

## 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 2017. 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 2017, based on the Orkla share price as at 31 December 2017 (NOK 87.05).

## Remuneration paid in 2017

Amounts in 1,000 NOK	Fixed salary 31 Dec. 2017	Paid salary and holiday pay (A)	Paid bonus (accrued in 2016)	Paid from bonus bank	Benefits in kind (B)	Total paid salary and allowance 2017	Total paid salary and allowance 2016
Peter A. Ruzicka	6 070	6 601	2 644	1 055	305	10 605	10 070
Jens Bjørn Staff	2 941	3 121	787	279	280	4 467	
Terje Andersen <sup>1</sup>	2 971	3 332	1 090	1 086	300	5 808	
Karl Otto Tveter <sup>1</sup>	2 985	3 286	850	979	304	5 419	
Atle Vidar Nagel Johansen	3 659	4 105	1 116	1 122	336	6 679	
Ann-Beth Freuchen	2 870	3 139	1 450	857	244	5 690	
Pål Eikeland	2 870	3 242	770	1 973	265	6 250	
Stig Ebert Nilssen	3 218	3 445	934	964	238	5 581	
Johan Clarin	2 988 <sup>2</sup>	3 101	769	1 250	305	5 425	
Total Group Executive Board excl. CEO						45 319	44 109

<sup>1</sup>Also receives a Board fee of NOK 300,000 from Jotun.

<sup>2</sup>The annual salary is stated in SEK thousand.

## Accrued remuneration, not paid in 2017

Amounts in 1,000 NOK	Accrued bonus in 2017 <sup>1</sup>	Accrued long- term incentive programme <sup>3</sup>	Accrued pension costs	Accrued total (C)	Balance bonus bank 31 Dec. 2017 <sup>3</sup>
Peter A. Ruzicka <sup>2</sup>	3 035	3 035	2 222	8 292	10 053
Jens Bjørn Staff	853	853	755	2 461	2 818
Terje Andersen	1 254	1 254	945	3 453	4 301
Karl Otto Tveter	925	925	744	2 594	3 345
Atle Vidar Nagel Johansen	834	834	1 012	2 680	4 512
Ann-Beth Freuchen	1 378	1 378	613	3 369	4 712
Pål Eikeland	362	362	704	1 428	3 868
Stig Ebert Nilssen	1 091	1 091	837	3 019	2 767
Johan Clarin (SEK)	867	867	726	2 460	3 429

<sup>1</sup>Accrued annual bonuses for 2017 are paid in 2018.

<sup>2</sup>The accrued salary and remuneration of the President and CEO totalled NOK 15,198,000 (A+B+C) in 2017.

<sup>3</sup>The bonus bank balance does not include bonuses accrued in 2017.

## Options exercised by the Group Executive Board as at 31 December 2017

	Number	Award date (dd/mm/yyyy)	Strike price	1st exercise/ exercise date (dd/mm/yyyy)	Last exercise
Atle Vidar Nagel Johansen	-35 000	09.05.2011	37.43	09.05.2014	Exercised at 80.50
Ann-Beth Freuchen	-40 000	09.05.2011	37.43	09.05.2014	Exercised at 80.50
Stig Ebert Nilssen	-50 000	09.05.2011	37.43	09.05.2014	Exercised at 80.50

After options were exercised in 2017, Orkla's option programme was terminated.

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 60% of his salary upon retirement.

The members of the Group Executive Board have a period of notice of six months, and their retirement age 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 pension plan. Terje Andersen may retire at the age of 62 with the same benefits. Terje Andersen and Karl Otto Tveter have personal loans on which a regulated interest rate is charged. The balance as at 31 December 2017 was NOK 393,224 for Mr Andersen and NOK 39,192 for Mr Tveter. No other members of the Group Executive Board have personal loans.

#### (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 2018 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 for 2016–2018. Profit growth is the primary goal for the central annual bonus programme.

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 a cash-based long-term incentive (LTI) programme for several years. The LTI is normally awarded in May of each year. The amount awarded (normally equal to the amount accrued in the annual bonus programme the previous year) 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.

The Board of Directors has evaluated the programme, and will propose certain adjustments that will affect awards in 2019. Firstly, the level of the amount awarded will be unlinked from the annual bonus programme, and as from 2019 will be determined on the basis of assessments of individual performances in relation to predefined long-term criteria established in 2018 (for 2019). The aim is still to award an amount equivalent to 30% of the employee's one year's salary for a "good performance", according to the predefined criteria. Awards may not exceed 50% of the one year's salary, nor may the total value of an employee's award under the annual bonus programme and an LTI award in any given year exceed one year's salary. The LTI amount awarded is adjusted as before according to the performance of the Orkla share until it is paid out. Under the LTI programme, the employee may request that one third of the amount is paid out after 24 months, one third after 36 months and one third after 48 months. After a maximum of 60 months, the LTI will be paid out in its entirety.

Orkla has had a share option programme that was implemented for the last time in 2011. The options had a vesting period of three years and could be exercised in the following three years. The cash-based LTI programme has replaced the option programme. The last options were exercised in 2017.

*(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 of 30% on the market price. For 2017, employees were given an extraordinary opportunity to purchase shares for seven different amounts: NOK 50,000, 40,000, 28,000, 20,000, 12,000, 4,000 and 1,000 (amounts after discount). The costs of the employee share purchase programme in 2017 totalled NOK 43 million.

The Board of Directors recommends to the General Meeting that the employee share purchase programme be continued, with three purchase options: NOK 28,000, 15,000 and 8,000 (amounts after discount). It further proposes that the discount be fixed at 25% and that it be made a condition that the shares may not be sold until 24 months after the purchase is made, at the earliest.

*(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 from 1 May 2017 1G is NOK 93,634). For members of the Group Executive Board employed before 1 September 2014, the rate for salaries over 12G is 27%. Employees who have entered into an early retirement agreement entitling them to retire before the age of 67 receive a pension (unfunded) that is equivalent to 60 per cent of their annual pay upon retirement. Other members of the Group Executive Board than the President and CEO have 66%, all subject to a minimum of 30 qualifying years.

*(v) Other benefits*

The Group provides benefits such as a company car and company telephone and other limited benefits in kind, including the Group's discounted share purchase programme.

*(vi) Executive pay policy in previous financial years*

The guidelines for pay and other remuneration for senior executives disclosed in (ii), which were last considered at the 2017 Annual General Meeting, have served as guidance in determining pay and other remuneration for senior executives in 2017.

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**

*a) As from 20 April 2017, the Board of Directors is remunerated at the following rates:*

Board Chair	NOK 800 000	per year
Board Deputy Chair	NOK 645 000	per year
Shareholder-elected Board member	NOK 510 000	per year
Employee-elected Board member	NOK 420 000	per year
Deputy member	NOK 27 000	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". Section 11 of the Norwegian Code of Practice for Corporate Governance states that consideration should be given to requiring that Board members invest part of their fee in the purchase of shares at market price, and the Nomination Committee had received several comments to the effect that part of the remuneration of the shareholder-elected Board members should be linked to shares.

In 2017, accordingly, the General Meeting approved the introduction of an arrangement in connection with the nomination of shareholder-elected Board members, requiring 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 separately in this note.

**Compensation Committee**

Committee Chair	NOK 137 000	per year
Member	NOK 102 500	per year

**Audit Committee**

Committee Chair	NOK 172 000	per year
Member	NOK 115 000	per year

In addition, shareholder-elected Board members residing outside Norway receive a supplement of NOK 17,000 per meeting attended.

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 <sup>1</sup>
<i>Shareholder-elected Board members</i>		
Stein Erik Hagen	868 333	250 010 000
Grace Reksten Skaugen	747 666	5 500
Ingrid Jonasson Blank	656 666	3 750
Lisbeth Valthø	544 166	5 000
Nils K. Selte	647 333	24 000
Lars Dahlgren	542 666	4 000
Liselott Kilaas	340 000	2 500
Caroline Hagen Kjos (deputy) <sup>2</sup>	-	-

<sup>1</sup>Total share ownership including related parties.

<sup>2</sup>Receives no fees.

Amounts in NOK	Fixed salary	Director's fee	Benefits in kind	Pension costs	Number of shares <sup>1</sup>
<i>Employee-elected Board members</i>					
Terje Utstrand	590 800	518 333	76 957	25 001	6 140
Roger Vangen	554 151	416 667	49 952	21 264	7 914
Sverre Josvanger	521 731	530 666	190 684	22 637	18 953
Karin Hansson (salary in SEK)	419 828	416 667	21 936	21 831	1 387

<sup>1</sup>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 20 April 2017, the Nomination Committee is remunerated according to the following rates:

Committee Chair NOK 61,500 per year, members NOK 45,000 per year and employee-elected representatives NOK 6,000 per meeting.

### 4. Fees to Group external auditor

Amounts in NOK million (excl. VAT)	2017	2016
<i>Parent company</i>		
Statutory audit	3.4	3.0
Other attest services	0.1	0.2
Tax consultancy services	2.1	1.8
Other non-audit services	2.5	6.3
<i>Group</i>		
Statutory audit	28.8	26.0
Other attest services	1.5	0.9
Tax consultancy services	4.4	4.6
Other non-audit services	4.9	7.2
Total fees to EY	39.6	38.7
Statutory audit fee to other auditors	2.4	1.9