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.

01
02
03
04
05

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 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,

01 02 03 04 05

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 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%.

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**

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.

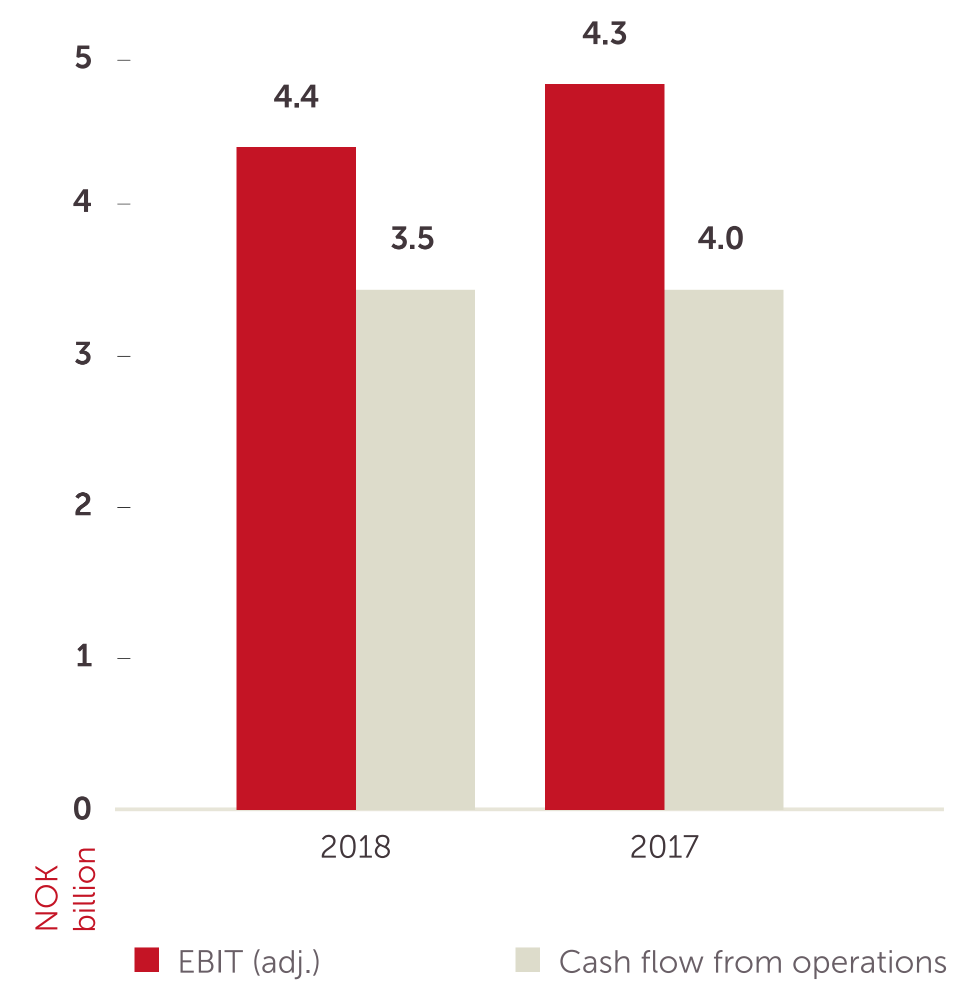
Contracts and financial hedge instruments

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

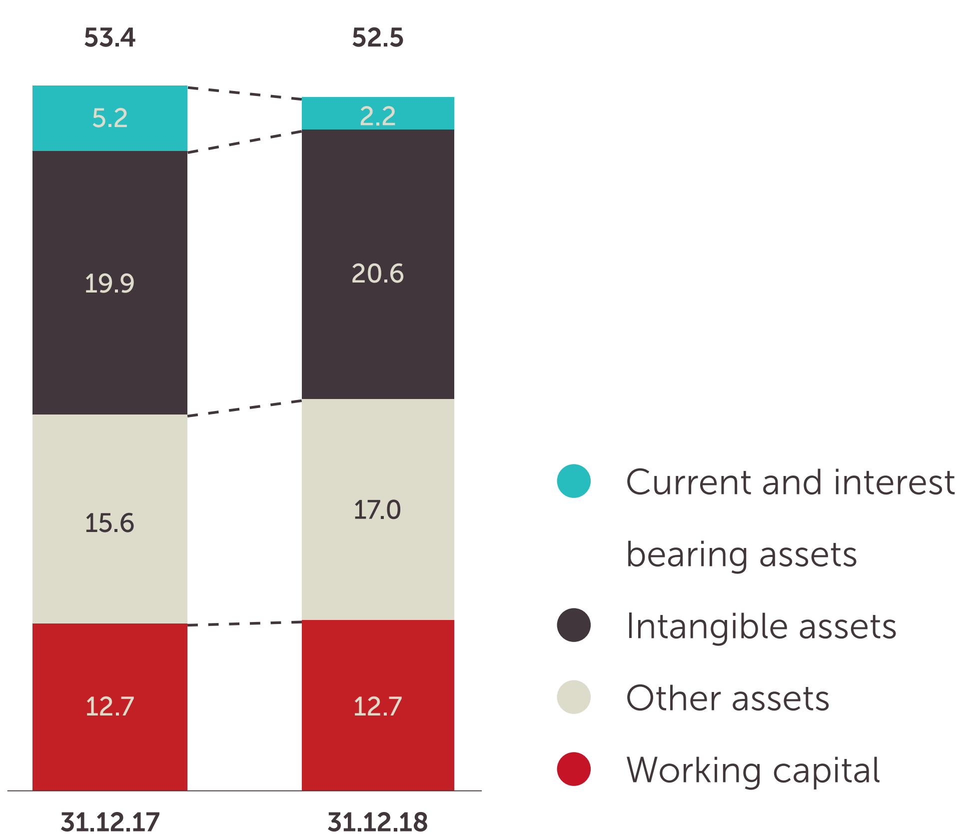
Conversion of profit to cash flow
Branded Consumer Goods incl. HQ



01
02
03
04
05

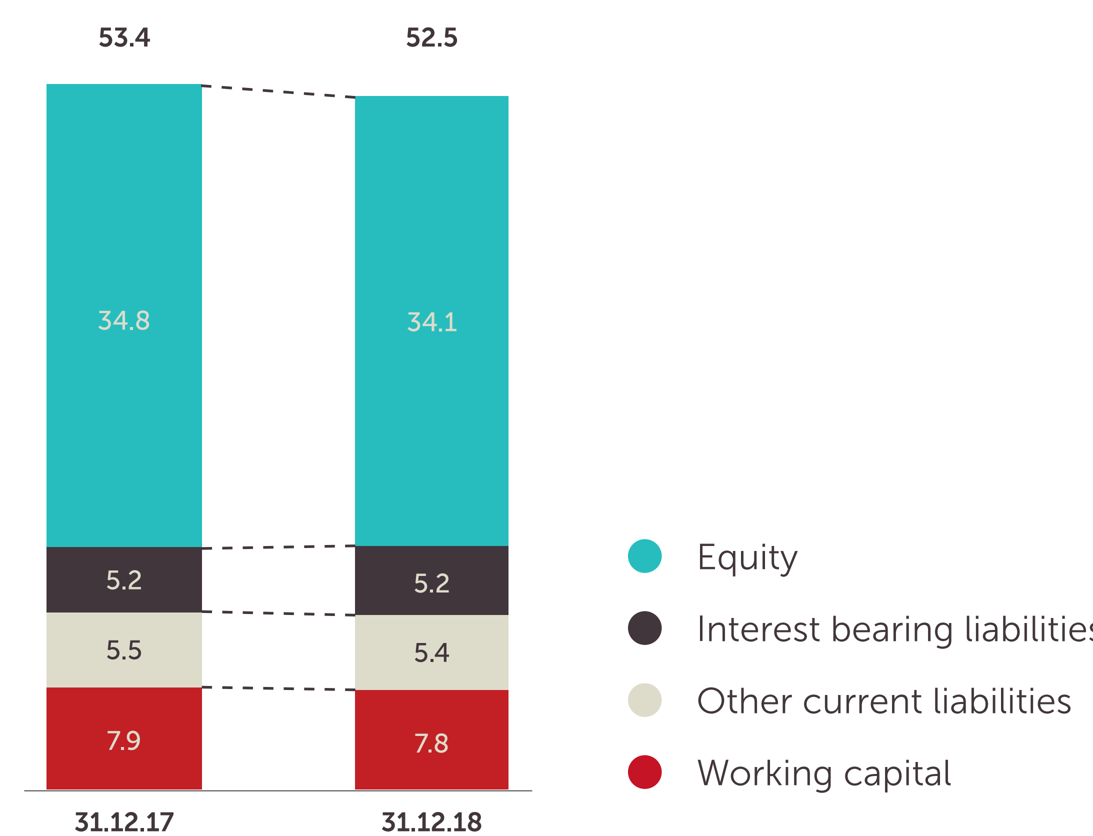
Assets

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.

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.

01
02
03
04
05

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 m^2 in an attractive location at Skøyen in Oslo. About 13,000 m^2 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.

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

01 02 03 04 05

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.)