Annual Financial Statements Orkla ASA 2017

04

INCOME STATEMENT

Amounts in NOK million	Note	2017	2016
Operating revenues		33	35
Operating revenues Group	1	689	651
Total operating revenues		722	686
Payroll expenses	2	(460)	(487)
Other operating expenses	5	(547)	(597)
Depreciation/write-downs and amortisation	8, 9	(28)	(23)
Operating loss		(313)	(421)
Dividends and contributions from Group	6	18 759	5 723
Interest income Group		115	124
Financial costs Group	6	(8 259)	(789)
Net foreign exchange gains and losses	12	(224)	661
Gains, losses and write-downs in the share portfolio		47	182
Other financial income	7	40	64
Other financial costs	7	(219)	(228)
Profit before taxes		9 946	5 316
Taxes	11	(151)	(374)
Profit after tax		9 795	4 942

STATEMENT OF COMPREHENSIVE INCOME

	2017	2016
Profit after tax	9 795	4 942
Change in unrealised gains on shares after tax	(51)	(184)
Change in hedging reserve after tax	61	68
Change in actuarial gains and losses pensions	(12)	(10)
Comprehensive income	9 793	4 816
Proposed dividend (not provided for)	(2 649)	(2 646)

STATEMENT OF CASH FLOWS

Amounts in NOK million	2017	2016
Profit/loss before tax	9 946	5 316
Depreciation and write-downs	28	23
Changes in net working capital etc.	(64)	2
Changes in outstanding Group contributions	(55)	(110)
Portfolio gains and dividends to investment activities	(53)	(228)
Write-downs subsidiaries	8 208	763
Correction against financial items, payable	221	193
Taxes paid	(351)	(8)
Cash flow from operating activities	17 880	5 951
Sale of property, plant and equipment	-	6
Replacement expenditures	(48)	(46)
Sale of companies	-	61
Investments in subsidiaries	(6)	(1 692)
Net purchase/sale shares, dividends and financial assets	93	444
Cash flow from investing activities	39	(1 227)
Dividends paid	(7 738)	(2 543)
Net sale/purchase of treasury shares	50	(77)
Net paid to shareholders	(7 688)	(2 620)
Change in other interest-bearing liabilities	(4 674)	(1 523)
Change in interest-bearing receivables	(1 657)	(296)
Change in net interest-bearing liabilities	(6 331)	(1 819)
Cash flow from financing activities	(14 019)	(4 439)
Change in cash and cash equivalents	3 900	285
Cash and cash equivalents 1 January	560	275
Cash and cash equivalents 31 December	4 460	560
Change in cash and cash equivalents	3 900	285

STATEMENT OF FINANCIAL POSITION

Assets

Amounts in NOK million	Note	2017	2016
Intangible assets	9	60	33
Deferred tax asset	11	219	252
Property, plant and equipment	8	215	223
Shares in subsidiaries	10	31 412	39 952
Loans to Group companies, interest-bearing		8 889	6 897
Other financial assets		148	250
Non-current assets		40 943	47 607
Receivables external		149	168
Receivables Group, non-interest-bearing		308	269
Receivables Group contribution		1 380	1 325
Financial investments	See Note 24 Group	17	107
Cash and cash equivalents		4 460	560
Current assets		6 314	2 429
Total assets		47 257	50 036

Equity and liabilities

Amounts in NOK million	Note	2017	2016
Paid-in equity		1 995	1 994
Retained earnings		32 601	30 497
Equity		34 596	32 491
Pension liabilities	2	553	517
Non-current interest-bearing liabilities		4 652	7 007
Non-current non-interest-bearing liabilities		313	397
Non-current liabilities and provisions		5 518	7 921
Liabilities to Group, interest-bearing		6 250	6 208
Liabilities to Group, non-interest-bearing		52	100
Tax payable		160	374
Other current liabilities		681	2 942
Current liabilities		7 143	9 624
Equity and liabilities		47 257	50 036

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK million	Share capital	Treasury shares	Premium fund	Total paid-in equity	Other equity	Total Orkla ASA
Equity 1 January 2016	1 274	(1)	721	1 994	28 301	30 295
Comprehensive income Orkla ASA	-	-	-	-	4 816	4 816
Dividends paid	-	-	-	-	(2 543)	(2 543)
Net purchase of treasury shares	-	-	-	-	(77)	(77)
Equity 31 December 2016	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

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 head office 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, 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 have been 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 2017.

NOTE 2 PAYROLL AND PENSIONS

Amounts in NOK million	2017	2016
Wages	(350)	(367)
National insurance contributions	(55)	(57)
Remuneration of the Board and other pay-related costs	(18)	(29)
Pension costs	(37)	(34)
Payroll expenses	(460)	(487)
Average number of employees	191	189

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	2017	2016
Current service cost (incl. national insurance contribution)	(20)	(19)
Costs contribution plans	(17)	(15)
Pensions classified as operating costs	(37)	(34)
Pensions classified as financial items	(27)	(19)
Net pension costs	(64)	(53)

Breakdown of net pension liabilities as at 31 December

Amounts in NOK million	2017	2016
Present value of pension obligations	(553)	(517)
Pension plan assets	-	-
Capitalised net pension liabilities	(553)	(517)

The remaining net pension liabilities at 31 December 2017 mainly consist of unfunded pension plans for former key personnel and unfunded early retirement plans, and 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	2017	2016
Subscribed, uncalled limited partnership capital	2	5
Guarantees to subsidiaries	215	212
Other guarantee liabilities	13	-

NOTE 4 LOANS TO EMPLOYEES

Other financial assets include loans to employees.

Amounts in NOK million	2017	2016
Loans to employees	6	1

NOTE 5 REMUNERATION AND CONTRACTUAL ARRANGEMENTS – THE BOARD OF DIRECTORS' STATEMENT OF GUIDELINES

1. The Board of Directors' statement of guidelines for the pay and other remuneration of the executive management

Pursuant to section 6-16a of the Public Limited Liability Companies Act, the Board of Directors must draw up a special statement of guidelines for the pay and other remuneration of senior executives ("Board's statement of guidelines"). The elements in the Board's statement of guidelines are set out in (i) – (vi) below. Under section 5-6 (3) of the same Act, an advisory vote must be held at the General Meeting on the Board of Directors' guidelines for the remuneration of the executive management for the coming financial year (see (ii) below). Insofar as the guidelines concern share-related incentive programmes, these must also be approved by the General Meeting (see (iii) below).

(i) Pay, other remuneration of and other conditions relating to the executive management

The Board of Directors decides the terms and conditions of the President and CEO and makes decisions on fundamental issues relating to the Group's compensation and benefits policy and compensation arrangements for other employees. The Board of Directors has a special Compensation Committee that prepares matters relating to compensation for decision by the Board. The Committee consists of three Board members, one of whom is elected by the employees, and was chaired by the Deputy Chair of the Board in 2017. The administration prepares matters for the Compensation Committee and the Board.

The Group Executive Board participates in the Group's annual bonus programme and long-term incentive programme.

Fixed salaries and fees for the Group Executive Board and accrued bonuses are presented on the next page. The table also shows accruals and the balance in the bonus bank as at 31 December 2017, based on the Orkla share price as at 31 December 2017 (NOK 87.05).

Note 5 cont.

Remuneration paid in 2017

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

[1]Also receives a Board fee of NOK 300,000 from Jotun.
[2]The annual salary is stated in SEK thousand.

Accrued remuneration, not paid in 2017

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

[1]Accrued annual bonuses for 2017 are paid in 2018.
[2]The accrued salary and remuneration of the President and CEO totalled NOK 15,198,000 (A+B+C) in 2017.
[3]The bonus bank balance does not include bonuses accrued in 2017.

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

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

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

Note 5 cont.

The Group Executive Board participates in the Group's general employee share purchase programme. No guarantees have been provided for members of the Group Executive Board.

The retirement age of the President and CEO is 62, and the period of notice is six months, with a period of pay of 12 months after termination of employment. From the age of 62 until he reaches the age of 67, he will be paid 60% of his salary upon retirement.

The members of the Group Executive Board have a period of notice of six months, and their retirement age is 65. From the age of 65 until they reach the age of 67, Orkla will pay them 66% of their salary upon retirement, after which their pension will be paid from Orkla's pension plan. Terje Andersen may retire at the age of 62 with the same benefits. Terje Andersen and Karl Otto Tveter have personal loans on which a regulated interest rate is charged. The balance as at 31 December 2017 was NOK 393,224 for Mr Andersen and NOK 39,192 for Mr Tveter. No other members of the Group Executive Board have personal loans.

(ii) Guidelines for pay and other remuneration of the executive management

With regard to guidelines for pay and other remuneration of the executive management in the coming financial year, the Board of Directors will submit the following guidelines to the General Meeting in 2018 for an advisory vote:

The purpose of Orkla's reward policy is to attract personnel with the competence that the Group requires, develop and retain employees with key expertise and promote a long-term perspective and continuous improvement supporting achievement of Orkla's business goals. The general approach adopted in Orkla's policy is to pay fixed salaries in line with market median level while offering variable pay linked to results, share price performance, etc. (short and long-term incentives) above market median level. Compensation may consist of the following elements:

a) Fixed elements
Orkla uses internationally recognised job assessment systems to find the "right" level for the job and the fixed salary. Jobs are assessed in relation to their local market (country) and a pay range of the median +/- 20% is applied. The employee's responsibilities, results and performance determine where he or she is placed on the salary scale.

(b) Variable elements – annual bonus
Senior executives in Orkla participate in the Group's central annual bonus programme. The programme has a maximum ceiling of 100% of the employee's fixed salary as at 31 December in the year of accrual. Under this programme, a "good performance" can result in an annual bonus of approximately 30% of an employee's fixed salary as at 31 December in the accrual year. A "good performance" is defined as the achievement of results in line with externally communicated financial targets for 2016–2018. Profit growth is the primary goal for the central annual bonus programme.

In addition, the Group has share-based incentive programmes described in (iii) below.

(iii) Special comments on share-based incentive programmes

(a) Long-term incentive programme
Orkla has a cash-based long-term incentive (LTI) programme for several years. The LTI is normally awarded in May of each year. The amount awarded (normally equal to the amount accrued in the annual bonus programme the previous year) is adjusted according to the performance of the Orkla share until it is paid out, and is thus share-related. The adjustment is based on the share price recorded on the day after the Annual General Meeting in the year the award is made, adjusted for dividends in the period. 50% of the entitlement will be paid out after two years and the remainder after three years, provided that the employee has not given notice of resignation at the time of payment. The annual amount paid out from the LTI programme must not exceed one year's pay at the time of payment. Any excess amount will be added to the bank deposit to be paid out the following year.

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

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

Note 5 cont.

(b) Discounted shares for employees
For several years the Group has had a programme offering employees an opportunity to buy a limited number of shares at a discount of 30% on the market price. For 2017, employees were given an extraordinary opportunity to purchase shares for seven different amounts: NOK 50,000, 40,000, 28,000, 20,000, 12,000, 4,000 and 1,000 (amounts after discount). The costs of the employee share purchase programme in 2017 totalled NOK 43 million.

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

(iv) Company pension plan

Orkla has a defined contribution pension plan in Norway. The contribution rates are 5% for salaries between 1G and 7.1G and 23.1% for salaries over 7.1G (as from 1 May 2017 1G is NOK 93,634). For members of the Group Executive Board employed before 1 September 2014, the rate for salaries over 12G is 27%. Employees who have entered into an early retirement agreement entitling them to retire before the age of 67 receive a pension (unfunded) that is equivalent to 60 per cent of their annual pay upon retirement. Other members of the Group Executive Board than the President and CEO have 66%, all subject to a minimum of 30 qualifying years.

(v) Other benefits

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

(vi) Executive pay policy in previous financial years

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

For detailed descriptions of Orkla's reward policy and the various components of the overall remuneration, reference is made to the disclosures in Note 11 to the consolidated financial statements.

2. Remuneration of the Board of Directors and Board members' shareholdings

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

Board Chair	NOK	800 000	per year
Board Deputy Chair	NOK	645 000	per year
Shareholder-elected Board member	NOK	510 000	per year
Employee-elected Board member	NOK	420 000	per year
Deputy member	NOK	27 000	per meeting

Under Article 4 of Orkla's Articles of Association, shareholder-elected "members and deputy members of the Board of Directors must be shareholders in the company". Section 11 of the Norwegian Code of Practice for Corporate Governance states that consideration should be given to requiring that Board members invest part of their fee in the purchase of shares at market price, and the Nomination Committee had received several comments to the effect that part of the remuneration of the shareholder-elected Board members should be linked to shares.

In 2017, accordingly, the General Meeting approved the introduction of an arrangement in connection with the nomination of shareholder-elected Board members, requiring that 1/3 of the members' gross Board fees (excluding any fee for committee work and supplement for members residing outside Norway) be used to purchase shares in Orkla until the Board members (including their related parties) own shares in Orkla with a value equivalent to two times their gross Board fee (excluding any fee for committee work and supplement for members residing outside Norway). An overview of the Board members' shareholdings is disclosed seperately in this note.

Compensation Committee

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

Audit Committee

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

Note 5 cont.

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

Payments actually received by members of the Board of Directors are as follows:

Amounts in NOK	Director's fee incl. committee work	Number of shares[1]
Shareholder-elected Board members		
Stein Erik Hagen	868 333	250 010 000
Grace Reksten Skaugen	747 666	5 500
Ingrid Jonasson Blank	656 666	3 750
Lisbeth Valther	544 166	5 000
Nils K. Selte	647 333	24 000
Lars Dahlgren	542 666	4 000
Liselott Kilaas	340 000	2 500
Caroline Hagen Kjos (deputy)[2]	-	-

[1]Total share ownership including related parties.
[2]Receives no fees.

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

[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 20 April 2017, the Nomination Committee is remunerated according to the following rates:

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

4. Fees to Group external auditor

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

NOTE 6 FINANCIAL COSTS GROUP

Amounts in NOK million	2017	2016
Write-down share investments in subsidiaries[1]	(8 208)	(763)
Gain on sale of Cederroth AS	-	19
Interest costs Group	(51)	(45)
Total financial costs Group	(8 259)	(789)

[1]Shares in the subsidiary Industriinvesteringer AS were written down due to the company's pay-out of dividends of NOK 13.7 billion (2016: Cederroth Intressenter AB and Industriinvesteringer AS).

NOTE 7 OTHER FINANCIAL INCOME AND FINANCIAL COSTS

Other financial income

Amounts in NOK million	2017	2016
Interest income	16	2
Dividends received	7	47
Other financial income	17	15
Total other financial income	40	64

Other financial costs

Amounts in NOK million	2017	2016
Interest costs	(211)	(226)
Change in fair value interest element	54	50
Other	(62)	(52)
Total other financial costs	(219)	(228)

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 2017	95	74	54	223
Investments	3	-	44	47
Reclassifications[1]	-	7	(42)	(35)
Depreciation	(2)	(18)	-	(20)
Book value 31 December 2017	96	63	56	215
Initial cost 1 January 2017	115	197	54	366
Accumulated depreciation and write-downs 1 January 2017	(20)	(123)	-	(143)
Book value 1 January 2017	95	74	54	223
Initial cost 31 December 2017	118	204	56	378
Accumulated depreciation and write-downs 31 December 2017	(22)	(141)	-	(163)
Book value 31 December 2017	96	63	56	215

[1]Net reclassifications relating to the transfer from Note 9.

NOTE 9 INTANGIBLE ASSETS

Amounts in NOK million	Trademarks not amortisable	IT	Total
Book value 1 January 2017	26	7	33
Reclassifications property, plant and equipment[1]	-	35	35
Amortisation	-	(8)	(8)
Book value 31 December 2017	26	34	60
Initial cost 1 January 2017	26	64	90
Accumulated amortisation and write-downs 1 January 2017	-	(57)	(57)
Book value 1 January 2017	26	7	33
Initial cost 31 December 2017	26	99	125
Accumulated amortisation and write-downs 31 December 2017	-	(65)	(65)
Book value 31 December 2017	26	34	60

[1]Net reclassifications relating to the transfer from Note 8.

01
02
03
04
05

NOTE 10 SHARES IN SUBSIDIARIES, DIRECTLY OWNED

Amounts in NOK million	Group's share of capital	Book value 2017	Book value 2016
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	3 652
Orkla Food Ingredients AS	100%	2 466	2 466
Orkla Energi AS	100%	1 765	1 765
Hamé s.r.o.	100%	1 357	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
Industriinvesteringer AS	100%	803	9 012
Orkla Health AS	100%	631	631
Orkla Eiendom AS	100%	589	574
Lilleborg AS	100%	526	526
SweBiscuits AB	100%	512	512
Viking Askim AS	100%	400	400
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
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
Meraker Eiendom Holding AS	100%	-	15
Orkla Investeringer AS	100%	10	10
Orkla Design AS	100%	5	5
Orkla France S.A.S.	100%	4	1
Cederroth Intressenter AB	100%	3	1
Orkla Accounting Centre OÜ	100%	2	2
Plusstid Home AS	100%	1	-
Attisholz Infra AG[1]	0.4%	1	1
Total		31 412	39 952

[1]The remaining shares are owned by Attisholz AB.

The table above shows only directly owned subsidiaries. The Group consists of a total of around 230 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	2017	2016
Profit before taxes	9 946	5 316
Change in temporary differences	(102)	(75)
Of which change in temporary differences previous years	(21)	(2)
Correction for change in temporary differences taken to comprehensive income	69	83
Total change in temporary differences	(54)	6
Non-deductible expenses	18	79
Tax-free dividends, capital gains (losses) and write-downs shares and financial assets	(54)	(226)
Impairment of shares in subsidiaries	8 208	763
Dividends from subsidiaries	(17 379)	(4 398)
Options and long-term bonus agreements	0	0
Other permanent differences	(20)	(44)
Total permanent differences	(9 227)	(3 826)
Total taxable income	665	1 496
Calculated current tax expense	(160)	(374)
Withholding tax foreign dividends	(1)	0
Correction in provisions for previous years' taxes	24	4
Total current tax expense	(137)	(370)
Change in deferred tax liabilities	(14)	(4)
Total tax expense	(151)	(374)

Note 11 cont.

Deferred tax liabilities

Amounts in NOK million	2017	2016
Financial derivatives	55	(3)
Unrealised gains (losses) on shares outside the tax exemption method in equity	0	0
Accumulated write-downs outside the tax exemption method	(11)	(11)
Hedging reserve in equity	(312)	(397)
Property, plant and equipment	10	12
Pension liabilities	(443)	(425)
Other current liabilities	(249)	(228)
Basis deferred tax	(950)	(1 052)
Deferred tax asset	(219)	(252)
Change in deferred tax	(33)	(30)
Change in deferred tax taken to comprehensive income	19	26
Change in deferred tax in the income statement	(14)	(4)

Reconciliation of total tax expense

Amounts in NOK million	2017	2016
24% of profit before taxes	(2 387)	(1 329)
Effect of change in tax rates	(6)	(6)
Tax-free dividends, capital gains (losses) and write-downs shares and financial assets	13	57
Dividends from subsidiaries	4 171	1 100
Write-downs shares in subsidiaries	(1 970)	(191)
Options and long-term bonus agreements	0	0
Other permanent differences	5	11
Non-deductible expenses	(4)	(20)
Withholding tax	(1)	0
Correction previous years' taxes	28	4
Total tax expense for Orkla ASA	(151)	(374)

NOTE 12 FINANCIAL RISK

The risk associated with financial instruments in Orkla ASA is related to the following activities:

Shares and financial assets

Changes in share prices are sources of financial risk for shares and financial assets. This risk is quantified in Note 24 to the consolidated financial statements.

The Group's internal bank

The Group Treasury of Orkla ASA manages the interest rate and currency risk for the Group. The Treasury Department acts as the Group's 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 to hedge currency risk on internal loans, book equity and goodwill. In 2017, NOK -221 million was recognised in the income statement in connection with these hedges (NOK 655 million in 2016). 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 2017, the fair value of these interest rate swaps was NOK 68 million (NOK 249 million in 2016). During the year NOK 89 million was recognised as costs in the income statement related to changes in the fair value of the interest rate swaps, and NOK 89 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

Note 12 cont.

as cash flow hedges with changes in fair value recognised through comprehensive income. As at 31 December 2017, the fair value of these swaps amounted to NOK -312 million (NOK -397 million in 2016).

Equity hedging reserve. Change in the equity hedging reserve:

Amounts in NOK million	2017	2016
Opening balance hedging reserve before tax	(396)	(492)
Reclassified to profit/loss – net financial items	116	112
Fair value change during the year	(32)	(16)
Closing balance hedging reserve before tax	(312)	(396)
Deferred tax hedging reserve	72	95
Closing balance hedging reserve after tax	(240)	(301)

The hedging reserve is expected to be reclassified to the income statement as follows (before tax):

2018: NOK -121 million
After 2018: NOK -191 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 2018 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.

As a result of the acquisition of Rieber & Søn ASA, Orkla ASA took over the lease of Rieber's head office in Nøstegaten 58, Bergen in 2013. The contract runs until 2019, and the lessor is AS Inventor Eiendommer. Annual leasing costs total NOK 19 million. The building is subleased, primarily to KnowIt, Kredinor and Bergen Municipality.

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.

Statement 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 2017 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 2018
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	Lisbeth Valther	Terje Utstrand
Karin Hansson	Sverre Josvanger	Roger Vangen	Peter A. Ruzicka President & CEO

(This translation from Norwegian of the Statement from the Board of Directors of Orkla ASA 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 2017, the income statement, comprehensive income, cash flow and statement of 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 2017, the income statement, statement of comprehensive income, statement of cash flows and statement of 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 2017, 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 2017 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 2017. 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 – provisions 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 less rebates earned by customers. 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 identified and assessed the effectiveness of the Group's 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 provision and the underlying calculation. These procedures included testing of the basis for calculating rebates against actual sales and agreed terms. Further, we have tested

Independent auditor's report cont.

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 provision for discounts and bonuses.

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 President 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.

- 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.

Independent auditor's report cont.

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- 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 2018
ERNST & YOUNG AS

Erik Mamelund
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)