Annual Financial Statements Orkla ASA 2018

04

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.

01
02
03
04
05

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)

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.

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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.)