also includes derivatives recognised as assets on the balance sheet date, as derivatives may include both positive and negative cash flows, and the fair value fluctuates over time. Forward interest rate curves are applied to estimate future interest payments. Similarly, forward prices are used to determine the future settlement amounts for currency derivatives.

TABLE 3
Maturity profile financial liabilities

	31.12.2018							31.12.2017						
Amounts in NOK million	Book value	Contractual cash flow	<1 year	1–3 years	3–5 years	5–7 years	>7 years	Book value	Contractual cash flow	<1 year	1–3 years	3–5 years	5–7 years	>7 years
Interest-bearing loans	5 125	5 081	351	474	2 590	1 342	324	5 132	5 066	312	101	1 168	2 969	516
Interest payments	55	580	118	217	174	64	7	52	687	109	211	226	124	17
Accounts payable and other current financial liabilities	5 056	5 056	5 056	-	-	-	-	5 059	5 059	5 059	-	-	-	-
Subscribed, uncalled partnership capital	-	10	10	-	-	-	-	-	4	4	-	-	-	-
Net settled derivatives[1]	173	-	-	-	-	-	-	174	-	-	-	-	-	-
Inflow	-	(409)	(129)	(101)	(115)	(56)	(8)	-	(587)	(141)	(183)	(127)	(116)	(20)
Outflow	-	589	186	191	149	55	8	-	776	196	290	159	113	18
Gross settled derivatives[1]	86	-	-	-	-	-	-	33	-	-	-	-	-	-
Inflow	-	(5 026)	(5 026)	-	-	-	-	-	(3 983)	(3 983)	-	-	-	-
Outflow	-	5 097	5 097	-	-	-	-	-	4 008	4 008	-	-	-	-
Total	10 495	10 978	5 663	781	2 798	1 405	331	10 450	11 030	5 564	419	1 426	3 090	531

[1] Including derivatives recognised as assets (negative figures in brackets).

The financial liabilities are serviced by cash flows from operations, liquid assets and interest-bearing receivables, and, when necessary, drawdowns on unutilised credit facilities. Unutilised committed credit facilities, the maturity profile of which is shown in Note 29, totalled NOK 3.6 billion at 31 December 2018 (NOK 3.6 billion at 31 December 2017).

Note 30 cont.

Credit risk

The management of credit risk related to accounts receivable and other operating receivables is handled as part of the business risk, and is continuously monitored by the operating entities. The Nordic grocery trade markets are characterised by relatively few, but large, participants, resulting in a certain concentration of the credit risk exposure towards individual counterparties. Receivables on each of the four largest customers account for 6-9% of total accounts receivable. When selling in countries with high political risk, trade finance products are used to a certain extent to reduce the credit risk. The current credit risk level is considered acceptable. Provisions have been made for losses on accounts receivable, and the recognised amount represents the fair value as of the statement of financial position date. The provisions and the age distribution of accounts receivable that are overdue are shown in Note 23.

Orkla's credit risk related to financial instruments is managed by Group Treasury. Risk arises from financial hedging transactions, money market deposits, and bank accounts. Firstly, Orkla seeks to minimise the liquid assets deposited outside the Group. Secondly, relationship banks that provide long-term funding are the targeted counterparties for bank accounts and financial hedging transactions according to policy. Further, limits and requirements related to the banks' credit ratings apply to deposits of excess liquidity. The exposure is continuously monitored by Group Treasury, and is considered to be low. Orkla ASA has International Swap Dealers Association (ISDA) agreements with its counterparties for derivative interest rate and currency transactions, which provide for netting of settlement risk.

Maximum credit risk

The maximum credit risk exposure for the Group related to financial instruments corresponds to total gross receivables. In the hypothetical, unlikely event that no receivables are recovered, this amounts to:

Amounts in NOK million	2018	2017
Cash and cash equivalents	1 978	4 834
Accounts receivable and other trade receivables	5 990	6 165
Other current receivables	273	377
Non-current receivables	141	180
Derivatives	102	166
Total	8 484	11 722

Commodity price risk

The Group is exposed to price risks in respect of a number of raw materials, in particular agricultural products. However, the prices of sold products are also affected by raw material prices, and it is generally Orkla's policy to reduce the price risk through commercial contracts. Commodity price risk is described for the individual business areas in section (I) "Organisation of financial risk management".

Sensitivity analysis

The financial instruments of the Group are exposed to different types of market risk which can affect the income statement or equity. Financial instruments, in particular derivatives, are applied as a means of hedging both financial and operational exposure.

In Table 4, Orkla presents a partial analysis of the sensitivity of financial instruments, where the isolated effect of each type of risk on the income statement and equity is estimated. This is done on the basis of a selected hypothetical change in market prices/rates on the statement of financial position as at 31 December 2018. In accordance with IFRS, the analysis covers only financial instruments and is not meant to give a complete overview of the Group's market risk, for instance:

- For currency hedges of contracts entered into, changes in the fair value of the hedging instrument will affect the income statement, while changes in the fair value of the underlying hedged contract offset by the hedging instrument will not be shown as it is not a financial instrument.
- If one of the parameters changes, the analysis will not take account of any correlation with other parameters.
- Financial instruments denominated in the entities' functional currencies do not constitute any currency risk and are therefore not included in this analysis. Nor is the currency exposure on translation of such financial instruments to the Group's presentation currency included.

Generally, the effect on the income statement and equity of financial instruments in Table 4 is expected to offset the effects of the hedged items where financial instruments are part of a hedging relationship.

Note 30 cont.

TABLE 4
Sensitivity financial instruments

	31.12.2018: Accounting effect on				31.12.2017: Accounting effect on			
	Income statement of:		Comprehensive income of:		Income statement of:		Comprehensive income of:	
Amounts in NOK million	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Financial instruments in hedging relationships								
Interest rate risk: 100 basis points parallel shift in interest curves all currencies	3	(3)	156	(167)	30	(30)	186	(193)
Currency risk: 10% change in FX-rate USD/NOK	3	(3)	9	(9)	3	(3)	12	(12)
Currency risk: 10% change in FX-rate EUR/NOK	4	(4)	(80)	80	7	(7)	(15)	15
Currency risk: 10% change in FX-rate SEK/NOK	-	-	21	(21)	-	-	74	(74)
Currency risk: 10% change in FX-rate DKK/NOK	-	-	34	(34)	-	-	20	(20)

Accounting effects of changes in market risk are classified to income statement and comprehensive income in the table according to where the effect of the changes in fair value is recognised initially. Effects recognised in the income statement will also affect equity beyond the figures presented in the table.

NOTE 31 DERIVATIVES AND HEDGING RELATIONSHIPS

Derivatives are used in risk management to hedge currency and interest rate risk exposure. The value of the derivatives fluctuates in line with the prices of the underlying hedging objects, and the note shows the fair value of open derivative contracts as of the statement of financial position date. The derivatives in the table are classified by type of accounting hedge, the purpose of the derivatives, assets or liabilities according to how they are classified in the statement of financial position.

PRINCIPLE

Derivatives are valued at fair value at the statement of financial position date and reported as receivables or liabilities. Gains and losses due to realisation or changes in fair value are reported in the income statement in cases where the derivative is not part of a hedging relationship that meets the criteria for hedge accounting. Embedded derivatives in contracts are identified and valued separately. Orkla currently has no embedded derivatives. Purchases and sales of derivatives are recognised at trade date. Derivatives are classified in the statement of financial position as "non-interest-bearing" receivables or liabilities as the main rule. Classification as "interest-bearing" is used where the hedged object itself is classified as an interest-bearing item, as well as for net investment hedges.

Hedging. The Group uses the following criteria when classifying a derivative or another financial instrument as a hedging instrument:
(1) The hedge is in line with the risk management objectives and strategy, and the instrument is expected to be highly effective in offsetting changes in the fair value or cash flow of an identified object,
(2) an economic relationship between the hedging instrument and the hedging object exists, sources of hedging inefficiency can be determined, and credit risk is not expected to dominate fair value changes in the hedging relationship,
(3) satisfactory documentation is established before entering into the hedging instrument, proving among other things that the hedging relationship is effective,
(4) in the case of a cash flow hedge, that the future transaction is considered to be highly probable, and
(5) the hedging relationship is evaluated regularly and is still expected to be effective.

Fair value hedges	Cash flow hedges	Net investment hedges
Changes in the fair value of derivatives designated as hedging instruments are immediately recognised in the income statement. Changes in the fair value of the hedged item are recognised in the income statement in the same way. Hedge accounting is discontinued if: (a) the hedging instrument has matured, or is terminated, exercised or sold, (b) the hedge no longer meets the above mentioned criteria for hedging, or (c) the Group for other reasons decides not to continue the fair value hedge. In the case of a discontinued hedging relationship, the changes in the fair value of the hedged item recognised in the statement of financial position will be amortised over the remaining life of the item, using the effective interest rate method, in the same way as for the hedging instrument.	The effective part of changes in the fair value of a hedging instrument is recognised in the comprehensive income and reclassified to the income statement when the hedged transaction is carried out, and presented on the same line as the hedged transaction. The ineffective part of the hedging instrument is immediately recognised in the income statement. When a hedging instrument has matured, or is sold, terminated or exercised, or the Group discontinues the hedging relationship, even though the hedged transaction is still expected to occur, the accumulated gains or losses at this point will remain in the Group's hedging reserve, and will be recognised in the income statement when the transaction occurs. If the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses related to the hedging instrument will be recognised in the income statement immediately.	Foreign currency gains or losses on hedging instruments that can be allocated to the effective part of the hedging relationship are reported in comprehensive income, while foreign currency gains or losses in the ineffective part of the hedge are reported in the income statement. The accumulated foreign currency gains or losses are recognised in the income statement when the hedged net investment is disposed of.

Measurement of financial instruments. The Group uses the following hierarchy when determining and disclosing the fair value of financial instruments:

Level 1: Quoted, unadjusted prices in active markets for identical assets and liabilities
Level 2: Other techniques for which all inputs with significant effect on the recorded fair value, are observable, either directly or indirectly
Level 3: Other techniques based on inputs with significant effect on the recorded fair value that are not based on observable market data

Note 31 cont.

The Group has implemented IFRS 9, and hedge accounting will be implemented prospectively as from 1 January 2018. The Group has applied hedge accounting in accordance with IFRS 9, which includes hedging instruments equivalent to those used under IAS 39, and the statement of income, and financial position have not been affected by the transition compared to IAS 39.

As far as possible, the Group seeks to apply the IFRS rules for hedge accounting. The table below shows the fair value of all outstanding derivative financial instruments grouped according to treatment in the financial statements and hedged risk.

Derivatives in the statement of financial and hedging purpose

					Nominal value[3]				
Amounts in NOK million			2018	2017	2018	2017	Purpose of hedging	Hedge accounting	Classification
Assets	Non-current	i.b.[1]	46	68	1 155	1 155	Interest rate swaps fixed to floating, against fair value changes in the hedged loans	Fair value hedge	Fair value through profit and loss
Assets	Non-current	i.b.	33	77	2 106	2 036	Interest rate swaps fixed to floating, closed out hedges of repaid loans	-	Fair value through profit and loss
Assets	Current	n.i.b.[2]	0	2	0	147	Total return swap hedging share exposure in pension obligations	-	Fair value through profit and loss
Assets	Current	n.i.b.	0	1	9	65	Currency forwards hedging monetary items in the statement of financial position	-	Fair value through profit and loss
Assets	Current	n.i.b.	23	18	764	897	Currency forwards hedging future transactions	Cash flow hedge	Fair value through comprehensive income
Liabilities	Non-current	n.i.b.	(242)	(312)	4 727	4 768	Interest rate swaps floating to fixed, hedging future interest payments	Cash flow hedge	Fair value through comprehensive income
Liabilities	Current	i.b.	(93)	(47)	4 110	2 697	Currency forwards hedging loans/deposits	-	Fair value through profit and loss
Liabilities	Current	i.b.	(11)	0	266	393	Currency forwards hedging net investments in foreign subsidiaries	Net investment hedge	Fair value through comprehensive income
Liabilities	Current	n.i.b.	(8)	(14)	150	150	Interest rate swaps floating to fixed, hedging future interest payments	-	Fair value though profit and loss
Liabilities	Current	n.i.b.	(7)	0	147	0	Total return swap hedging share price exposure in pension obligations	-	Fair value though profit and loss
Total derivatives			**(259)**	**(207)**					

[1] i.b. = Interest-bearing asset/liability
[2] n.i.b. = Non-interest-bearing asset/liability
[3] The nominal value is calclulated as the sum of the absolute value of individual transactions.

Note 31 cont.

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Calculation of fair value:
- Currency forwards and currency swaps are measured at fair value using the observed forward exchange rate for contracts with a corresponding term to maturity at the statement of financial position date.
- Interest rate swaps are measured at fair value using the present value of future cash flows calculated from observed market interest rates and exchange rates at the balance sheet date including accrued interest.

All derivatives are carried at fair value in the statement of financial position, and considered to be at level 2 in the hierarchy for measurement of financial instruments.

The derivative financial instruments are designated in hedging relationships as follows:

Cash flow hedges
- Orkla maintains interest rate swaps for hedging of future interest payments on liabilities that qualify for hedge accounting. These are swaps where Orkla pays a fixed interest rate and receives a floating rate.
- In hedges of currency risk on highly probable future cash flows, currency forward contracts are designated as hedging instruments.

During 2018 NOK -14 million in hedging ineffectiveness from interest rate swaps classified as cash-flow hedges was recognised in the income statement (2017: NOK 0 million). All expected cash flows hedged in 2018 still qualify for hedge accounting.

Changes in the equity hedging reserve

Amounts in NOK million	2018	2017
Opening balance hedging reserve before tax	(296)	(398)
Reclassified to profit/loss – operating revenues	0	(2)
Reclassified to profit/loss – operating costs	(18)	1
Reclassified to profit/loss – net financial items	131	117
Fair value change during the year	(23)	(14)
Closing balance hedging reserve before tax	(206)	(296)
Deferred tax hedging reserve	48	68
Closing balance hedging reserve after tax	(158)	(228)

The change in the equity hedging reserve before tax in 2018 was NOK 90 million (NOK 102 million in 2017), and after tax, recognised in other comprehensive income, was NOK 70 million in 2018 (NOK 75 million in 2017).

A negative hedging reserve means a negative recognition in the income statement in the future.

Accumulated hedging gains/losses from cash flow hedges recognised in the equity hedging reserve as at 31 December 2018 are expected to be recycled to the income statement as follows (before tax):

2019:	NOK -99 million
After 2019:	NOK -107 million

Hedges of net investments in foreign entities
When hedging the currency risk on foreign net investments, loans or currency derivatives are applied. In 2018 NOK -50 million was recorded in other comprehensive income after tax from net investment hedges (2017: NOK -171 million). The corresponding figures before tax are NOK -65 million (2017: NOK -225 million).

No effects were recorded in the income statement related to net investment hedges of divested investments in 2018 (NOK 185 million in 2017).

Fair value hedges
- Interest rate derivatives designated as hedges of fixed interest rate loans (fixed-to-floating interest rate swaps) are accounted for as fair value hedges. In 2018, NOK 22 million was recognised as costs in the income statement related to fair value changes in the interest rate swaps, and NOK 22 million was recognised as income related to fair value changes in the hedged loans.

Derivatives not included in IFRS hedging relationships
There are also derivatives not included in hedging relationships according to IFRS for the following reasons:

- Derivatives are not designated as formal hedging relationships when changes in the fair value of hedging instruments and hedged objects are naturally offset in the income statement, for example currency risk on loans and other monetary items, and a Total Return Swap for hedging of pension liabilities linked to the price development in the stock market.
- Meeting strict IFRS hedge accounting criteria is not always possible or practical. Some of the currency hedges, and interest rate swaps where the hedge has been closed out, fall into this category.

NOTE 32 SHARE CAPITAL

A company's share capital and the distribution of the number of shares outstanding determine who controls a company and the way formal ownership is held by shareholder groups. In a Norwegian group context, it is the share capital of the parent company that is relevant and it is Orkla ASA's equity that serves as the basis of calculation and the limit for distribution of dividends from the Group.

The 20 largest shareholders as at 31 December 2018[1]

	Shareholders		Number of shares	% of capital[2]
1	Canica AS		194 150 000	19.05%
2	Folketrygdfondet		76 441 544	7.50%
3	Tvist 5 AS		50 050 000	4.91%
4	State Street Bank and Trust Company	Nominee	40 513 242	3.98%
5	JPMorgan Chase Bank, N.A., London	Nominee	35 977 260	3.53%
6	State Street Bank and Trust Company	Nominee	34 333 252	3.37%
7	Orkla ASA		19 410 259	1.90%
8	Clearstream Banking S.A.	Nominee	15 168 496	1.49%
9	The Bank of New York Mellon	Nominee	15 104 180	1.48%
10	State Street Bank and Trust Company	Nominee	12 075 949	1.19%
11	State Street Bank and Trust Company	Nominee	12 051 001	1.18%
12	JPMorgan Chase Bank, N.A., London	Nominee	11 598 729	1.14%
13	The Bank of New York Mellon	Nominee	11 311 117	1.11%
14	State Street Bank and Trust Company	Nominee	10 575 967	1.04%
15	Invesco Funds		9 085 001	0.89%
16	The Northern Trust Company, London	Nominee	8 075 977	0.79%
17	Euroclear Bank S.A./N.V.	Nominee	7 595 728	0.75%
18	KLP AksjeNorge Indeks		7 073 009	0.69%
19	Société Générale	Nominee	6 818 768	0.67%
20	Stein Erik Hagen AS		5 800 000	0.57%
	Total shares		**583 209 479**	**57.24%**

[1]The list of shareholders is based on the Norwegian Central Securities Depository's (VPS) register of members at year end. For a list of grouped shareholders and nominee shareholders, see "Share information" on page 227.
[2]Of total shares issued.

Date/year	Number of shares	Nominal value (NOK)	Type of change	Amounts (NOK million)	Share capital (NOK million)
2008	1 028 930 970	1.25	amortisation	(9.4)	1 286.2
31 December 2008	1 028 930 970	1.25			1 286.2
31 December 2009	1 028 930 970	1.25			1 286.2
31 December 2010	1 028 930 970	1.25			1 286.2
31 December 2011	1 028 930 970	1.25			1 286.2
2012	1 018 930 970	1.25	amortisation	(12.5)	1 273.7
31 December 2012	1 018 930 970	1.25			1 273.7
31 December 2013	1 018 930 970	1.25			1 273.7
31 December 2014	1 018 930 970	1.25			1 273.7
31 December 2015	1 018 930 970	1.25			1 273.7
31 December 2016	1 018 930 970	1.25			1 273.7
31 December 2017	1 018 930 970	1.25			1 273.7
31 December 2018	1 018 930 970	1.25			1 273.7

Treasury shares as at 31 December 2018

	Nominal value (NOK)	Number of shares	Fair value (NOK million)
Shares owned by Orkla ASA	24 262 824	19 410 259	1 321

PRINCIPLE

Treasury shares have been deducted from Group equity at cost. The nominal value of the shares have been deducted from paid-in equity.

Note 32 cont.

Changes in the number of treasury shares

	2018	2017
Total as at 1 January	176 933	1 213 135
External purchases of treasury shares	20 000 000	1 500 000
Redemption of options in treasury shares	-	(965 000)
Orkla employee share purchase programme	(766 674)	(1 571 202)
Total as at 31 December	19 410 259	176 933

As at 31 December 2018, there were no options outstanding.

See the "Corporate governance" section on page 45 regarding the authorisations granted by the General Meeting concerning share capital.

Dividend
The Board of Directors proposes that an ordinary dividend of NOK 2.60 per share be paid, totalling NOK 2,599 million for the 2018 financial year.

Under Norwegian law, the equity in Orkla ASA will, where relevant, constitute a legal limitation on the distribution of dividends by the Orkla Group. Dividends may be distributed insofar as the company has adequate equity and liquidity.

NOTE 33 NON-CONTROLLING INTERESTS

Non-controlling interests consist of external ownership interests in subsidiaries and their subsidiaries. The majority of the Group's businesses are wholly-owned.

Amounts in NOK million	2018	2017
Non-controlling interests' share of:		
Depreciation and write-downs	28	25
Operating profit	110	101
Profit/loss before taxes	106	99
Taxes	(24)	(24)
Changes in non-controlling interests:		
Non-controlling interests 1 January	430	402
Non-controlling interests' share of profit/loss	82	75
Increase due to acquisitions and capital increases in companies with non-controlling interests	-	3
Increase non-controlling interest due to sale to non-controlling interest	2	-
Decrease due to further acquisitions of non-controlling interests	(21)	(13)
Dividends to non-controlling interests	(42)	(52)
Translation differences	-	15
Non-controlling interests 31 December	451	430
Non-controlling interests relating to:		
Orkla Food Ingredients	245	232
Hydro Power	204	197
Financial Investments	2	1
Total non-controlling interests	451	430

Note 33 cont.

PRINCIPLE

If the Group has control, but owns less than 100% of the subsidiaries and their subsidiaries, the non-controlling interests' share of profit or loss after tax, their share of comprehensive income and their share of equity are presented on separate lines in the consolidated financial statements. All internal transactions are eliminated in the same way as for the other Group companies. If there are non-controlling interests in acquired companies, the non-controlling interests will receive their share of allocated assets and liabilities, except for goodwill which is only calculated on the Group's share. Transactions with non-controlling interests that do not entail loss of control will be recognised in equity.

Orkla Food Ingredients has several companies with non-controlling interests, the most material of which are related to the Dragsbæk group in Denmark. The group has been family-owned and the former owner still has a substantial equity interest in the parent company. Orkla Food Ingredients also has external ownership interests in Condite (Finland) and Ekvia (Czech Republic), Broer (Netherlands) and NIC (Netherlands).

The non-controlling interests in Hydro Power consist of a 15% ownership interest in Saudefaldene AS, which is owned by Sunnhordaland Kraftlag.

Companies with non-controlling interests are consolidated on a 100% basis in the income statement, statement of financial position and statement of cash flows. On the other hand, the non-controlling interests' share of the Group's annual profit or loss and equity are reported on separate lines.

NOTE 34 LEASES

Leases shows the Group's current and non-current commitments arising from leasing contracts for property, plant and equipment. Most leases are regarded as operating leases, and the lease amounts are presented only as operating expenses in the Group's income statement. Finance leases are capitalised.

PRINCIPLE

Leases are classified according to the extent to which the risks and rewards associated with ownership of a leased asset lie with the lessor or the lessee. A lease is classified as a finance lease if it substantially transfers all risks and rewards incidental to ownership of an asset. Finance leases are capitalised and depreciated over the lease period. Other leases are operating leases. Expenses related to such leases are reported as current operating expenses; see Note 13.

IFRS 16 Leases

The new IFRS 16 Leases entered into force on 1 January 2019 and requires that discounted right-of-use leases with associated payment liabilities be capitalised as an asset. Orkla has chosen to apply the modified retrospective method when implementing IFRS 16 which gives rise to an equity effect upon implementation, but the comparative figures do not change.

In 2018, all leases in the Group were registered and right-of-use assets and lease liabilities were calculated. At the same time, it was determined that Orkla's leasing agreements with Statkraft, whereby AS Saudefaldene has use of all stations until 2030, are deemed to fall within the scope of IFRS 16. This assessment related to the agreements was disclosed in the 2017 financial statements, but not included in the calculation of the implementation effect. Orkla has a right to terminate the agreement with Statkraft at any time subject to three to four years' notice, and extension of the lease is considered annually. Between three and four years' rent are capitalised at all times.

The companies in the Orkla Group own virtually all their own means of production and production facilities. The Group's lease agreements largely concern vehicles such as cars and forklifts and office and warehouse premises.

Based on the preliminary review, the Orkla Group will have capitalised right-of-use assets totalling around NOK 1.3 billion, while leasing liabilities will amount to around NOK 1.4 billion. This reduces the equity ratio by around 1.7 percentage points. Under the new rules, the capitalised leases will have to be written off over the lease period and presented together with the Group's other write-offs. The interest effect of the discounting will be presented as a financial item. The profit or loss effects result in a limited increase in the Group's operating profit.

Note 34 cont.

Lessee
Operating leases

Rented/leased property, plant and equipment Amounts in NOK million	Machinery/ plant 2018	2017	Land, building, property 2018	2017	Fixtures, vehicles etc. 2018	2017	Other assets 2018	2017	Total 2018	2017
Cost current year	24	23	334	326	122	96	7	8	487	453
Cost next year	24	22	240	301	105	84	4	6	373	413
Total costs 2–5 years	17	21	622	604	145	114	11	10	795	749
Total costs after 5 years	2	1	132	140	37	8	1	2	172	151
Total future leasing costs	43	44	994	1 045	287	206	16	18	1 340	1 313

Lessee
Finance leases

Rented/leased property, plant and equipment Amounts in NOK million	Machinery/ plant 2018	2017	Land, building, property 2018	2017	Fixtures, vehicles etc. 2018	2017	Other assets 2018	2017	Total 2018	2017
Cost current year	3	3	-	-	10	12	-	-	13	15
Cost next year	3	3	-	-	11	10	-	-	14	13
Total costs 2–5 years	4	5	-	-	13	22	-	-	17	27
Total costs after 5 years	-	-	-	-	-	2	-	-	-	2
Total future leasing costs	7	8	-	-	24	34	-	-	31	42
Discounted effect	-	-	-	-	(1)	(1)	-	-	(1)	(1)
Net present value leasing costs	7	8	-	-	23	33	-	-	30	41

The Group also leases out real estate under operating leases. Leasing revenues in 2018 totalled NOK 77 million.
Total future leasing revenues amount to NOK 174 million: NOK 36 million in 2019 and NOK 138 million after 2020.

NOTE 35 POWER AND POWER CONTRACTS

The Group both owns and leases power plants, all located in Norway. The table below shows power plants, annual production, ownership status and key financial terms and conditions.

Plant, type, location/contract	Actual median annual production/contract volume	Ownership, status and remaining utilisation period/contract duration	Key financial terms and conditions
Power plants			
Saudefaldene[2]	1 911 GWh		AS Saudefaldene[1] has an annual concession power commitment of 134 GWh. In addition, the company has an annual delivery commitment to Eramet of 436 GWh which, following the termination of the contract with Eramet, is to be sold to Statkraft on the same terms. An agreement has been entered into with Elkem AS for the delivery of 501 GWh/year until 31 December 2030 to satisfy the condition regarding use of power in Elkem's industrial operations. The terms are equivalent to the terms in the leasing agreement with Statkraft.
Storlivatn power plant		Operation started 1970	
Svartkulp power plant		Operation started November 2001	
Dalvatn power plant		Operation started December 2006	
Sønnå Høy power plant		Operation started August 2008	
Sønnå Lav power plant		Operation started October 2008	
Storli mini power plant		Operation started February 2009	
Kleiva small power plant		Operation started November 2009	
Hydropower reservoir, Rogaland		Under lease agreements with Statkraft, AS Saudefaldene[1] has the use of all plants until 2030.	On hand-over to Statkraft the plants must be in good working condition. Statkraft SF shall pay AS Saudefaldene[1] the residual value for tax as at 1 January 2031 of the expansions carried out by AS Saudefaldene[1].
Borregaard power plant[2] Hydropower run-of-river, Sarpsfossen in Glomma, Sarpsborg	282 GWh	100% ownership, infinite licence period.	
Sarp power plant[2] Hydropower run-of-river, Sarpsfossen in Glomma, Sarpsborg	241 GWh	50% ownership, infinite licence period. The other ownership interest owned by E-CO Energi AS (45%) and Svartisen Holding (5%).	E-CO Energi AS has operational responsibility.
Trælandsfos power plant[2] Hydropower run-of-river, Kvinesdal, Vest-Agder	31 GWh	100% ownership, infinite licence period.	
Mossefossen power plant[2] Hydropower run-of-river, Moss, Østfold	14 GWh	100% ownership, partly infinite licence period.	
Power contracts			
SiraKvina replacement power Vest-Agder	35 GWh	Infinite	Replacement for lost production in Trælandsfos.

[1]Orkla owns 85% of AS Saudefaldene.
[2]Actual median annual production (2011–2018) at current capacities.

NOTE 36 PLEDGES AND GUARANTEES

Pledges and guarantees show the book value of Group assets which are accessible to pledgees in the event of a bankruptcy or a winding-up. Claims that have priority by law (taxes and charges, wages etc.) must also be taken into account. The table shows that the book value of pledged assets is considerably higher than outstanding liabilities secured by pledges.

Guarantee commitments cover a variety of guarantees such as rent guarantees and guarantees for other payments, but do not cover product or service liability in connection with ordinary sales.

Amounts in NOK million	2018	2017
Liabilities secured by pledges	57	62
Pledged assets		
Machinery, vehicles etc.	7	6
Buildings and plants	108	84
Inventory	2	2
Accounts receivables	33	32
Other assets	2	3
Total book value	152	127

"Liabilities secured by pledges" and "Pledged assets" are mainly security for loans in partly-owned companies. "Other guarantee commitments" are mainly guarantees in connection with the construction of Orkla's new headquarters.

Guarantees

Amounts in NOK million	2018	2017
Subscribed, uncalled limited partnership capital	10	4
Other guarantee commitments	166	188
Total guarantee commitments	176	192

Ⓟ PRINCIPLE

The Group's most important loan agreements are based on a negative pledge, and the Group can therefore only to a limited extent pledge its assets to secure its liabilities.

NOTE 37 RELATED PARTIES

Related parties are in a position to enter into transactions with the company that would not be undertaken between unrelated parties. A company's profit or loss and financial position could in principle be affected by a related party relationship even if no transactions with related parties have actually taken place. The mere existence of the relationship may be sufficient to affect the way the company's other transactions are perceived.

Orkla ASA is a parent company and has direct and indirect control of around 240 companies in various parts of the world. Directly-owned subsidiaries are presented in Note 10 to Orkla ASA's financial statements, while other important companies are presented in the Group Directory (last pages of the Annual Report). Orkla ASA's internal relationship with these companies is shown on separate lines in the company's financial statements (see the financial statements for Orkla ASA).

Orkla has ownership interests in associates and joint ventures, which are presented using the equity method. Orkla has outstanding balances totalling NOK 27 million with associates in Orkla Eiendom. There have been no special material transactions between associates and the Group.

Internal trading within the Group is carried out in accordance with special arm's length agreements, and joint expenses in Orkla ASA are distributed among the Group companies in accordance with distribution formulas, depending on the various types of expense. For further information on intra-Group transactions, see Note 7.

Chairman of the Board of Directors Stein Erik Hagen and related parties own 250,100,000 shares in Orkla (equivalent to 24.5% of shares issued) through the Canica system. The Canica system and Orkla both have equity interests in a real estate investment. The Orkla Group also makes sales to companies in the Canica system. These sales are agreed on market conditions and total around NOK 20 million. Canica AS has entered into an agreement with Orkla ASA to lease office premises in Karenslyst allé 6 from 1 October 2017 to 31 December 2020.

Apart from what is disclosed in this note, there were no material transactions with related parties. Information regarding the remuneration of the executive management is disclosed in Note 5 to the financial statements for Orkla ASA.

Ⓟ PRINCIPLE

Two parties are deemed to be related if one party can influence the decisions of the other. Related party relationships are a normal feature of commerce and business. All transactions with related parties must be carried out on market terms and conditions.

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NOTE 38 DISCONTINUED OPERATIONS

In a Group as large as Orkla, the corporate structure will change over time as companies are sold and purchased. In connection with major acquisitions, pro forma figures will normally be prepared for the new business combination. Major divestments will be presented on one line in the income statement as "Discontinued operations". This is done in order to make the figures comparable over time and to focus on continuing operations.

Ⓟ PRINCIPLE

Discontinued operations/held for sale
If a material part of the Group's operations is divested, an agreement is made to divest it, or if the Group loses its controlling interest/significant influence, these operations are presented as "Discontinued operations" on a separate line in the income statement and the statement of financial position. A material part is defined as an individual segment, an individual geographical area or a substantial asset. Consequently, all other figures are presented exclusive of the "Discontinued operations". The comparative figures in the income statement are restated and aggregated with the "Discontinued operations" on one line. The comparative figures for the statement of financial position and the statement of cash flows are not restated correspondingly. If an agreement is entered into to sell operations or assets that constitute less than a segment, assets and liabilities are reported on separate lines of the statement of financial position as "Held for sale". The income statement and the statement of cash flows are not restated.

Orkla sold its 50% stake in Sapa in 2017. The results from Sapa are presented separately from the line "Profit or loss from associates and joint ventures" and have been transferred to the line "Discontinued operations" in the comparative figures. "Earnings per share for continuing operations" present the Group's earnings minus the share of profit or loss from Sapa.

Profit & loss for "Discontinued operations"

Amounts in NOK million	2018	2017
Profit/loss from joint venture	-	800
Gain on sale	-	4 266
Discontinued operations	-	5 066

Total comprehensive income related to Sapa for 2017 amounted to NOK 4,048 million after translation differences of NOK -1,018 million.

In May 2017, Orkla received a dividend from Sapa of NOK 1,500 million. The proceeds of the sale amounted to NOK 11.9 billion.

NOTE 39 OTHER MATTERS

Several factors that are not strictly accounting matters may be crucial to the way in which the financial statements are understood. For instance, there may be matters relating to time-limited agreements that could have an impact on future earnings. There may be unresolved legal disputes that could have significant effects if the judgment is not as expected. The information below is intended to shed light on such matters and, in combination with the financial statements and other notes, to provide a correct overall picture of the Group's total earnings and financial position.

Agreement with Unilever. Orkla has a long-term cooperation agreement with Unilever relating to cleaning and personal care products sold through Lilleborg AS (OHPC Norge). The agreement was originally entered into in 1958, and has since been renewed several times. The current agreement was entered into on 1 July 2014, and was extended this year, until 30 June 2021.

Distribution agreement with PepsiCo. Orkla has a distribution agreement with PepsiCo regarding the sale of Tropicana, Naked, Quaker, Lays & Doritos products through Orkla Foods Sverige, Orkla Foods Norge, Orkla Foods Danmark, Orkla Soumi, Orkla Confectionery & Snacks Sverige and Orkla Confectionery & Snacks Norge. The agreement was originally entered into in 2015 for the juice category, and was subsequently expanded to cover snacks and cereals in 2016.

The Non-Annex 1 raw material price compensation agreement (RÅK). Through the EEA Agreement, Norway has regulated trade in processed agricultural products (Non-Annex 1 products). The agreement ensures free movement of goods, but customs duties and a compensation system are used to even out any differences between the raw material prices paid by Norwegian manufacturers who use Norwegian raw materials and the prices paid by foreign manufacturers who use raw materials from the EU. Around 86% of Orkla's sales of food products in Norway are exposed to competition from imports, most of which are non-Annex 1 products.

Note 39 cont. ➔

Denofa do Brasil. A subsidiary of one of Orkla's foreign subsidiaries, Denofa do Brasil Ltda, is involved in several lawsuits, two of which are material. One concerns the denial of exemption from VAT on exports of soybeans to Norway in the years up to 2004. The tax authorities maintain that the company has not substantiated that the soybeans actually were exported. The second lawsuit concerns a claim from the estate of a local bank that declared bankruptcy. The claim is based on Denofa do Brasil's lending of securities related to claims on soybean crops in 2004, in which Denofa do Brasil was swindled. The company has lost both cases at second instance. Orkla's legal advisers in Brazil consider the decisions to be erroneous, and have appealed them in both cases. The appeal to the supreme court has been allowed in the Banco Santos case, while a decision is awaited in the VAT case. Denofa do Brasil has only limited funds to pay the claims if one of the opposite parties should nonetheless win. Orkla is not prepared to inject new capital into Denofa do Brasil to cover potential claims if the company should lose one of the cases.

Contracts. The Group has contracts at all times for the purchase of goods and services and distribution agreements, such as purchasing agreements for potatoes, vegetables and fish. These contracts are regarded as part of the Group's ordinary operating activities and are therefore not specified or indicated in any other way. The contracts are deemed to be strictly commercial contracts with no embedded derivatives.

Government grants. Government grants are recognised when it is reasonably certain that they will be received. The grants are presented either as income or as a cost reduction in which case they are matched with the costs for which they are meant to compensate. Government grants relating to assets are recognised as a reduction in the asset's acquisition cost. The grant reduces the asset's depreciation. Orkla received only an entirely insignificant amount in government grants.

Dragsbæk. Under Orkla's shareholder agreement with its partner in Dragsbæk, Orkla has an obligation to purchase the remaining shares at the partner's request. Orkla acquired 50% of the company for approx. NOK 45 million in 1989 and has subsequently purchased an additional 17%. The potential purchase of the remaining shares will be priced on the basis of the original price adjusted for inflation and earnings in the past three years. The adjustment for earnings is limited to +/-25%.

Grant scheme. Orkla is engaged in litigation with the agricultural authorities concerning historical classification of goods in the price rebate and export duty refund schemes.

Property tax Saudefaldene. After lengthy negotiations, a settlement was reached in the lawsuit brought by AS Saudefaldene against Sauda Municipality, Odda Municipality and Suldal Municipality relating to the duty to pay property tax on Sønnå Høy. Under the settlement, AS Saudefaldene is to pay the municipalities an amount totalling approx. NOK 6 million of a total claim of approx. NOK 25 million.

Acquisitions. On 22 November 2018, Orkla made a tender offer to purchase all the shares in Kotipizza Group Oyj ("Kotipizza"). In February, the final results of the offer showed that the acceptances received represented approximately 99.99% of all shares and votes in Kotipizza. Orkla purchased 11% of the shares in the market before the end of the year. All of the conditions have now been fulfilled, and Orkla will consequently complete the share purchase offer in accordance with its conditions. Orkla intends to acquire 100% ownership of Kotipizza, which means that a subsequent offer period and the process of compulsory acquisition of the remaining Kotipizza shares will now be initiated.

Kotipizza is a leading player in the growing Finnish restaurant market, and Finland is one of Orkla's home markets. The restaurants are mainly franchise-operated. Kotipizza has 95 employees. Kotipizza was listed on Nasdaq Helsinki. The offer price was EUR 23 per share (approx. NOK 224 per share), which values Kotipizza's equity at around EUR 146.1 million (approx. NOK 1.4 billion). Kotipizza had a net total turnover of EUR 84.1 million (approx. NOK 789 million) in the 2017 financial year and EBIT of EUR 6.4 million (approx. NOK 60 million).

Orkla has entered into an agreement to purchase 90 percent of the shares in Easyfood A/S, a Danish manufacturer of bake-off bakery goods for the out-of-home channel. Easyfood has established itself as a solid supplier to the out-of-home market in Denmark and has a growing customer base. Easyfood currently has 144 employees. At the end of October 2018, the company had a turnover of DKK 316.1 million (approx. NOK 415 million) for the last 12 months, and normalised EBITDA of DKK 33.7 million (approx. NOK 44 million) in the same period. The parties have agreed on a purchase price that values the company at DKK 330 million (approx. NOK 433 million). The agreement is subject to the approval of the Danish competition authorities.

NOTE 40 THE ORKLA-FORMAT CASH FLOW STATEMENT

The Orkla-format cash flow statement is presented in the Board of Directors report and used as a reference in the segment information (Note 7). A condensed version is also presented in the Report of the Board of Directors. At Group level, the bottom line of the Orkla-format cash flow statement is net interest-bearing liabilities, an important key figure for the Group, and the statement is used directly in management of the business areas and is part of the presentation of segment information.

The full Orkla-format cash flow statement shows the Group's overall financial capacity, generated by operations, to cover the Group's financial items, taxes and items more subject to Group control such as dividends and treasury share transactions. Cash flow from operations is broken down into "Cash flow from operations Branded Consumer Goods incl. HQ" and "Cash flow from operations Orkla Investments", the latter aggregated on one line.

The last part of the cash flow statement shows the expansion measures that have been carried out in the form of direct expansion investments, acquisition of companies, disposal of companies and changes in the level of investments in shares and financial assets. Direct expansion investments are defined as investments in new geographical markets or new categories or investments that represent substantial increases in capacity; see page 224 Alternative Performance Measures (APM). The cash flow statement is based on an average monthly exchange rate, while the change in net interest-bearing liabilities is an absolute figure measured at the closing rate. The difference is explained by the currency translation effect related to net interest-bearing liabilities.

Cash flow Orkla-format

Amounts in NOK million	2018	2017
Cash flow from Branded Consumer Goods incl. HQ		
EBIT (adj.)	4 387	4 311
Amortisation, depreciation and impairment charges	1 154	1 107
Changes in net working capital	(190)	27
Net replacement expenditures	(1 393)	(1 048)
Cash flow from operations (adj.)	3 958	4 397
Cash flow effect of "Other income and expenses" and pensions	(496)	(348)
Cash flow from operations, Branded Consumer Goods incl. HQ	3 462	4 049
Cash flow from operations, Orkla Investments	26	66
Financial items, net	(145)	(222)
Taxes paid	(904)	(934)
Dividends received	186	1 727
Other payments	(42)	69
Cash flow before capital transactions	2 583	4 755
Dividends paid	(2 685)	(7 790)
Net sale/purchase of treasury shares	(1 378)	50
Cash flow before expansion	(1 480)	(2 985)
Expansion investment in industrial activities	(531)	(206)
Sale of companies (enterprise value)	47	12 520
Purchase of companies (enterprise value)	(1 080)	(901)
Net purchase/sale shares and financial assets	-	43
Net cash flow	(3 044)	8 471
Currency effects of net interest-bearing liabilities	21	(429)
Change in net interest-bearing liabilities	3 023	(8 042)
Net interest-bearing liabilities	3 037	14

Note 40 cont.

Reconciliation of change in interest-bearing items 2018

Amounts in NOK million	Interest-bearing assets	Interest-bearing liabilities	Net interest-bearing liabilities
Balance 1 January 2018	5 165	(5 179)	(14)
Balance 31 December 2018	2 193	(5 230)	(3 037)
Change net interest-bearing liabilities from cash flow Orkla-format	**2 972**	**51**	**3 023**
Of this change cash and cash equivalents	(2 856)	-	(2 856)
Change net interest-bearing liabilities excluding cash and cash equivalents	116	51	167
Interest-bearing items from acquired and sold companies	0	(108)	(108)
Currency effects interest-bearing items	0	21	21
Currency effects cash and cash equivalents	4	-	4
Net cash flow from/(used in) financing acitivites	**120**	**(36)**	**84**

Reconciliation of change in interest-bearing items 2017

Amounts in NOK million	Interest-bearing assets	Interest-bearing liabilities	Net interest-bearing liabilities
Balance 1 January 2017	1 612	(9 668)	(8 056)
Balance 31 December 2017	5 165	(5 179)	(14)
Change net interest-bearing liabilities from cash flow Orkla-format	**(3 553)**	**(4 489)**	**(8 042)**
Of this change cash and cash equivalents	3 630	-	3 630
Change net interest-bearing liabilities excluding cash and cash equivalents	77	(4 489)	(4 412)
Interest-bearing items from acquired and sold companies	(2)	77	75
Currency effects interest-bearing items	20	(449)	(429)
Currency effects cash and cash equivalents	(17)	-	(17)
Net cash flow from/(used in) financing acitivites	**78**	**(4 861)**	**(4 783)**

NOTE 41 EVENTS AFTER THE BALANCE SHEET DATE

Material events after the balance sheet date that occur before the Board of Directors has approved the financial statements may make it necessary to change the annual financial statements or to disclose the matter in the notes to the financial statements. If new information emerges regarding a matter that existed on the balance sheet date, and the matter is material, the financial statements must be changed.

After the sale of its stake in Sapa in 2017, Orkla retained certain liabilities arising from its former ownership. These are primarily liabilities related to guarantees and specific indemnities given to Norsk Hydro. Since the balance sheet date, Orkla has learned that an agreement-in-principle has been reached between subsidiaries of Norsk Hydro and the US Department of Justice (DOJ), Civil and Criminal Divisions, related to the case referred to in Note 6 of Orkla's Annual Financial Statements for 2016, whereby Hydro's subsidiaries will, subject to further terms that still have to be agreed, pay approximately NOK 400 million. Orkla is to indemnify Norsk Hydro for 50% of the final amount. The entire amount will be covered by earlier provisions; see Note 4 and Note 26.

No other events have taken place after the balance sheet date that would have had a material effect on the financial statements or any assessments carried out. See also Note 39 for acquisitions after the balance sheet date.

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INCOME STATEMENT

Amounts in NOK million	Note	2018	2017
Operating revenues		29	33
Operating revenues Group	1	840	689
Total operating revenues		869	722
Payroll expenses	2	(358)	(460)
Other operating expenses	5	(679)	(547)
Depreciation/write-downs and amortisation	8, 9	(30)	(28)
Operating loss		(198)	(313)
Dividends and contributions from Group		3 442	18 759
Write-downs subsidiaries		(463)	(8 208)
Interest income/costs from Group	6	105	64
Other financial costs	7	(239)	(356)
Profit before taxes		2 647	9 946
Taxes	11	(278)	(151)
Profit after tax		2 369	9 795

STATEMENT OF COMPREHENSIVE INCOME

Profit after tax	2 369	9 795
Changes in fair value shares	(5)	-
Change in unrealised gains on shares after tax	-	(51)
Change in hedging reserve after tax	65	61
Change in actuarial gains and losses pensions	(17)	(12)
Comprehensive income	2 412	9 793
Proposed dividend (not provided for)	(2 599)	(2 649)

STATEMENT OF CASH FLOWS

Amounts in NOK million	2018	2017
Profit/loss before tax	2 647	9 946
Depreciation and write-downs	30	28
Write-downs subsidiaries	463	8 208
Changes in net working capital etc.	(55)	(64)
Transfer of profit items to other activities	97	113
Taxes paid	(188)	(351)
Cash flow from operating activities	2 994	17 880
Net replacement expenditures	(305)	(48)
Investments in subsidiaries/partly owned companies	(277)	(6)
Net purchase/sale shares, dividends and financial assets	3	93
Cash flow from investing activities	(579)	39
Dividends paid	(2 643)	(7 738)
Net sale/purchase of treasury shares	(1 378)	50
Net paid to shareholders	(4 021)	(7 688)
Proceeds from borrowing	-	346
Repayment of borrowings	-	(4 736)
Net change in short-term debt	(397)	(284)
Net change in short-term interest-bearing receivables	(967)	(1 657)
Net cash flow from/ (used in) financing activities	(1 364)	(6 331)
Cash flow from financing activities	(5 385)	(14 019)
Change in cash and cash equivalents	(2 970)	3 900
Cash and cash equivalents 1 January	4 460	560
Cash and cash equivalents 31 December	1 490	4 460
Change in cash and cash equivalents	(2 970)	3 900

STATEMENT OF FINANCIAL POSITION

Assets

Amounts in NOK million	Note	2018	2017
Intangible assets	9	75	60
Deferred tax asset	11	209	219
Property, plant and equipment	8	475	215
Shares in subsidiaries	10	31 061	31 412
Loans to Group companies, interest-bearing		9 924	8 889
Other financial assets		246	148
Non-current assets		41 990	40 943
Receivables external		99	149
Receivables Group, non-interest-bearing		323	308
Receivables Group contribution		1 375	1 380
Financial investments	(see Note 24 Group)	13	17
Cash and cash equivalents		1 490	4 460
Current assets		3 300	6 314
Total assets		45 290	47 257

Equity and liabilities

Amounts in NOK million	Note	2018	2017
Paid-in equity		1 971	1 995
Retained earnings		31 016	32 601
Equity		32 987	34 596
Pension liabilities	2	558	553
Non-current interest-bearing liabilities		4 613	4 652
Non-current non-interest-bearing liabilities		242	313
Non-current liabilities and provisions		5 413	5 518
Liabilities to Group, interest-bearing		5 905	6 250
Liabilities to Group, non-interest-bearing		158	52
Tax payable		254	160
Other current liabilities		573	681
Current liabilities		6 890	7 143
Equity and liabilities		45 290	47 257

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK million	Share capital	Treasury shares	Premium fund	Total paid-in equity	Retained earnings	Total Orkla ASA
Equity 1 January 2017	1 274	(1)	721	1 994	30 497	32 491
Comprehensive income Orkla ASA	-	-	-	-	9 793	9 793
Dividends paid	-	-	-	-	(7 738)	(7 738)
Net purchase of treasury shares	-	1	-	1	49	50
Equity 31 December 2017	1 274	0	721	1 995	32 601	34 596
Comprehensive income Orkla ASA	-	-	-	-	2 412	2 412
Dividends paid	-	-	-	-	(2 643)	(2 643)
Net purchase of treasury shares	-	(24)	-	(24)	(1 354)	(1 378)
Equity 31 December 2018	1 274	(24)	721	1 971	31 016	32 987

NOTE 1 ACCOUNTING PRINCIPLES

Besides all head office activities, the financial statements of the holding company Orkla ASA cover some real estate activities. The latter are part of the business operations of Orkla Eiendom. The financial statements also cover the administration of the Orkla Foods, Orkla Confectionery & Snacks, Orkla Care, Orkla Food Ingredients and Orkla Investments business areas, and the Operations and Purchasing functions, in addition to the administration of the Purchasing Academy, Sales Academy and Brands Academy in Orkla ASA.

Activities at Orkla's headquarters include the Group's executive management and the corporate and common functions Communications, Legal Affairs, Sales & Business Development, Marketing & Innovation, Operations, Mergers & Acquisitions, Human Resources, Accounting/Finance, Compliance and Internal Audit. In addition to exercising parent company functions, the departments largely carry out assignments for the Group's other companies and charge them for these services. Orkla ASA owns certain trademarks that are utilised by various Group companies. Royalty fees are invoiced for the use of these trademarks. The revenues from these activities are presented on the line for "Operating revenues Group". The Group Treasury acts as an internal bank and is responsible for the Group's external financing, management of the Group's liquid assets and overall management of the Group's currency and interest risks. Interest from the Group's internal bank and dividends and contributions to the Group from investments in subsidiaries are presented as financial items and specified in the income statement.

The financial statements for Orkla ASA have been prepared and presented in accordance with simplified IFRS pursuant to section 3-9 of the Norwegian Accounting Act. Contributions to the Group have been accounted for according to good accounting practice as an exception to IFRS. Provisions are made for these contributions in the year they arise. The explanations of the accounting principles for the Group also apply to Orkla ASA, and the notes to the consolidated financial statements in some cases cover Orkla ASA. Ownership interests in subsidiaries are presented at cost.

The Board of Directors has deemed that Orkla ASA, after the proposed dividend of NOK 2.60 per share, had adequate equity and liquidity at the end of 2018.

The New IFRS 16 Leases entered into force on 1 January 2019 and requires that discounted right-of-use leases and associated payment liabilities be capitalised as an asset. Orkla ASA has chosen to use the modified retrospective method in implementing IFRS 16, which thereby gives rise to an equity effect upon implementation, but the comparative figures do not change. As at 31 December 2018, Orkla ASA had leases for company cars for employees and an office building at Skøyen (Karenslyst alle 6). A lease has been entered into with Orkla Eiendom AS on the rental of a new headquarters as from 1 February 2019. This agreement has no impact on the implementation effect. As at 1 January 2019 the company will capitalise right-of-use assets totalling around NOK 40 million, while leasing liabilities will total around NOK 43 million. This will entail a limited profit or loss effect.

NOTE 2 PAYROLL AND PENSIONS

Amounts in NOK million	2018	2017
Wages	(259)	(350)
National insurance contributions	(53)	(55)
Remuneration of the Board and other pay-related costs	(12)	(18)
Pension costs	(34)	(37)
Payroll expenses	(358)	(460)
Average number of employees	195	191

Breakdown of net pension costs

The assumptions on which the calculation of pension costs has been based are disclosed in Note 12 to the consolidated financial statements.

Amounts in NOK million	2018	2017
Current service cost (incl. national insurance contribution)	(15)	(20)
Costs contribution plans	(19)	(17)
Pensions classified as operating costs	(34)	(37)
Pensions classified as financial items	5	(27)
Net pension costs	(29)	(64)

Note 2 cont.

Breakdown of net pension liabilities as at 31 December

Amounts in NOK million	2018	2017
Present value of pension obligations	(558)	(553)
Pension plan assets	-	-
Capitalised net pension liabilities	(558)	(553)

The remaining net pension liabilities at 31 December 2018 mainly consist of unfunded pension plans for former key personnel and unfunded early retirement plans, and recognised liabilities related to plans for employees who earn more than twelve times the Norwegian National Insurance Scheme's basic amount (12G). For other employees, the company primarily has defined contribution pension plans.

The company has a pension plan that meets the requirements of the Compulsory Service Pensions Act.

NOTE 3 GUARANTEES AND ASSETS PLEDGED

Amounts in NOK million	2018	2017
Subscribed, uncalled limited partnership capital	10	2
Guarantees to subsidiaries	226	215
Other guarantee liabilities	-	13

NOTE 4 LOANS TO EMPLOYEES

Other financial assets include loans to employees

Amounts in NOK million	2018	2017
Loans to employees	2	6

NOTE 5 REMUNERATION AND CONTRACTUAL ARRANGEMENTS – THE BOARD OF DIRECTORS' STATEMENT OF GUIDELINES

1. The Board of Directors' statement of guidelines for the pay and other remuneration of the executive management

Pursuant to section 6-16a of the Public Limited Liability Companies Act, the Board of Directors must draw up a special statement of guidelines for the pay and other remuneration of senior executives ("Board's statement of guidelines"). The elements in the Board's statement of guidelines are set out in (i) – (vi) below. Under section 5-6 (3) of the same Act, an advisory vote must be held at the General Meeting on the Board of Directors' guidelines for the remuneration of the executive management for the coming financial year (see (ii) below). Insofar as the guidelines concern share-related incentive programmes, these must also be approved by the General Meeting (see (iii) below).

(i) Pay, other remuneration of and other conditions relating to the executive management

The Board of Directors decides the terms and conditions of the President and CEO and makes decisions on fundamental issues relating to the Group's compensation and benefits policy and compensation arrangements for other employees. The Board of Directors has a special Compensation Committee that prepares matters relating to compensation for decision by the Board. The Committee consists of three Board members, one of whom is elected by the employees, and was chaired by the Deputy Chair of the Board in 2018. The administration prepares matters for the Compensation Committee and the Board.

The Group Executive Board participates in the Group's annual bonus programme and long-term incentive programme.

Fixed salaries and fees for the Group Executive Board and accrued bonuses are presented on the next page. The table also shows accruals and the balance in the bonus bank as at 31 December 2018, based on the Orkla share price as at 31 December 2018 (NOK 68.04).

Note 5 cont.

Remuneration paid in 2018 to members of the Group Executive Board as at 31 December 2018

Amounts in 1,000 NOK	Fixed salary 31 Dec. 2018	Paid salary and holiday pay (A)	Paid bonus (accrued in 2017)	Paid from bonus bank (LTI)	Benefits in kind (B)	Total paid salary and allowance 2018	Total paid salary and allowance 2017
Peter A. Ruzicka	6 205	6 711	2 710	3 605	335	**13 361**	**10 605**
Jens Bjørn Staff[1]	3 010	3 167	762	970	282	5 181	
Christer Grönberg[3,4]	2 765	2 903	774	979	238	4 894	
Karl Otto Tveter[2]	3 115	3 318	826	1 391	343	5 878	
Atle Vidar Nagel Johansen	3 740	4 046	745	1 485	373	6 649	
Ann-Beth Freuchen	3 350	3 423	1 230	1 664	212	6 529	
Johan Wilhelmsson[3,4]	2 667	2 627	803	861	294	4 585	
Stig Ebert Nilssen	3 320	3 578	974	1 079	384	6 015	
Jeanette Hauan Fladby[4]	2 800	2 391	519	611	211	3 732	
Johan Clarin[3]	2 995	3 207	735	1 397	415	5 754	

[1]Also receives NOK 15,000 as a member of Jotun's Corporate Assembly.
[2]Also receives a Board fee of NOK 300,000 from Jotun.
[3]The annual salary agreed in SEK but translated to NOK based on the yearly average exchange rate.
[4]Member of the Group Executive Board since 1 October 2018, all payments are for the full year 2018.

Pål Eikeland and Terje Andersen stepped down from the Group Executive Board on 3 April 2018 and 30 September 2018, respectively. In 2018 Pål Eikeland received remuneration totalling NOK 5,689,000, while Terje Andersen received NOK 6,420,000 for 2018.

Stig Ebert Nilssen resigned from his position as Orkla Executive Vice President and CEO of Orkla Care on 1 February 2019.

Accrued remuneration, not paid in 2018

Amounts in 1,000 NOK	Accrued bonus in 2018[1]	Award long-term incentive programme (LTI)	Accrued pension costs	Total accrued/ awarded (C)	Balance bonus bank (LTI) 31 Dec. 2018
Peter A. Ruzicka[2]	1 365	3 035	2 231	6 631	7 835
Jens Bjørn Staff	452	853	766	2 071	2 230
Christer Grönberg	427	867	825	2 119	2 278
Karl Otto Tveter	467	925	776	2 168	2 442
Atle Vidar Nagel Johansen	740	834	1 028	2 602	3 110
Ann-Beth Freuchen	907	1 378	725	3 010	3 710
Johan Wilhelmsson	1 347	803	641	2 791	2 626
Stig Ebert Nilssen	395	1 091	860	2 346	2 396
Jeanette Hauan Fladby	653	581	586	1 820	1 707
Johan Clarin	618	811	771	2 200	2 339

[1]Accrued annual bonuses for 2018 are paid in 2019.
[2]The accrued salary and remuneration of the President and CEO totalled NOK 13,677,000 (A+B+C) in 2018.

Note 5 cont.

The Group Executive Board participates in the Group's general employee share purchase programme. No guarantees have been provided for members of the Group Executive Board.

The retirement age of the President and CEO is 62, and the period of notice is six months, with a period of pay of 12 months after termination of employment. From the age of 62 until he reaches the age of 67, he will be paid 24.3% (reduced by any pensionable service from the start of his employment to the date he reaches the age of 62) of his salary upon retirement.

The members of the Group Executive Board have a period of notice of six months, and their retirement age of persons other than the President and CEO is 65. From the age of 65 until they reach the age of 67, Orkla will pay them 66% of their salary upon retirement, after which their pension will be paid from Orkla's general pension plans.

(ii) Guidelines for pay and other remuneration of the executive management

With regard to guidelines for pay and other remuneration of the executive management in the coming financial year, the Board of Directors will submit the following guidelines to the General Meeting in 2019 for an advisory vote:

The purpose of Orkla's reward policy is to attract personnel with the competence that the Group requires, develop and retain employees with key expertise and promote a long-term perspective and continuous improvement supporting achievement of Orkla's business goals. The general approach adopted in Orkla's policy is to pay fixed salaries in line with market median level while offering variable pay linked to results, share price performance, etc. (short- and long-term incentives) above market median level. Compensation may consist of the following elements:

a) Fixed elements
Orkla uses internationally recognised job assessment systems to find the "right" level for the job and the fixed salary. Jobs are assessed in relation to their local market (country) and a pay range of the median +/- 20% is applied. The employee's responsibilities, results and performance determine where he or she is placed on the salary scale.

(b) Variable elements – annual bonus
Senior executives in Orkla participate in the Group's central annual bonus programme. The programme has a maximum ceiling of 100% of the employee's fixed salary as at 31 December in the year of accrual. Under this programme, a "good performance" can result in an annual bonus of approximately 30% of an employee's fixed salary as at 31 December in the accrual year. A "good performance" is defined as the achievement of results in line with externally communicated financial targets.

In addition, the Group has share-based incentive programmes described in (iii) below.

(iii) Special comments on share-based incentive programmes

(a) Long-term incentive programme
Orkla has for several years had a cash-based long-term incentive (LTI) programme. The LTI is normally awarded in May of each year. The amount awarded in 2018 was equal to the amount accrued in the annual bonus programme the previous year. The award is adjusted according to the performance of the Orkla share until it is paid out, and is thus share-related. The adjustment is based on the share price recorded on the day after the Annual General Meeting in the year the award is made, adjusted for dividends in the period. 50% of the entitlement will be paid out after two years and the remainder after three years, provided that the employee has not given notice of resignation at the time of payment. The annual amount paid out from the LTI programme must not exceed one year's pay at the time of payment. Any excess amount will be added to the bank deposit to be paid out the following year.

In 2018 certain adjustments were adopted in the programme that will affect awards in 2019. As from 2019, LTI awards will be determined on the basis of assessments of individual performances in relation to predefined long-term criteria set in 2018. The aim is for the award to be equivalent to 30% of the employee's annual salary for a "good performance", according to the predefined criteria. The award may not exceed 50% of the employee's annual salary, nor may the aggregate value of an award under the annual bonus programme and the LTI bonus awarded in a year exceed one year's salary. The amount awarded is adjusted in accordance with the Orkla share price performance until the award is paid out. Under the LTI programme, the employee may request, at the earliest, that one third of an LTI award be paid out after 24 months, one third after 36 months and one third after 48 months. After a maximum of 60 months, the LTI award will be paid out in its entirety.

(b) Discounted shares for employees
For several years the Group has had a programme offering employees an opportunity to buy a limited number of shares at a discount on the market price. For 2018, employees were offered three different purchase options: NOK 28,000, NOK 15,000 and NOK 8,000 (amounts after

Note 5 cont.

discount). The discount was 25% on the market price. The lock-in period for shares purchased is two years. The costs of the employee share purchase programme in 2018 totalled approx. NOK 16 million.

The Board of Directors recommends to the General Meeting that the employee share purchase programme be continued, with the same purchase options and conditions as in 2018.

(iv) Company pension plan

Orkla has a defined contribution pension plan in Norway. The contribution rates are 5% for salaries between 1G and 7.1G and 23.1% for salaries over 7.1G (as of 1 May 2018 1G is NOK 96,883). For persons appointed to the Group Executive Board before 1 September 2014, the rate for salaries over 12G is 27%. Johan Wilhelmsson has a service pension in Sweden in accordance with the ITP2 rules. This is a defined benefit pension plan limited to a maximum salary equivalent to 30 income base amounts (IBA). For salaries over 30 IBA, a pension in Norway is ensured by a contribution equal to 15% of the excess amount.

(v) Other benefits

The Group provides benefits such as a company car and company telephone and other limited benefits in kind.

(vi) Executive pay policy

The guidelines for pay and other remuneration for senior executives disclosed in (ii), which were considered at the 2018 Annual General Meeting, have served as guidance in determining pay and other remuneration for senior executives in 2018.

For detailed descriptions of Orkla's reward policy and the various components of the overall remuneration, reference is made to the disclosures in Note 11 to the consolidated financial statements.

2. Remuneration of the Board of Directors and Board members' shareholdings

As from 12 April 2018, the Board of Directors is remunerated at the following rates:

Board Chair	NOK	820 000	per year
Board Deputy Chair	NOK	660 000	per year
Shareholder-elected Board member	NOK	522 000	per year
Employee-elected Board member	NOK	430 000	per year
Deputy member	NOK	27 500	per meeting

Under Article 4 of Orkla's Articles of Association, shareholder-elected "members and deputy members of the Board of Directors must be shareholders in the company". Accordingly, Orkla requires that 1/3 of the members' gross Board fees (excluding any fee for committee work and supplement for members residing outside Norway) be used to purchase shares in Orkla until the Board members (including their related parties) own shares in Orkla with a value equivalent to two times their gross Board fee (excluding any fee for committee work and supplement for members residing outside Norway). An overview of the Board members' shareholdings is disclosed in this note.

Compensation Committee

Committee Chair	NOK	140 000	per year
Member	NOK	105 000	per year

Audit Committee

Committee Chair	NOK	176 000	per year
Member	NOK	118 000	per year

In addition, shareholder-elected Board members residing outside Norway receive a supplement of NOK 17,500 per meeting attended.

Note 5 cont.

Payments actually received by members of the Board of Directors are as follows:

Amounts in NOK	Director's fee incl. committee work	Number of shares[1]
Shareholder-elected Board members		
Stein Erik Hagen	917 500	250 100 000
Grace Reksten Skaugen	794 000	8 500
Ingrid Jonasson Blank	635 000	6 250
Peter Agnefjäll	348 000[2]	10 000
Nils K. Selte	692 666	27 000
Lars Dahlgren	518 000	6 500
Liselott Kilaas	518 000	5 200
Caroline Hagen Kjos (deputy)[3]	-	-

[1]Total share ownership including related parties.
[2]The Board fee will be paid in 2019.
[3]Receives no fees.

Amounts in NOK	Fixed salary	Director's fee	Benefits in kind	Pension costs	Number of shares
Employee-elected Board members					
Terje Utstrand	578 780	470 833	58 548	25 426	6 644
Roger Vangen	579 620	366 666	32 812	23 284	8 418
Sverre Josvanger	533 438	483 666	167 040	23 169	19 457
Karin Hansson (salary in SEK)	404 585	366 666	-	21 848	1 657

[1]Total share ownership including related parties.

No loans have been granted to or guarantees provided for members of the Board of Directors.

3. Remuneration of the Nomination Committee

As from 12 April 2018, the Nomination Committee is remunerated according to the following rates:

Committee Chair NOK 63,000 per year, members NOK 46,000 per year and employee-elected representatives NOK 6,200 per meeting.

4. Fees to Group external auditor

Amounts in NOK million (excl. VAT)	2018	2017
Parent company		
Statutory audit	3.4	3.4
Other attest services	0.1	0.1
Tax consultancy services	1.2	2.1
Other non-audit services	5.5	2.5
Group		
Statutory audit	30.9	28.8
Other attest services	0.6	1.5
Tax consultancy services	2.6	4.4
Other non-audit services	6.1	4.9
Total fees to EY	40.2	39.6
Statutory audit fee to other auditors	2.6	2.4

NOTE 6 INTEREST INCOME AND COSTS GROUP

Amounts in NOK million	2018	2017
Interest income Group	146	115
Interest costs Group	(41)	(51)
Total financial costs Group	105	64

NOTE 7 OTHER FINANCIAL ITEMS

Amounts in NOK million	2018	2017
Gain/loss on exchange	(59)	(224)
Portfolio gains	-	47
Other financial income	13	40
Other financial costs	(193)	(219)
Total other finanancial items	(239)	(356)

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NOTE 8 PROPERTY, PLANT AND EQUIPMENT

Amounts in NOK million	Land, buildings and other property	Machinery, fixture and fittings etc.	Assets under construction	Total
Book value 1 January 2018	96	63	56	215
Investments	3	-	301[2]	304
Reclassifications[1]	-	3	(29)	(26)
Depreciation	(2)	(16)	-	(18)
Book value 31 December 2018	97	50	328	475
Initial cost 1 January 2018	118	204	56	378
Accumulated depreciation and write-downs 1 January 2018	(22)	(141)	-	(163)
Book value 1 January 2018	96	63	56	215
Initial cost 31 December 2018	121	207	328	656
Accumulated depreciation and write-downs 31 December 2018	(24)	(157)	-	(181)
Book value 31 December 2018	97	50	328	475

[1]Net reclassifications relating to the transfer from Note 9.
[2]Consists primarily of investment in a new common ERP system (Project One). The investment will be reclassified to IT (Note 9) upon project completion.

NOTE 9 INTANGIBLE ASSETS

Amounts in NOK million	Trademarks not amortisable	IT	Total
Book value 1 January 2018	26	34	60
Reclassifications property, plant and equipment[1]	-	26	26
Investments	-	1	1
Amortisation	-	(12)	(12)
Book value 31 December 2018	26	49	75
Initial cost 1 January 2018	26	99	125
Accumulated amortisation and write-downs 1 January 2018	-	(65)	(65)
Book value 1 January 2018	26	34	60
Initial cost 31 December 2018	26	126	152
Accumulated amortisation and write-downs 31 December 2018	-	(77)	(77)
Book value 31 December 2018	26	49	75

[1]Net reclassifications relating to the transfer from Note 8.

NOTE 10 SHARES IN SUBSIDIARIES, DIRECTLY OWNED

Amounts in NOK million	Group's share of capital	Book value 2018	Book value 2017
Orkla Foods Norge AS	100%	9 362	9 362
Orkla Foods Sverige AB	100%	5 469	5 469
Orkla Confectionery & Snacks Finland Ab	100%	3 315	3 315
Orkla Food Ingredients AS	100%	2 466	2 466
Orkla Energi AS	100%	1 765	1 765
Hamé s.r.o.	100%	1 354	1 357
SIA Orkla Confectionery & Snacks Latvija	100%	959	959
Orkla Confectionery & Snacks Norge AS	100%	906	906
Orkla House Care AS	100%	865	865
Orkla Health AS	100%	631	631
Orkla Eiendom AS	100%	589	589
Lilleborg AS	100%	526	526
SweBiscuits AB	100%	512	512
Viking Askim AS	100%	400	400
Industriinvesteringer AS	100%	340	803
Sarpsfoss Limited			
Ordinary shares	100%	253	253
Preference shares	99.9%	43	43
SIA Orkla Foods Latvija	100%	246	246
Attisholz AB	100%	187	187
Orkla Foods Romania SA	100%	184	184
Orkla Foods Danmark A/S	100%	175	175
Orkla Asia Holding AS	100%	166	166
Gorm's Holding ApS	67%	97	0
Orkla Insurance Company Ltd.	100%	65	65
UAB Orkla Foods Lietuva	100%	57	57
Trælandsfos Holding AS	100%	36	36
Orkla IT AS	100%	34	34
Øraveien Industripark AS	100%	15	15
Plusstid Home AS	100%	12	1
Orkla Investeringer AS	100%	10	10
Orkla France S.A.S.	100%	8	4
Orkla Design AS	100%	5	5
Cederroth Intressenter AB	100%	3	3
Orkla Germany GmbH	100%	2	0
Orkla Accounting Centre Estonia	100%	2	2
Attisholz Infra AG[1]	0.4%	1	1
Orkla Group Procurement Hub Shanghai	100%	1	0
Total		31 061	31 412

[1]The remaining shares are owned by Attisholz AB.

The table shows only directly owned subsidiaries. The Group consists of a total of around 240 companies. The most important indirectly-owned subsidiaries are shown in the Group Directory at the end of the Annual Report.

NOTE 11 TAXES

Taxes

Amounts in NOK million	2018	2017
Profit before taxes	2 647	9 946
Change in temporary differences	1	(102)
Of which change in temporary differences previous years	(22)	(21)
Correction for change in temporary differences taken to comprehensive income	48	69
Total change in temporary differences	27	(54)
Non-deductible expenses	34	18
Tax-free dividends, capital gains (losses) and write-downs shares and financial assets	(3)	(54)
Impairment of shares in subsidiaries	463	8 208
Dividends from subsidiaries	(2 066)	(17 379)
Other permanent differences	3	(20)
Total permanent differences	(1 569)	(9 227)
Total taxable income	1 105	665
Calculated current tax expense	(254)	(160)
Withholding tax foreign dividends	(2)	(1)
Correction in provisions for previous years' taxes	(26)	24
Total current tax expense	(282)	(137)
Change in deferred tax liabilities	4	(14)
Total tax expense	(278)	(151)

Note 11 cont.

Deferred tax liabilities

Amounts in NOK million	2018	2017
Financial derivatives	(89)	55
Accumulated write-downs outside the tax exemption method	(11)	(11)
Hedging reserve in equity	(242)	(312)
Property, plant and equipment	12	10
Pension liabilities	(493)	(443)
Other current liabilities	(128)	(249)
Basis deferred tax	(951)	(950)
Deferred tax asset	(209)	(219)
Change in deferred tax	(10)	(33)
Change in deferred tax taken to comprehensive income	14	19
Change in deferred tax in the income statement	4	(14)

Reconciliation of total tax expense

Amounts in NOK million	2018	2017
23% of profit before taxes	(609)	(2 387)
Effect of change in tax rates	(5)	(6)
Tax-free dividends, capital gains (losses) and write-downs shares and financial assets	1	13
Dividends from subsidiaries	475	4 171
Write-downs shares in subsidiaries	(106)	(1 970)
Other permanent differences	(1)	5
Non-deductible expenses	(8)	(4)
Withholding tax	(2)	(1)
Correction previous years' taxes	(23)	28
Total tax expense for Orkla ASA	(278)	(151)

NOTE 12 FINANCIAL RISK

The risk associated with financial instruments in Orkla ASA is related to the following activities:

The Group's internal bank

Orkla ASA's Group Treasury manages the interest rate and currency risk for the Group. The Group Treasury acts as the Group internal bank and executes all external funding and hedging transactions in interest rate and currency derivatives. The subsidiaries mitigate their currency risk by entering into internal currency hedging contracts with the internal bank, which in turn hedges this risk through external hedging positions. In addition, the internal bank holds debt in foreign currencies in order to hedge currency risk on internal loans, book equity and goodwill. In 2018, NOK -66 million was recognised in the income statement in connection with these hedges (NOK -221 million in 2017). The internal bank does not actively take on currency risk. Intercompany loans and deposits are at floating interest rates, and no intra-group interest rate hedging contracts are made. Further details of the management of interest rate and currency risk for Group-external items are disclosed in Note 30 to the consolidated financial statements.

Derivatives and hedge accounting

Currency forward contracts. The internal bank's internal and external currency forward contracts and cross currency swaps are recognised at fair value in the statement of financial position with changes in fair value recognised through profit and loss. Foreign currency effects related to internal and external loans are also accounted for through profit and loss.

Interest rate swaps. External funding for the Group is mainly originated through Orkla ASA. Loans issued at fixed interest rates are normally swapped to floating interest rates through interest rate swaps. These swaps are accounted for as fair value hedges with fair value changes recognised through profit and loss. As at 31 December 2018, the fair value of these interest rate swaps was NOK 45 million (NOK 68 million in 2017). During the year NOK 22 million was recognised as costs in the income statement related to changes in the fair value of the interest rate swaps, and NOK 22 million was recognised as income related to changes in the fair value of the hedged loans.

When Orkla hedges future interest payments, interest rate swaps, where Orkla receives floating interest rates and pays fixed interest rates, are used. These interest rate swaps are accounted for as cash flow hedges with changes in fair value recognised through comprehensive income. As at 31 December 2018, the fair value of these swaps amounted to NOK -242 million (NOK -312 million in 2017).

Note 12 cont.

Equity hedging reserve. Change in the equity hedging reserve:

Amounts in NOK million	2018	2017
Opening balance hedging reserve before tax	(312)	(396)
Reclassified to profit/loss – net financial items	132	116
Fair value change during the year	(48)	(32)
Closing balance hedging reserve before tax	(228)	(312)
Deferred tax hedging reserve	53	72
Closing balance hedging reserve after tax	(175)	(240)

The hedging reserve is expected to be reclassified to the income statement as follows (before tax):

2019:	NOK -121 million
After 2019:	NOK -107 million

NOTE 13 OTHER MATTERS

PAYE tax guarantee and guarantee for pension liabilities
Orkla ASA has a bank guarantee to cover Pay-As-You-Earn (PAYE) tax payable by employees and pension liabilities for employees who earn more than 12G on behalf of its Norwegian subsidiaries. The company has no other restricted assets.

Material leases
In 2013, Orkla ASA moved to new temporary premises in Nedre Skøyen vei 26, Oslo, along with the companies Orkla Health, Orkla Home & Personal Care, Orkla Confectionery & Snacks Norge, Pierre Robert Group, Hydro Power, Orkla IT, Orkla House Care and Orkla Eiendom. The building has been leased from Evry until the end of the first quarter of 2019 pending the construction of new permanent premises at Drammensveien 149 and 151. Annual leasing costs total NOK 43 million. Orkla ASA subleases premises to the other companies.

Orkla ASA still leases premises from Investorprosjekt 93 AS at Karenslyst allé 6, Skøyen, in Oslo, until the year 2020. Annual leasing costs total NOK 21 million. The building is largely subleased.

Matters disclosed in the Notes to the Consolidated Financial Statements
Share-based payment – Note 11
Events after the balance sheet date – Note 41

Shareholders in Orkla ASA
A list of the largest shareholders in Orkla ASA is presented in Note 32.

Declaration from the Board of Directors of Orkla ASA and the Group

We confirm that the financial statements for the period 1 January up to and including 31 December 2018 have, to the best of our knowledge, been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the Group as a whole, and that the Board of Directors' report includes a fair review of the development and performance of the business and the position of the company and the Group as a whole, together with a description of the principal risks and uncertainties that they face.

Oslo, 13 March 2019
The Board of Directors of Orkla ASA

Stein Erik Hagen Chairman of the Board	Grace Reksten Skaugen Deputy Chair of the Board	Peter Agnefjäll	Ingrid Jonasson Blank
Lars Dahlgren	Liselott Kilaas	Nils K. Selte	Terje Utstrand
Karin Hansson	Sverre Josvanger	Roger Vangen	Peter A. Ruzicka President and CEO

(This translation from Norwegian of the Declaration from the Board of Directors has been made for information purposes only.)

Independent auditor's report

To the Annual Shareholders' Meeting of Orkla ASA

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Orkla ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;

- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;

- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion
We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Revenue recognition – provision for rebates
Revenue is recognised when the significant risk and rewards of ownership of the goods have been transferred to the buyer. Further, it is measured at fair value of the expected consideration to be received from sales. Discounts, rebates and other benefits earned by customers represents a variable consideration and is included in the fair value. Due to the multitude and variety of agreements and contractual terms, the determination of rebates recognized on sales made during the year is considered complex and requires management judgement. Revenue recognition including provisions for rebates is therefore a key audit matter.

Our audit procedures included identifying, understanding, evaluating and testing management procedures and controls for determining the reduction in revenues by rebates as well as compliance of policies with applicable accounting standards. We considered the Group's assessment and impact of the new revenue recognition standard, "IFRS 15 Revenue from contract with customers". Further, we identified and assessed the effectiveness of the Group's

Independent auditor's report cont.

internal controls. Our audit included analytical procedures and detailed testing that rebates are recognised in the correct period. We tested the accuracy and completeness of the accrued rebate liability, and the underlying calculation. These procedures included testing of the basis for calculating rebates against actual sales and agreed terms. Also, we have tested the accuracy of historical provisions for rebates and evaluated the disclosures provided by management in the consolidated financial statements to applicable accounting standards.

We refer to the Group's disclosures in notes 4 and 9 in respect of revenue recognition and related contract liabilities for discounts and other benefits.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, 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 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, unless management either intends to liquidate the 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 about 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 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 these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment 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 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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Company to cease to continue as a going concern.

Independent auditor's report cont.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors’ report and on the statements on corporate governance and corporate social responsibility
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors’ report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 13 March 2019
ERNST & YOUNG AS

Erik Mamelund
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Historical key figures

Historical key figures are presented for each of the last four years (2014–2017) as they were presented in the respective annual reports. Subsequent accounting restatements (due, for instance, to changes in accounting principles, recognition as "Discontinued operations", etc.) are thus not reflected in the set of figures presented. This is because Orkla wishes to show the Group as it was reported in the years in question, so as to illustrate the actual level of activity in the years concerned.

	Definition		2018	2017	2016	2015	2014
Income statement							
Operating revenues		(NOK million)	40 837	39 561	37 758	33 198	29 599
EBIT (adj.)*		(NOK million)	4 777	4 635	4 298	3 609	3 214
Other income and expenses		(NOK million)	(482)	(201)	(382)	(502)	(100)
Operating profit		(NOK million)	4 295	4 434	3 916	3 107	3 114
EBIT (adj.) margin*	1	(%)	11.7	11.7	11.4	10.9	10.9
Profit/loss from associates and joint ventures		(NOK million)	264	313	1 378	1 111	121
Ordinary profit/loss before taxes		(NOK million)	4 358	4 571	5 182	4 090	2 872
Gains/profit/loss discontinued operations		(NOK million)	-	5 066	-	(17)	(485)
Profit/loss for the year		(NOK million)	3 354	8 657	4 375	3 351	1 699
Cash flow							
Net cash flow		(NOK million)	(3 044)	8 471	(956)	(1 561)	3 062
Capital as at 31 December							
Book value of total assets		(NOK million)	52 509	53 408	55 604	54 238	50 112
Market capitalisation	2	(NOK million)	68 007	88 683	79 586	71 361	52 025
Equity ratio	3	(%)	64.9	65.2	60.9	62.2	62.5
Net interest-bearing liabilities	4	(NOK million)	3 037	14	8 056	7 805	5 661
Net gearing	5		0.09	0.00	0.24	0.23	0.18
Interest coverage ratio	6		33.5	23.1	23.1	17.3	10.8
Average borrowing rate		(%)	3.4	2.2	1.8	2.8	3.4
Share of floating interest-bearing liabilities	7	(%)	39	38	67	61	57
Average time to maturity liabilities	8	(year)	4.0	4.3	3.3	3.2	3.7

*EBIT (adj.) = Operating result before other income and expenses.

Historical key figures cont.

	Definition		2018	2017	2016	2015	2014
Shares							
Average number of shares outstanding, diluted		(x 1,000)	1 008 810	1 017 472	1 017 969	1 018 394	1 017 795
Average number of shares outstanding		(x 1,000)	1 008 810	1 017 472	1 017 526	1 017 546	1 016 375
Share-related key figures							
Share price at 31 December		(NOK)	68.04	87.05	78.20	70.10	51.15
Earnings per share, diluted	9	(NOK)	3.24	8.43	4.22	3.24	1.63
Ordinary dividend per share (proposed for 2018)		(NOK)	2.60	2.60	2.60	2.50	2.50
Payout ratio	10	(%)	80.2	30.8	61.6	77.2	153.4
Price/earnings ratio	11		21.0	10.3	18.5	21.6	31.4
Personnel							
Number of employees			18 510	18 178	18 154	14 670	12 921
Number of man-years			17 633	17 569	18 038	14 532	12 714

Definition:

1 EBIT (adj.)* / Operating revenues
2 Market capitalisation is calculated on the basis of number of shares outstanding x Share price at year end
3 Book equity / Total assets
4 Total interest-bearing liabilities - Interest-bearing receivables and liquid assets (cash, bank deposits etc.)
5 Net interest-bearing liabilities / Equity
6 (Profit before tax + Net interest expenses) / (Net interest expenses)
7 Liabilities with remaining period of fixed interest of less than one year
8 Average time to maturity for interest-bearing liabilities and unutilised committed credit facilities
9 Profit for the year after non-controlling interests / Average number of shares outstanding, diluted, at year-end
10 Ordinary dividend per share / Earnings per share, diluted
11 Share price / Earnings per share, diluted

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Alternative performance measures (APM)

Organic growth

Organic growth shows like-for-like turnover growth for the Group's business portfolio and is defined as the Group's reported change in operating revenues adjusted for effects of the purchase and sale of companies and currency effects. In the calculation of organic growth, acquired companies will be excluded 12 months after the transaction date. Sold companies will be excluded pro forma 12 months prior to the transaction date. Currency effects are neutralised by translating this year's turnover at last year's exchange rates.

Organic growth is included in segment information and used to identify and analyse the turnover growth in the existing business portfolio. Organic growth provides an important picture of the Group's ability to carry out innovation, product development, correct pricing and brand-building. The Group also uses organic growth performance as a factor in assessing executive remuneration for 2018 (paid out in 2019), but this will not apply from 2019.

Reconciliation of organic growth is shown in a separate table on the next page.

EBIT (adj.)

EBIT (adj.) shows the Group's current operating profit before items that require special explanation, and is defined as reported operating profit or loss before "Other income and expenses" (OIE). Items included in OIE are disclosed in Note 14. These include M&A costs, restructuring or integration expenses, any major gains and write-downs on both tangible and intangible assets, and other items that only to a limited degree are reliable measures of the Group's current profitability. EBIT (adj.) margin and growth are derived figures calculated in relation to operating revenues.

EBIT (adj.) is the Group's key financial figure, internally and externally. The figure is used to identify and analyse the Group's profitability from normal operations and operating activities. Adjustment for items in OIE which to a limited degree are reliable measures of the Group's current operating profit or loss increases the comparability of profitability over time, and EBIT (adj.) is used as a basis for and indicator of the Group's future profitability.

EBIT (adj.) is presented on a separate line in the Group's income statement and in segment reporting; see Note 7.

Change in underlying EBIT (adj.)

Change in underlying EBIT (adj.) shows like-for-like EBIT (adj.) growth for the Group's business portfolio and is defined as the Group's reported change in EBIT (adj.) adjusted for effects of the purchase and sale of companies and currency effects. In calculating the change in underlying EBIT (adj.), acquired companies will be included pro forma 12 months prior to the transaction date. Sold companies will be excluded pro forma 12 months prior to the transaction date. Currency effects are neutralised by calculating this year's turnover at last year's currency exchange rates. Underlying EBIT (adj.) margin and change therein are derived figures calculated in relation to operating revenues.

Underlying EBIT (adj.) growth is used for internal management purposes, including for identifying and analysing underlying profitability growth in the existing business portfolio, and provides a picture of the Group's ability to develop growth and improve profitability in the existing business. The measure is important because it shows the change in profitability on a comparable structure over time. Underlying EBIT (adj.) growth is a heavily weighted factor in determining executive remuneration.

The reconciliation of change in underlying EBIT (adj.) for Branded Consumer Goods including Headquarters is shown in the report of the Board of Directors and on the next page.

Net replacement and expansion investments

When making decisions regarding investments, the Group distinguishes between replacement and expansion investments. Expansion investments are the part of overall reported investments which is considered to be investments in either new geographical markets or new categories, or which represents significant increases in capacity.

Net replacement investments are reduced by the value of sold fixed assets to sales value.

The purpose of this distinction is to show how large a part of the investments (replacement) mainly concern maintenance of existing operations and how large a part of the investments (expansion) must be expected to generate increased contributions to profit in future, exceeding expectations of normal operations.

Net replacement and expansion investments are presented in the statement of cash flows in the report of the Board of Directors and Note 40.

Net interest-bearing liabilities

Net interest-bearing liabilities, together with equity, constitute the Group's capital. Net interest-bearing liabilities are the sum of the Group's interest-bearing liabilities and interest-bearing receivables. Interest-bearing liabilities include bonds, bank loans, other loans, financial leasing and interest-bearing derivatives. Interest-bearing receivables include liquid assets, interest-bearing derivatives, and other interest-bearing assets.

Net interest-bearing liabilities constitute the Group's primary management parameter for funding and capital allocation, and are actively used in the Group's financial risk management strategy. The Orkla-format cash flow statement therefore shows the change in net interest-bearing liabilities in the report of the Board of Directors and Note 40.

Net interest-bearing liabilities are reconciled in Note 28 and Note 29.

Structure (acquired and sold companies)

Structural growth includes adjustments for the acquisition of the businesses Agrimex, Struer, Riemann, HSNG, Orchard Valley, SR-Food, Arne B. Corneliussen, Werners, County's and various minor acquisitions in Orkla Food Ingredients, and adjustment for the sale of K-Salat and Mrs. Cheng's.

Organic growth per business areas

	1.1.–31.12.2018			
Sales revenues changes %	FX	Structure	Organic growth	Total
Orkla Foods	-0.3	-1.9	1.5	-0.8
Orkla Confectionery & Snacks	0.4	-	-3.4	-3.0
Orkla Care	0.2	9.5	-1.8	8.0
Orkla Food Ingredients	1.1	7.6	1.2	9.9
Branded Consumer Goods	0.2	2.8	-0.2	2.8

	1.1.–31.12.2017			
Sales revenues changes %	FX	Structure	Organic growth	Total
Orkla Foods	0.5	2.3	1.4	4.2
Orkla Confectionery & Snacks	0.3	-	3.1	3.4
Orkla Care	-0.1	8.2	2.9	11.0
Orkla Food Ingredients	0.7	5.5	0.5	6.6
Branded Consumer Goods	0.4	3.7	1.6	5.7

Underlying EBIT (adj.) changes with corresponding figures for Branded Consumer Goods incl. HQ

EBIT (adj.) changes %	FX	Structure	Underlying growth	Total
1.1–31.12.2018	-0.2	1.2	0.8	1.8
1.1–31.12.2017	0.5	2.6	5.2	8.4

		Underlying			
EBIT margin growth changes percentage points	FX/ Structure	Variable cost	Other	Total	EBIT (adj.) margin (%)
1.1–31.12.2018	-0.2	0.0	0.1	-0.1	11.1
1.1–31.12.2017	-0.1	-0.2	0.6	0.3	11.2

Figures may not add up due to rounding-off.

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Additional information

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Share information

Through efficient business operations, Orkla aims to achieve long-term value growth for its shareholders which exceeds that of relevant, competitive investment alternatives. For shareholders, this is reflected in the combination of the long-term price performance of the Orkla share and the dividend that is paid out.

Market capitalisation and turnover

The Orkla share is listed on the Oslo Stock Exchange under the ticker code ORK. All shares have equal rights and are freely transferable. In terms of market value, Orkla was the eighth largest company on the Oslo Stock Exchange as at 31 December 2018 and the third largest non-government-owned company. At the end of 2018, its market capitalisation was NOK 69.3 billion, down NOK 19.4 billion from the end of 2017. In 2018, a total of NOK 2.6 billion was paid out in ordinary dividends, and the company bought back its own shares for a total of NOK 1.4 billion. The average daily volume of Orkla shares traded on the Oslo Stock Exchange was 1.8 million, equivalent to 0.18% of the total number of Orkla shares issued. In 2018, around 69% of Orkla share trades took place through market-places other than the Orkla Stock Exchange, such as Cboe, LSE, Turquoise and Aquis. The Orkla share may also be traded through Orkla's Level-1 ADR programme in the US. More information on the ADR programme may be found on Orkla's website under "Investor Relations".

Return on investment

Over time, Orkla shareholders have enjoyed a good return on their shares. The table below shows the average annual return (including reinvested dividends) on the Orkla share compared with the Oslo Stock Exchange Benchmark Index (OSEBX).

Dividend policy

Orkla's shareholders shall receive a competitive return on their investment over time through a combination of dividends and an increase in the share price. Orkla has achieved a steady, stable increase over time in the dividends paid out. The goal in future is to increase the dividend from the current level of NOK 2.60 per share, normally within 50-70% of earnings per share.

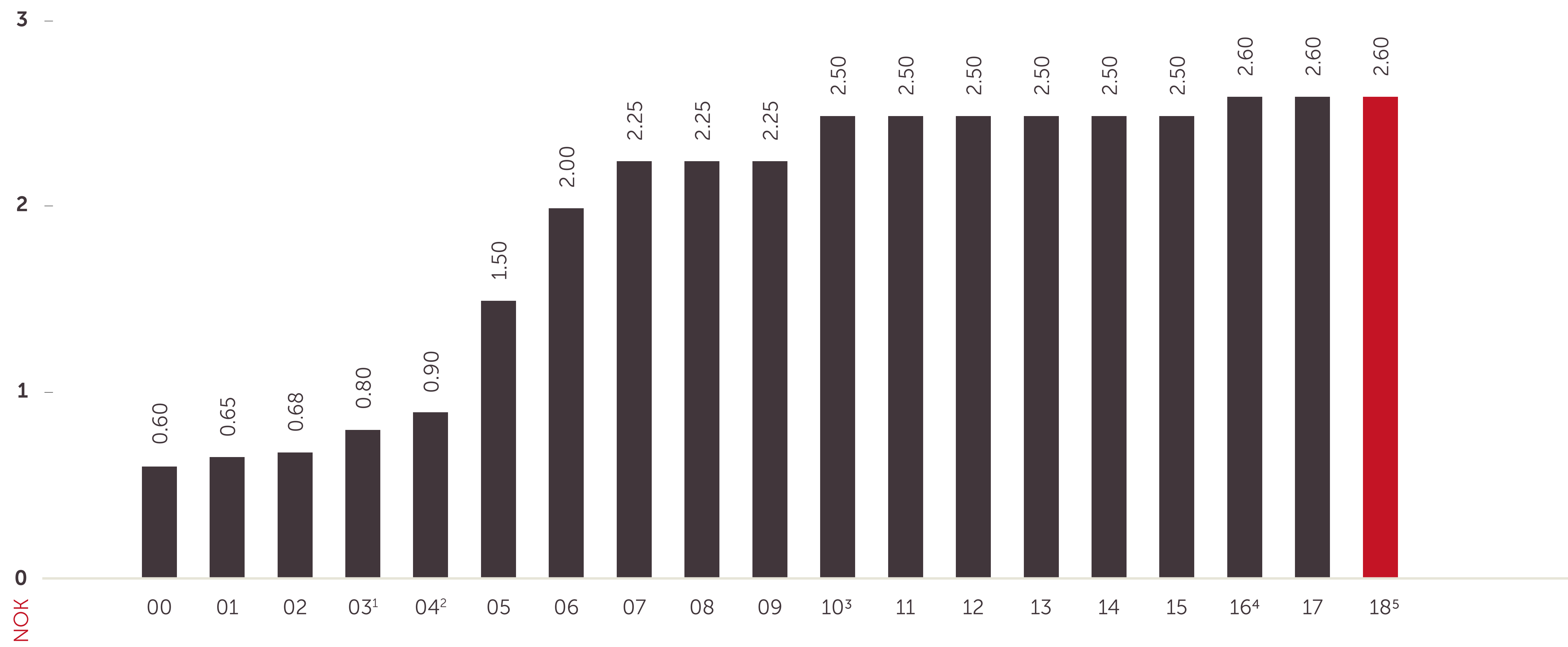
The Board of Directors proposes to pay a dividend of NOK 2.60 per share for the 2018 financial year. The dividend will be paid out on 7 May 2019 to shareholders of record on the date of the Annual General Meeting.

Return on investment including reinvested dividends as at 31 December 2018

	Orkla	OSEBX
Last year	-18.4%	-1.9%
Last 3 years	16.7%	33.1%
Last 5 years	88.0%	46.3%
Last 10 years	153.6%	234.2%

Source: Euroland.com;
https://www.orkla.com/investors-relations/about-the-orkla-share/the-share-price/

Ordinary dividend per share



[1]Additional dividend NOK 5.00 per share.
[2]Additional dividend NOK 1.00 per share.
[3]Additional dividend NOK 5.00 per share.
[4]Additional dividend NOK 5.00 per share.
[5]Proposed dividend.

Treasury shares

Orkla supplements its dividends with moderate share buy-backs. At the 2018 Annual General Meeting, the Board of Directors was granted authorisation to buy back up to 100 000 000 Orkla shares. The authorisation was granted for a limited period of time, and must be implemented at the latest by the 2019 Annual General Meeting. Shares acquired by the Board under the authorisation must be cancelled or used in connection with employee incentive programmes, including the Group's employee share purchase programme. A total of 20 million Orkla shares were bought back in 2018 for these purposes. As at 31 December 2018, Orkla owned 19 410 259 treasury shares. The Board of Directors will propose to the General Meeting in 2019 that the authorisation to buy back Orkla shares be renewed.

Voting rights

Orkla has one class of share, and each share carries one vote and has a par value of NOK 1.25. Each shareholder is entitled to vote the number of shares which he or she owns and which are registered in the Norwegian Central Securities Depository (VPS) on the date of the general meeting. If the shareholder has acquired the shares shortly before the general meeting, voting rights for the transferred shares may only be exercised if the acquisition has been registered in the VPS, or if the acquisition has been reported to the VPS and proof of the acquisition is presented at the general meeting.

Read more about Orkla's voting rights and the general meeting on Orkla's website, under "Investor Relations".

Shareholders by geographical area[1]

Norway	49%
USA	25%
Great Britain	14%
Other	12%

[1]As of 31.12.2018

Financial Calendar 2019

Date	Event
25 April	Annual General Meeting
26 April	Share traded ex. dividend
7 May	Dividend payment[1]
7 May	1st quarter
12 July	2nd quarter
24 October	3rd quarter

[1]Subject to the approval of the proposed dividend at the General Meeting.

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The 20 largest shareholders as at 31.12.2018

Based on an analysis of owners registered under a nominee account.

Shareholder	No. of shares	% of capital
Canica[1]	250 100 000	24.55%
Folketrygdfondet	76 441 544	7.50%
AllianceBernstein L.P.	31 521 523	3.09%
First Eagle Investment Management, L.L.C.	26 251 017	2.58%
BlackRock Institutional Trust Company, N.A.	24 509 512	2.41%
The Vanguard Group, Inc.	22 240 176	2.18%
Newton Investment Management Ltd.	22 143 920	2.17%
American Century Investment Management, Inc.	21 103 664	2.07%
Orkla ASA	19 410 259	1.90%
Acadian Asset Management LLC	19 224 072	1.89%
Artisan Partners Limited Partnership	17 477 242	1.72%
Epoch Investment Partners, Inc.	16 421 156	1.61%
Arrowstreet Capital, Limited Partnership	12 832 261	1.26%
KLP Forsikring	12 830 846	1.26%
Storebrand Kapitalforvaltning AS	11 048 147	1.08%
SAFE Investment Company Limited	10 360 283	1.02%
State Street Global Advisors (US)	9 345 050	0.92%
DNB Asset Management AS	9 299 903	0.91%
Legal & General Investment Management Ltd.	8 306 634	0.82%
M & G Investment Management Ltd.	8 006 905	0.79%
Total	**628 874 114**	**61.72%**

Source: The shareholder list is supplied by Nasdaq.
[1]Canica: Canica AS, Canica Investor AS, Tvist 5 AS, Stein Erik Hagen AS and shares privately held by Mr. Stein Erik Hagen.

Key figures for the Orkla share

	2018	2017	2016	2015	2014
Share price, high (NOK)	87.30	87.30	83.55	72.25	59.15
Share price, low (NOK)	64.60	73.40	64.65	48.73	45.82
Share price, closing 31.12	68.04	87.05	78.20	70.10	51.15
Diluted earnings per share (NOK)	3.24	8.43	4.22	3.24	1.63
Dividend paid per share[1] (NOK)	2.60[1]	2.60	2.60	2.50	2.50
Percentage of foreign shareholders	51%	53%	52%	55%	54%
Number of shares issued as of 31.12.	1 018 930 970	1 018 930 970	1 018 930 970	1 018 930 970	1 018 930 970
Number of shares outstanding as of 31.12.	999 520 711	1 018 754 037	1 017 717 835	1 017 990 670	1 017 098 067

[1]Proposed dividend

Brokerage House	Contact	Tel.	E-mail
ABG Sundal Collier	Petter Nystrøm	+47 22 01 61 35	petter.nystrom@abgsc.no
Arctic Securities	Carl Frederick Bjerke	+47 21 01 31 23	cfb@arctic.com
Bernstein	Andrew Wood	+65 62 30 46 49	andrew.wood@bernstein.com
Carnegie	Preben Rasch-Olsen	+47 22 00 93 59	pro@carnegie.no
Danske Market Equities	Martin Stenshall	+47 85 40 70 73	martin.stenshall@danskebank.com
DNB Markets	Ole Martin Westgaard	+47 24 16 92 00	ole.martin.westgaard@dnb.no
Goldman Sachs	John Ennis	+44 20 7552 9608	john.ennis@gs.com
Handelsbanken Capital Markets	Kjetil Lye	+47 22 39 72 99	kjly01@handelsbanken.no
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Nordea Markets	Oliver Pisani	+ 47 24 01 06 71	oliver.pisani@nordea.com
Pareto Securities	Gard A. Aarvik	+ 47 24 13 21 72	gard.aarvik@paretosec.com
SEB Enskilda	Markus Bjerke	+47 21 00 85 17	markus.bjerke@seb.no
SpareBank1 Markets	Øyvind Mossige	+47 24 13 37 02	oyvind.mossige@sb1markets.no

Additional information for valuation purposes

One possible model for valuing Orkla is based on distinguishing between the branded consumer goods business, where the value lies in future earnings from continuing operations, and the Group's negotiable assets, which have identifiable market values and where earnings are not a part of Orkla's operating profit from the branded consumer goods business.

Consolidated operations:

Hydro Power

The power operations have been fully consolidated into Orkla's income statement and are reported as Hydro Power. The power operations consist primarily of two assets, a reservoir power plant in Sauda (85% interest) and a run-of-the-river plant in Sarpefossen. The Sauda hydropower operations are regulated by a civil law lease agreement with Statkraft. The lease runs until 31 December 2030, after which the power plants will be returned to Statkraft in return for financial compensation equivalent to the estimated residual value, written down for tax purposes, of the newly built plants (around NOK 1.1 billion).

The Saudefaldene plant's average annual production (2011–2018) is 1 911 GWh. Saudefaldene leases approximately 1 TWh per year from Statkraft and has corresponding delivery commitments, the net effect of which is zero. The rest of the power is sold on the spot market. Payroll expenses and other operating costs related to these activities amounted to approximately NOK 96 million in 2018. Major maintenance investments are generally recognised in the financial statements under operating expenses. Saudefaldene receives an annual amount from Statkraft in compensation for major maintenance investments. The net charge in 2018 was NOK 9 million, compared with approximately NOK 12 million in 2017. Depreciation totalled NOK 46 million in 2018.

The Sarpefossen power operations are based on power rights that are not subject to reversion, and average annual production (2011–2018) totals 603 GWh. The power is sold on the spot market. Payroll expenses and other operating costs related to these activities totalled NOK 45 million in 2018. Depreciation amounted to NOK 10 million in 2018.

Financial Investments

Financial Investments consist of Orkla Eiendom and Orkla Venture. As of 31 December 2018, Orkla had invested approximately NOK 100 million in Orkla Venture. Orkla Eiendom meets the Group's needs for specialised expertise and assistance in the real estate sector, and is responsible for the administration, development and sale of properties that are not utilised in Orkla's brand business. Orkla also has a historical portfolio of real estate-related investments, which are being sold in accordance with the current strategy.

The most important development projects in the portfolio are the construction of Orkla's new headquarters at Skøyen and one housing project at Torshov in Oslo. As at 31 December 2018, the book value of Orkla's real estate investments was NOK 1.9 billion. About NOK 1.6 billion of that amount was related to the three largest development projects. In addition to good operations, focus in the future will be on realising the potential value in the development projects, securing assets and freeing up capital by selling properties and projects that are not to be further developed. Current development projects entail a need for investments during the construction period, while gains are primarily expected to be realised in the period 2019-2021.

Read more at www.orklaeiendom.no/english/

Associates:

Jotun

Orkla owns 42.6% of Jotun, which is reported as an associate. Jotun is a well-established global manufacturer of paint and powder coatings, and holds strong positions in Scandinavia, Asia and the Middle East. The company is steadily expanding and has achieved good organic growth in the past few years. Jotun reported operating revenues of NOK 17.7 billion in 2018 and EBIT amounted to NOK 1.4 billion. Net interest-bearing liabilities as at 31 December 2018 totalled NOK 2.5 billion.

Read more at www.jotun.no

The Orkla Board of Directors

Click on the names for info

STEIN ERIK HAGEN[1]

Chairman of the Board (b. 1956)

Degree from the Retail Institute (now the Norwegian School of Retail).

Mr Hagen was first elected to the Board in 2004, has been Chairman of the Board since 2006, and is up for election in 2019. Mr Hagen established the first business of his own in 1976 and he and his children jointly own the family company, Canica AS, and other companies. He is active in a number of the family companies and is member of the Board of Directors of Arcus ASA. Besides being member of the Board of the family's charitable foundations, Mr Hagen is member of the Board of the Prostate Cancer Foundation, USA and member of the Spine Leadership Council at the Hospital for Special Surgery, New York. Orkla and Canica and/or Stein Erik Hagen have one common business interest*. Orkla's Board of Directors has been informed of this interest, and has taken due note of the information.

Mr Hagen and related parties own 250 100 000 shares in Orkla ASA.[2]
Mr Hagen attended 10 Board meetings in 2018.

**Oslo Business Park (Østre Aker vei 90) is owned by Capto Eiendom AS and Winta Eiendom AS on a 50/50 basis. Canica owns 25% of Winta Eiendom AS.*

[1]Not independent
[2]Shares owned as at 31 December 2018.

The Orkla Board of Directors

Click on the names for info

GRACE REKSTEN SKAUGEN

Deputy Chair of the Board (b. 1953)

MBA, BI Norwegian Business School, B.Sc. and Ph.D in Laser Physics, Imperial College of Science and Technology.

Ms Reksten Skaugen was first elected to the Board in 2012 and is up for election in 2019. She works as an independent consultant. She is a founder and member of the Board of the Norwegian Institute of Directors. She is also member of the Board of Directors of Lundin Petroleum AB and Euronav Tankers, and member of the Board and Chair of the Audit and Risk Committee of Investor AB. She was formerly associated with SEB Enskilda Securities, Corporate Finance.

Ms Reksten Skaugen and related parties own 8 500 shares in Orkla ASA.[1,2]
Ms Reksten Skaugen attended 11 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.
[2]Ms Reksten Skaugen bought 9 600 shares in Orkla on 11 February 2019, thereby increasing her shareholding to 18 100 shares.

The Orkla Board of Directors

Click on the names for info

INGRID JONASSON BLANK

Member of the Board (b. 1962)

B.Sc. in Business Administration and Economics from the University of Gothenburg

Ms Jonasson Blank was first elected to the Board in 2013 and is up for election in 2019. She held various positions at ICA from 1986 to 2010, most recently as EVP Functional Market Responsibility, ICA Sverige. She is currently member of the Board of Fiskars Oyj, Bilia AB, Ambea, Musti ja Mirri Group Oy, Nordic Morning Group, Bygghemma AB, Kjell&Co, Forenom Oy and ZetaDisplay AB.

Ms Jonasson Blank and related parties own 6 250 shares in Orkla ASA.[1,2]
Ms Jonasson Blank attended 11 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.
[2] Ms Jonasson Blank purchased 2 750 shares in Orkla on 12 February 2019, therby increasing her shareholding to 9 000 shares.

The Orkla Board of Directors

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STEIN ERIK HAGEN

GRACE REKSTEN SKAUGEN

INGRID JONASSON BLANK

LARS DAHLGREN

NILS K. SELTE

LISELOTT KILAAS

PETER AGNEFJÄLL

TERJE UTSTRAND

SVERRE JOSVANGER

KARIN HANSSON

ROGER VANGEN

CAROLINE MARIE HAGEN KJOS

LARS DAHLGREN

Member of the Board (b. 1970)

M.Sc. in Economics and Business Administration from the Stockholm School of Economics

Mr Dahlgren was first elected to the Board in April 2014 and is up for election in 2019. Mr Dahlgren has been CEO of Swedish Match AB since 2008. From 2004 to 2008 he was CFO of Swedish Match AB, and from 2002 to 2004 held the post of VP Group Finance at Swedish Match AB. From 2000 to 2002 he was Financial Director and Director of Business Development at Vasatek Ltd. (a joint venture between Swedish Match and Gumtech Inc.). Prior to that, from 1998 to 2000, Mr Dahlgren was Financial Director, Treasurer and IT Director at Swedish Match Philippines Inc. From 1996 to 1998 he worked as Assistant Controller at Swedish Match AB, and from 1995 to 1996 as Financial Analyst at SBC Warburg.

Mr Dahlgren and related parties own 6 500 shares in Orkla ASA.[1,2]
Mr Dahlgren attended 10 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.
[2]Mr Dahlgren purchased 1 000 shares in Orkla on 11 February 2019, therby increasing his shareholding to 7 500 shares.

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The Orkla Board of Directors

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NILS K. SELTE[1]

Member of the Board (b. 1965)

M. Sc. in Business, BI Norwegian Business School

Mr. Selte was first elected to the Board in April 2014 and is up for election in 2019. Since 2014 he has been CEO of Canica AS where he has been employed since 2001, first as CEO and later as Finance Director. Mr Selte was previously SVP Finance/Group Treasurer at ICA Ahold AB from 1999 to 2001, before which he held the posts of SVP Finance/Group Treasurer and Finance Manager at Hakon Gruppen AS. From 1994 to 1996 he was Finance Manager at LIVI Norge AS and from 1991 to 1994 consultant at the Office of the Auditor General of Norway. Nils K. Selte is Chair of the Board of Komplett AS, Deputy Chair of the Board of Jernia AS and deputy member of the Board of Arcus ASA. He also serves on the Board of several Canica companies.

Mr. Selte and related parties own 27 000 shares in Orkla ASA.[2]
Mr Selte attended 11 Board meetings in 2018.

[1]Not independent
[2]Shares owned as at 31 December 2018.

The Orkla Board of Directors

Click on the names for info

LISELOTT KILAAS

Member of the Board (b. 1959)

M.Sc. in Mathematical Statistics, University of Oslo, and Master of Business Administration, IMD, Lausanne

Ms Kilaas was first elected to the Board in April 2017 and is up for election in 2019. She was CEO of Aleris Group from 2013 to 2017. Prior to that, she was Managing Director of Aleris Norge and subsequently Managing Director of Aleris Norge and Danmark. Ms Kilaas is member of the Board of Directors and the Audit Committee of Folketrygdfondet, Norsk Hydro, DNV GL and Peab AB.

Ms Kilaas and related parties own 5 200 shares in Orkla ASA.[1]
Ms Kilaas attended 11 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.

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The Orkla Board of Directors

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PETER AGNEFJÄLL

Member of the Board (b. 1971)

M.Sc. in Business Administration, Linköping University

Mr Angefjäll was first elected to the Board in April 2018 and is up for election in 2019. He was President and CEO of the IKEA Group (Ingka Holding B.V.) from 2013 to 2017. Prior to that, he was Managing Director and Country Manager for IKEA Retail Sweden. He began his career as a trainee at IKEA in 1995 and has since held a number of executive positions in the IKEA Group. He is currently member of the Board of Deichmann SE (Beirat) and of Wizz Air Holdings PLC (NED).

Mr Angefjäll and related parties own 10 000 shares in Orkla ASA.[1]
Mr Angefjäll attended 8 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.

The Orkla Board of Directors

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TERJE UTSTRAND

Employee representative on the Board (b. 1964)

Mr Utstrand was first elected to the Board in 2012 and is up for election in 2020. He has served as chief trade union representative since 2010, and is Chair of the Board for LO union members at Orkla. He is also Chair of Orkla's Committee of Union Representatives and European Works Council. Mr Utstrand has also been NNN union representative at Orkla Confectionery & Snacks Norge AS, Nidar since 1999 (chief union representative 2002-2010), deputy member of the Board of Nidar AS from 2004 to 2010 and member of the Board of Orkla Brands AS from 2008 to 2012. In addition, he has been a member of Orkla's Committee of Union Representatives-Working Committee since 2000. Mr Utstrand is employed at Orkla Confectionery & Snacks Norge.

Mr Utstrand and related parties own 6 644 shares in Orkla ASA.[1]
Mr. Utstrand has attended 11 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.

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The Orkla Board of Directors

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SVERRE JOSVANGER

Employee representative on the Board (b. 1963)

Mr Josvanger was first elected to the Board in 2012 and is up for election in 2020. He is Chair of the Executive Committee for Salaried Employees at Orkla and has served as secretary of Orkla's Committee of Union Representatives and the Working Committee of the Executive Committee since 2012. He is also member of the European Works Council, and has served on Orkla's Pension and Insurance Council (POFFO) since 2012. Mr Josvanger has been head of the trade union division at Nidar since 1994 and chief union representative for salaried employees at Nidar since 2010. Since May 2014 he has been member of the Audit Committee. He has been employed at Orkla Confectionery & Snacks as sales consultant since 1988.

Mr Josvanger and related parties own 19 457 shares in Orkla ASA.[1]
Mr Josvanger attended 11 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.

The Orkla Board of Directors

Click on the names for info

KARIN HANSSON

Employee representative on the Board (b. 1960)

Ms Hansson was first elected to the Board in 2016 and is up for election in 2020. She is employed at Orkla Foods Sverige, and is an elected representative of the Swedish Food Workers' Union at Orkla Foods Sverige and a member of the Working Committee of Orkla Foods' Liaison Committee. She is also a member of Orkla's Committee of Union Representatives, the Working Committee of the Executive Committee and the European Works Council.

Ms Hansson and related parties own 1 657 shares in Orkla ASA.[1]
Ms Hansson attended 11 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.

The Orkla Board of Directors

Click on the names for info

ROGER VANGEN

Employee representative on the Board (b. 1965)

Mr Vangen was first elected to the Board in 2016 and is up for election in 2020. He is employed at Orkla Foods Norge and NNN union representative at Orkla Foods Norge, Strand branch. Mr Vangen is also a member of the Committee of Representatives at Orkla Foods Norge, the Liaison Committee's Working Committee at Orkla Foods, the Board for LO union members at Orkla, Orkla's Committee of Union Representatives, the Working Committee of the Executive Committee and the European Works Council.

Mr Vangen and related parties own 8 418 shares in Orkla ASA.[1]
Mr Vangen attended 10 Board meetings in 2018.

[1]Shares owned as at 31 December 2018.

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The Orkla Board of Directors

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CAROLINE MARIE HAGEN KJOS[1]

Personal Deputy Member for Stein Erik Hagen and Nils K. Selte (b. 1984)

Bachelor of Business Administration from Parsons The New School for Design, New York

Ms Hagen Kjos was first elected to the Board in 2016 and is up for election in 2019. She works as Project Manager at Canica International AG, Switzerland, where she shares responsibility for investments and strategy with the General Manager. She has previously been employed as Project Manager in marketing and purchasing in Jerniagruppen. Ms Hagen Kjos is Chair of the Board of Directors of Canica AS and deputy member of the Board of Komplett AS.

Ms Hagen Kjos and related parties own no shares in Orkla ASA.[2,3]
Ms Hagen Kjos attended 10 Board meetings in 2018.

[1]Not independent
[2]Shares owned as at 31 December 2018.
[3]Ms Hagen Kjos has a significant equity interest in the Canica companies, but she has no controlling influence in them.

The Group Executive Board

Click on the names for info

PETER A. RUZICKA

President and CEO (b. 1964)

MBA and degree in Business Economics, Oslo School of Business Administration

President and CEO since 2014. Mr Ruzicka has 30 years of experience in the retail sector. He was Managing Director of Hakon Gruppen AS in 1995–2000 and responsible for establishing ICA in the Baltics in the same period. In 1998–2000 he was Deputy CEO of ICA AB. From 2000, Mr Ruzicka headed Ahold's operations in the Czech Republic and Slovakia. He was also Managing Director of Jernia ASA in 2003–2006, and Managing Director of Canica AS in 2006–2014. In addition to serving as Chairman of the Board of Jernia ASA in 2007–2014, he has been Chairman of the Board of Komplett ASA, member of the Board of REC ASA, and member of the Board of Orkla ASA, first in 2003–2005 and then in 2008–2014. He is a member of the Board of AIM – European Brands Association.

Mr Ruzicka and related parties own 687 605 shares in Orkla ASA.[1]

[1]Shares owned as at 31 December 2018.

The Group Executive Board

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JENS BJØRN STAFF

Executive Vice President, Chief Financial Officer (b.1967)

MBA, Norwegian School of Economics (NHH), BA, BI Norwegian Business School, Economics (intermediate level – supplementary course), University of Oslo

Member of Orkla's Group Executive Board since 2014. Mr Staff was Executive Vice President and CFO at Statkraft AS in 2011–2014. In 2005–2011 he held various positions as Finance Director in the Statoil Group, including in Statoil Detaljhandel AS and Energy & Retail Europe. From 2002 to 2005, he was Financial Director at Posten Norge AS, before which he was employed at PwC from 1998 to 2002. From 1995 to 1998 he worked at IKEA Slependen AS, including as Operations Manager.

Mr Staff and related parties own 2 740 shares in Orkla ASA.[1]

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

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PETER A. RUZICKA

JENS BJØRN STAFF

KARL OTTO TVETER

ATLE VIDAR NAGEL JOHANSEN

ANN-BETH FREUCHEN

JOHAN WILHELMSSON

JEANETTE HAUAN FLADBY

LASSE RUUD-HANSEN

JOHAN CLARIN

CHRISTER GRÖNBERG

HÅKON MAGELI

KARL OTTO TVETER

Executive Vice President, Strategy, Development & New Growth Areas (b. 1964)

Degree in Law, University of Oslo

Member of Orkla's Group Executive Board since 2012. Since 2018 Mr Tveter has headed a newly established area in Orkla, Strategy, Development & New Growth Areas. Before that he was responsible for Group Functions and Legal Affairs. Mr Tveter was Senior Vice President Legal Affairs at Orkla from 2000 and deputy counsel/counsel at Orkla from 1992. Mr Tveter also has prior experience from the Ministry of Finance, Tax Law Department.

Mr Tveter and related parties own 48 072 shares in Orkla ASA.[1]

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

Click on the names for info

ATLE VIDAR NAGEL JOHANSEN

Executive Vice President, Supply Chain (b. 1963)

Certified Financial Analyst, Norwegian School of Economics (NHH), M.Sc. in Business (siviløkonom), BI Norwegian Business School

Member of Orkla's Group Executive Board since June 2012. Mr Nagel Johansen has been head of Supply Chain since 2018. Before that, he was CEO of Orkla Foods from 2012, CEO of Orkla Foods Nordic in 2008–2012 and CEO of Orkla Foods 2005–2008. Prior to that, he was Marketing Director at Orkla Foods International and Finance Director at Orkla Foods. Mr Nagel Johansen was Chief Financial Officer at Tandberg Data ASA in 1999–2000. In the 1990s he was Finance Director at Sætre AS/Orkla Snacks and head of Economic Planning & Analysis at Orkla ASA. He began his career as a financial analyst at Jøtun Fonds and Carl Kierulf & Co.

Mr Nagel Johansen and related parties own 27 285 shares in Orkla ASA.[1]

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

Click on the names for info

ANN-BETH FREUCHEN

Executive Vice President, CEO Orkla Foods (Nordics and Baltics) (b. 1971)

M.Sc. in Business (siviløkonom), BI Norwegian Business School

Member of Orkla's Group Executive Board since 2015. Ms Freuchen has been CEO of Orkla Foods (Nordics and Baltics) since 2018. Prior to that, Ms Freuchen was CEO of Orkla Confectionery & Snacks from 2015 and CEO of Orkla Confectionery & Snacks Norge from 2013. In 2010–2013, she held the post of CEO of KiMs Norge. She has previously held various management positions in sales and marketing at Nidar and KiMs Norge. Ms Freuchen began her career at Orkla as Product Manager at Lilleborg in 1996.

Ms Freuchen and related parties own 8 676 shares in Orkla ASA.[1]

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

Click on the names for info

PETER A. RUZICKA

JENS BJØRN STAFF

KARL OTTO TVETER

ATLE VIDAR NAGEL JOHANSEN

ANN-BETH FREUCHEN

JOHAN WILHELMSSON

JEANETTE HAUAN FLADBY

LASSE RUUD-HANSEN

JOHAN CLARIN

CHRISTER GRÖNBERG

HÅKON MAGELI

JOHAN WILHELMSSON

Executive Vice President and CEO of Orkla Foods (International) (b. 1967)

M.Sc, Business Administration, University of Gothenburg

Member of Orkla's Group Executive Board and CEO of Orkla Foods (International) since 2018. Prior to that, Mr Wilhelmsson was CEO of Orkla Foods Central Europe & the Baltics from 2016. Before that he was CFO of Orkla Foods, Procordia Food and Orkla Brands International, and Acting CEO of Orkla Foods Romania. From 1999 to 2007, he was CFO & Director of IT and Purchasing at Abba Seafood, where he had previously worked as business controller.

Mr Wilhelmsson and related parties own 3 500 shares in Orkla ASA.[1]

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

Click on the names for info

JEANETTE HAUAN FLADBY

Executive Vice President and CEO of Orkla Confectionery & Snacks (b. 1968)

Master of Business & Marketing, BI Norwegian Business School

Member of Orkla's Group Executive Board and CEO of Orkla Confectionery & Snacks since 2018. Prior to that, Ms Hauan Fladby was CEO of Orkla Confectionery & Snacks Norge from 2015. From 2010 to 2015 she served as CEO of Pierre Robert Group. Before that she was a member of Stabburet's management team from 2006 to 2010, where her last role was that of Category Director. Ms Hauan Fladby began her career in Orkla in 1995 as Product Manager at Stabburet, and has held various senior management positions in Stabburet/Orkla Foods.

Ms Hauan Fladby and related parties own 6 227 shares in Orkla ASA.[1]

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

Click on the names for info

LASSE RUUD-HANSEN

Acting Executive Vice President and CEO of Orkla Care (b. 1980).

MBA Economics (siviløkonom), NHH Norwegian School of Economics
Bachelor, Organisational Psychology, University of Oslo

Acting member of Orkla's Group Executive Board and CEO of Orkla Care since 2019, and Senior Vice President Business Development, Orkla Care since 2017. Prior to that, Mr Ruud-Hansen served as Business Development Executive at ISS Facility Services AS, 2015-2016, Managing Consultant at PA Consulting Group, 2010-2015 and 2004-2006, Country Manager at Isklar AS 2009-2010, and Supply Chain Manager and Factory Manager at Kavli and Q-Meieriene, 2006-2009.

Mr Ruud-Hansen and related parties owned 1 404 shares in Orkla ASA.[1]

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

Click on the names for info

JOHAN CLARIN

Executive Vice President, CEO of Orkla Food Ingredients (b. 1971)

M.Sc, Business Administration, University of Gothenburg, Stockholm School of Economics

Member of Orkla's Group Executive Board since 2013. Mr Clarin has been CEO of Orkla Food Ingredients since 2018, before which he was head of Operations at Orkla. In 2007–2013 Mr Clarin held several executive positions at Sony Mobile Communications AB, most recently as Global Head of Manufacturing and Logistics and President & CEO of Beijing Mobile Communications Ltd. He was also member of the Board of Directors of Sony Mobile's Chinese joint venture in 2011-2013. Prior to that, Mr Clarin held the post of Senior Manager at Accenture AB in 1997–2006, with focus on supply chain management.

Mr Clarin and related parties own 3 576 shares in Orkla ASA.

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

Click on the names for info

CHRISTER GRÖNBERG

Executive Vice President, Corporate Functions (b. 1961)

College degree in Human Resources

Member of Orkla's Group Executive Board since 2014. Mr Grönberg has been head of Corporate Functions since 2018, before which he was head of HR. In 2010–2014, Mr Grönberg was HR Director at Orkla Foods, prior to which he held the position of HR Director at Stabburet in 2008–2010. Mr Grönberg was employed at Procordia Food in 1998–2008, including eight years as HR Director. In 1982–1998, Mr Grönberg pursued a career in the Swedish Armed Forces.

Mr Grönberg and related parties own 7 805 shares in Orkla ASA.

[1]Shares owned as at 31 December 2018.

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The Group Executive Board

Click on the names for info

PETER A. RUZICKA

JENS BJØRN STAFF

KARL OTTO TVETER

ATLE VIDAR NAGEL JOHANSEN

ANN-BETH FREUCHEN

JOHAN WILHELMSSON

JEANETTE HAUAN FLADBY

LASSE RUUD-HANSEN

JOHAN CLARIN

CHRISTER GRÖNBERG

HÅKON MAGELI

Orkla's expanded Group Executive Board also comprises:

HÅKON MAGELI

Group Director, Corporate Communications & Corporate Affairs (b. 1964)

M.Sc. in Business (siviløkonom), BI Norwegian Business School, The Executive Programme (Darden, USA)

Member of Orkla's Group Executive Board since 2012. Mr Mageli was Director of Corporate Affairs at Orkla Brands in 2008–2012. Prior to that, in 1995–2008, he was Information Director at Orkla Foods. In 1993–1995, he was Director, Public Affairs, Orkla Foods, in Brussels, and Company Secretary, Nora Foods in 1991–1993. Mr Mageli worked as a journalist at Dagens Næringsliv in 1985–1990. He is Chairman of the Confederation of Norwegian Enterprise's Trade Policy Committee, member of the Board of the Federation of Norwegian Food and Drink Industry and Chair of the Board of Matmerk – The Norwegian Food Branding Foundation.

Mr Mageli and related parties own 80 504 shares in Orkla ASA.[1,2]

[1] Shares owned as at 31 December 2018.
[2] Mr. Mageli purchased 15 000 shares in Orkla on 11 February 2019, thus increasing his shareholding to 95 504 shares.

Governing bodies and elected representatives

Nomination Committee

Nomination Committee elected by the General Meeting (see Article 13 of the Articles of Association)[1]

Anders Christian Stray Ryssdal (1 315)[2]
Leiv Askvig (0)
Nils-Henrik Pettersson (42 080)
Karin Bing Orgland (0)

Board of Directors

Stein Erik Hagen (250 100 000)
Grace Reksten Skaugen (8 500)
Ingrid Jonasson Blank (6 250)
Lars Dahlgren (6 500)
Nils K. Selte (27 000)
Liselott Kilaas (5 200)
Peter Agnefjäll (10 000)

Employee-elected Board members

Terje Utstrand (6 644)
Sverre Josvanger (19 457)
Roger Vangen (8 418)
Karin Hansson (1 657)

Shareholder-elected Deputy Board member

Caroline Marie Hagen Kjos (0)[3]

Auditor

Ernst & Young AS (0)
Erik Mamelund (0), State Authorized Public Accountant

Corporate democracy at Orkla ASA

Active employee participation in the governing bodies, both at Group level and in the individual Group companies, is an important element of decision-making processes at Orkla. The aim has been to evolve representational arrangements that adequately ensure broad-based involvement and genuine influence. Orkla's current corporate democracy system was established in an agreement signed in 2015 between union representatives and the company's executive management.

The employees are represented by four of the 11 members of Orkla's Board of Directors. A Committee of Union Representatives has been established for employees of the Norwegian, Swedish and Danish companies in the Orkla Group. This arrangement ensures broad representation for Group employees, based on company, union and country. In Norway, there are also separate committees of representatives for LO union members and for salaried employees. The Committees meet regularly with the Group's executive management to discuss matters relevant to the Group.

[1] Figures in brackets indicate the number of shares owned as at 31 December 2018, including those owned by related parties.
[2] Owned by related parties.
[3] Ms Hagen Kjos has a significant equity interest in the Canica companies, but does not have controlling influence in them.

A European Works Council (EWC) has been established at Orkla, and liaison committees have been established in the Orkla Foods, Orkla Confectionery & Snacks, Orkla Food Ingredients and Orkla Care business areas. In addition to are represented on the Board of Directors and works council of major companies in the Orkla Group.

The list below shows the members of Orkla's Committee of Union Representatives as at 31 December 2018:

Orkla Committee of Union Representatives

Working Committee

Terje Utstrand, Chair,
Karin Hansson, 1st Deputy Chair
Peer Sørensen, 2nd Deputy Chair
Sverre Josvanger, Secretary
Roger Vangen, member
Janne Halvorsen, member
Dorotea Galik, member

Committee of Representatives

(in addition to the Working Committee)

Sven-Erik Videén
Dorota Galik
Christer Florin
Robert Kollevåg
Perny Emdal
Mette Novak
Ingrid S. Nielsen
Morgan Andersson
Morten Gilberg
Geir F. Engelbrethsen
Anne Pulkkinen

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Group Directory

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Orkla Foods Norway AS

P.O. Box 423 Skøyen, NO-0213 Oslo, Norway
Tel.: + 47 66 81 61 00
www.orkla.no

- Orkla Foods Norge AS, Idun, Rygge branch
- Orkla Foods Norge AS, Nora, Rygge branch
- Orkla Foods Norge AS, SaritaS, Kristiansand branch
- Orkla Foods Norge AS, Stabburet, Fredrikstad branch
- Orkla Foods Norge AS, Stabburet, Sem branch
- Orkla Foods Norge AS, Stranda branch
- Orkla Foods Norge AS, Stabburet, Vigrestad branch
- Orkla Foods Norge AS, Sunda, Oslo branch
- Orkla Foods Norge AS, Toro, Arna branch
- Orkla Foods Norge AS, Elverum branch
- Orkla Foods Norge AS, Vossafår branch

Orkla Foods Sverige AB

Isbergs gata 9 b, SE-211 19 Malmö, Sweden
Tel.: + 46 10 142 40 00
www.orkla.se

- Orkla Foods Sverige AB, Eslöv, Sweden
- Orkla Foods Sverige AB, Frödinge, Sweden
- Orkla Foods Sverige AB, Fågelmara, Sweden
- Orkla Foods Sverige AB, Kumla, Sweden
- Orkla Foods Sverige AB, Kungshamn, Sweden
- Orkla Foods Sverige AB, Simrishamn, Sweden
- Orkla Foods Sverige AB, Tollarp, Sweden
- Orkla Foods Sverige AB, Uddevalla, Sweden
- Orkla Foods Sverige AB, Vansbro, Sweden
- Orkla Foods Sverige AB, Örebro, Sweden

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www.orkla.dk

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- Orkla Foods Danmark A/S, Havnsø, Denmark
- Orkla Foods Danmark A/S, Skælskør, Denmark
- Orkla Foods Danmark A/S, Ringkøbing, Denmark

Orkla Foods Finland Oy

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Tel.: + 358 20 785 4000
www.orkla.fi

Orkla Foods Latvija, Riga, Latvia
1 Zvaigznu Street, Spilve, Babite Parish
Babite Region, Latvia, LV 2101
www.orkla.lv

Orkla Foods Lietuva
UAB Orkla Foods Lietuva Veiverių 134C,
LT-46551, Kaunas, Lithuania
Tel.: + 370 37 337097
www.orklafoods.lt

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Felix Austria GmbH
Felixstraße 24, AT-7210 Mattersburg, Austria
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www.felix.at

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Armády 245, CZ-155 00 Praha 5 – Stodulky, Czech Rep
Tel.: + 420 257 198 111
www.vitana.cz - www.vitanafs.cz - www.vitana.sk

- VITANA, a.s., Bysice, Czech Rep
- VITANA, a.s., Roudnice nad Labem, Czech Rep
- VITANA, a.s., Varnsdorf, Czech Rep
- VITANA Slovensko, s.r.o., Slovakia

Hamé s.r.o.
Na Drahách 814, CZ-686 04 Kunovice, Czech Rep
Tel.: + 420 572 534 111
www.hame.cz

MTR Foods Private Limited
No. 1, 2nd & 3rd floor, 100 feet inner ring road
Ejipura, Bangalore – 560047, India
Tel.: +91 80 40 81 21 00
www.mtrfoods.com

- Rasoi Magic Foods Pvt. Limited, Pune, India

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www.orkla.no

Orkla Confectionery & Snacks Norge AS
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www.nidar.no - www.kims.no - www.saetre.no

- Trondheim, Norway
- Skreia, Norway

Orkla Confectionery & Snacks Sverige AB
Box 1196, SE-171 23 Solna, Sweden
Tel.: +46 77 111 10 00
www.orkla.se - www.olw.se - www.goteborgskex.se

- Filipstad, Sweden
- Kungälv, Sweden

Orkla Confectionery & Snacks Danmark A/S
Sømarksvej 31-35, DK-5471 Søndersø, Denmark
Tel.: +45 63 89 12 12
www.orkla.dk

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Äyritie 22, FI-01510 Vantaa, Finland
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- Haraldsby, Åland, Finland
- Vaajakoski, Finland

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Orkla Eesti AS
Põrguvälja tee 6, Lehmja, Rae vald, EE-Harjumaa 75 306, Estonia
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- Lilleborg Profesjonell, Technical Department, Furuset, Oslo, Norway

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- Orkla Home & Personal Care, Ski branch, Norway
- Orkla Home & Personal Care, Flisa branch, Norway
- Orkla Home & Personal Care, Falun branch, Sweden
- Orkla Home & Personal Care, Radzymin branch, Poland
- Riemann A/S, Hillerød, Denmark
- Jordan Asia Pacific Sdn Bhd, Kuala Lumpur, Malaysia
- Peri-dent LTD, Galashiels, Scotland
- Peri-dent Star Sdn Bhd, Nilai, Malaysia

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UAB Orkla Health
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www.harrisbrushes.com

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www.fitnessmarket.com

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- Idun Industri AS, Rakkestad, Norway
- Bako AS, Hvam, Norway
- Mybakery, Jessheim, Norway
- Candeco Confektyr AB, Malmö, Sweden
- Nimatopaal i Dala-Järna AB, Dala-Järna, Sweden
- Frima Vafler, Århus, Denmark
- Call Caterlink Ltd, Cornwall, UK
- Marcantonio Foods, Ltd., Essex, UK
- Eisunion, Nürnberg, Germany
- NIC Nederland B.V., Waddinxveen, The Netherlands
- Eis Ludwig Gräbner GmbH, Hannover, Germany
- Laan Heilo B.V., Heiloo, The Netherlands
- Våffelbagaren, Kristianstad, Sweden
- Orchard Valley Foods, Tenbury Wells, UK
- Arne B. Corneliussen AS, Oslo, Norway
- County Confectionery Ltd, St. Ives, UK

Odense Marcipan A/S, Odense, Denmark
- Bæchs Conditori A/S, Hobro, Denmark
- Igos, Copenhagen, Denmark

Credin A/S, Juelsminde, Denmark
- Credin Polska, Sobotka, Poland
- Credin Group, Freixeira, Portugal
- Credin Productos Alimenticios, Barcelona, Spain

• Credin Russia, Uljanovsk, Russia

CBP A/S, Vejle, Denmark
Dragsbæk A/S, Thisted, Denmark
• Kjarnavörur hf, Reykjavik, Iceland
• Innbak hf, Reykjavik, Iceland
• UAB Vilniaus Margarino Gamykla (VMG), Vilnius, Lithuania
• Poznan Onion, Poznan, Poland
• KT Foods, Fårup, Denmark
• Gædabakstur, Reykjavik, Iceland
• Blume Food I/S, Randers, Denmark
• Naturli' Foods, Højbjerg, Denmark
• PureOil I/S, Thisted, Denmark
• Grøndansk ApS, Vejen, Denmark
• Kristjans, Akureyri, Iceland
• Isbud, Reykjavik, Iceland
• Raw Snacks, Viby, Denmark
• SR Foods & Ingredients, Randers, Denmark

KåKå AB, Lomma, Sweden
• KåKå AB, Sollentuna, Sweden
• KåKå AB, Örebro, Sweden
• KåKå Czech, Prague, Czech Republic
• Belusa Foods, Belusa, Slovakia
• Jästbolaget AB, Sollentuna, Sweden
• MiNordija, Kaunas, Lithuania
• LaNordija, Riga, Latvia
• Vilmix, Tallinn, Estonia
• Ekvia, Nitra, Slovakia
• Condite Oy, Naantali, Finland

• Merkur 09 Sp. z o.o, Warsaw, Poland
• Kobo, Nisko, Poland
• Sebmag, Ciechanów, Poland
• Holpol, Nowe Skalmierzyce, Poland
• Ekord 17 Sp. z o.o, Gdansk, Poland
• Werners Gourmetservice, Skara, Sweden

Orkla Foods Romania SA, Bucuresti, Romania
• Orkla Foods Romania, Covasna, Romania
• Orkla Foods Romania, Iasi, Romania

Sonneveld Group B.V., Papendrecht, The Netherlands
• Sonneveld Sarc, Cergy Pontoise, France
• Sonneveld NV/SA, Brussels, Belgium
• Sonneveld KfT, Ócsa, Hungary
• Broer, Waddinxveen, The Netherlands

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• Mossefossen ANS, Moss, Norway

AS Saudefaldene
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www.orkla.com

Design: Design Container / Photo: Ole Walter Jacobsen