Report of the Board of Directors

In 2017 Orkla was further developed as a leading branded consumer goods group. Through several acquisitions, a solid foundation has been laid for continued growth and better exploitation of economies of scale over time. The Group continued to focus on operational efficiency and on optimising and rationalising its factory footprint in 2017, while carrying out cost improvement programmes to strengthen its competitiveness. The sale of Orkla's interest in Sapa to Norsk Hydro was completed in line with the Group's strategy.

Operations in 2017

In the course of 2017, 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". In line with the Group's strategy, the assets defined as lying outside the scope of the Branded Consumer Goods business were reduced through the sale of the 50% shareholding in Sapa.

Orkla continued its efforts to develop an optimised business model, in which the Group seeks to balance local responsibility with 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. Structural measures were initiated both within the Group's existing factory footprint and in the companies acquired and integrated in 2017.

Overall, market growth in Orkla's categories was positive in 2017. Orkla's performance varied from one category and market to another, but all in all, organic[3] growth for Branded Consumer Goods is estimated to have been in line with market growth.

Orkla increased its turnover in 2017 by 5% through contributions from acquisitions, organic[3] growth and positive currency translation effects related to the weaker Norwegian krone. Branded Consumer Goods delivered organic[3] turnover growth of 1.6%, with a combination of volume/mix and price increases. All the business areas achieved organic[3] growth in 2017.

Operating revenues by business area

Orkla Foods	41%
Orkla Confectionery & Snacks	16%
Orkla Care	19%
Orkla Food Ingredients	22%
Orkla Investments	3%

Innovations based on strong local brands in both new and established categories have generated good category growth for both Orkla and Orkla's customers. As just one of a host of innovations, Grandiosa Nybakt was an example of an important launch in a major category, where extensive focus on taste and product quality has helped to increase consumer loyalty and repeat purchases. Another example is the new brand, Klar, which is a range of sustainable laundry, hand soap and cleaning products. The launch of Laban Seigmenn jelly chews in India is a further example of innovation work across companies and countries.

2017 also saw a number of innovations catering to the Health & Nutrition, Organic and Vegetarian trends. Examples of Health & Nutrition launches were Nutrilett Smart Meal and various protein bars under the Maxim brand. These launches show that Orkla is far out in front in efforts to offer consumers ever healthier, tastier products, and a good response to society's exercise and fitness trends. More organic products were developed in 2017, with launches of plant bars and smoothies from Naturli' as good examples. The increased demand for vegetarian products has been met with a broader range of offerings under the Anamma, Naturli' and FELIX Veggie brands. This highlights Orkla's focus on providing consumers with good organic alternatives in the big, well-known categories, and meeting increased consumer demand for vegetarian and vegan products.

EBIT (adj.)[1] for Branded Consumer Goods rose 8% in 2017. The growth in profit was largely driven by improved sales, extensive cost reduction programmes, realisation of synergies from acquisitions and positive currency translation effects. Branded Consumer Goods' EBIT (adj.)[1] margin was 12.1%, equivalent to an improvement of 0.3 percentage points. The profit margin was positively impacted by cost-cutting measures, but the improvement was counteracted by the dilutive effects of the inclusion of acquired companies with lower margins and higher raw material prices.

At the end of 2017, the Group's financial position was very sound, strengthened by the sale of Sapa which virtually eliminated Orkla's net interest-bearing liabilities. This ensures the financial flexibility to support the Group's strategy of continued, extensive structural growth. Net interest-bearing liabilities totalled NOK 14 million as at 31 December 2017, while the equity ratio was 65.2%.

Description of structural changes

In line with its strategy of being a leading branded consumer goods company, Orkla sold its interest in Sapa to Norsk Hydro in July 2017. The parties agreed on a purchase price that valued Sapa at a total of NOK 27 billion (on a debt-free basis). Orkla has retained certain liabilities related to its shareholding in Sapa, even after completion of the transaction.

In 2017, Orkla Care expanded its position in personal care through the acquisition of the Danish company Riemann Holding A/S, which owns the P20 (sunscreen) and Perspirex (anti-perspirant) brands. In the fourth quarter, Orkla Care also entered into an agreement to purchase the Swedish company Health and Sports Nutrition Group HSNG AB ("HSNG"). Orkla took over the company on 30 January 2018. HSNG runs the Gymgrossisten and Bodystore e-commerce portals, and is the largest online player in the Nordic region in the health and sports nutrition sector. The acquisition of HSNG will strengthen Orkla's position in digital marketing and sales, while also offering extensive opportunities for collaboration with Orkla's other operations.

Orkla Food Ingredients reinforced its position in the ice cream and bakery ingredients market in 2017 by acquiring the following sales and distribution companies: the Netherlands company Laan Heiloo B.V, 85% of the shares in the British company Orchard Valley Foods Limited, and the German company Eis Ludwig Gräbner GmbH. Orkla Food Ingredients also purchased 80% of the shares in SR Food A/S, a Danish supplier of organic and vegetarian foods, and acquired the Nordic ingredients supplier Arne B. Corneliussen AS. Through Hamé, Orkla Foods bought the Czech company Agrimex, a leading producer of frozen vegetables in the Czech Republic.

In the course of 2017, Orkla made a number of structural changes to optimise its portfolio and exploit economies of scale. In 2017, Orkla Foods exited the mayonnaise-based salad category in Norway by closing the Denja factory and in Denmark by divesting K-Salat. It was decided to transfer the Danish pasta business Pastella and the Scoop brand from Orkla Foods to Orkla Food Ingredients. Orkla Care sold Lilleborg's professional laundry business, and Orkla Food Ingredients decided to exit the industrial marzipan category in Italy, and as a consequence it closed down and sold the Natural Food business. In Finland, the management teams of Orkla Foods Finland and Orkla Confectionery & Snacks Finland were merged to form a single entity, Orkla Suomi. Orkla Care also made several changes, including combining the Wound Care, Home & Personal Care and Health operations in Poland, and the House Care operations in the UK. Coupled with Orkla's continuous work on improvement projects, these measures will continue to promote more efficient operations and increase profitability.

In the first quarter of 2017, Orkla decided to invest a total of NOK 500 million in the pizza production operations in Stranda over a period of five years, in order to focus on new innovations and increase production efficiency. The investment programme will be carried out in several stages during the period from 2017 to 2021. Towards the end of the period, Orkla also wants to combine the two factories in Stranda.

For more information on the acquisition and sale of companies, see Notes 5 and 38.

The Group's results

Amounts in NOK million	2017	2016
Operating revenues	39 561	37 758
EBIT (adj.)[1]	**4 635**	**4 298**
Other income and expenses	(201)	(382)
Operating profit/loss	**4 434**	**3 916**
Profit/loss from associates	313	488
Net interest and financial items	(176)	(112)
Profit before tax	**4 571**	**4 292**
Taxes	(980)	(807)
Profit/loss for the year from continuing operations	**3 591**	**3 485**
Profit/loss from discontinued operations	5 066	890
Profit/loss for the year	**8 657**	**4 375**

The 5% increase in operating revenues was driven by organic[3] sales growth in Branded Consumer Goods, as well as by positive currency translation effects and contributions from acquired companies. Branded Consumer Goods achieved organic[3] sales growth of 1.6% in 2017.

Group EBIT (adj.)[1] grew 8% in 2017. The growth was primarily driven by broad-based profit improvement for Branded Consumer Goods, and by contributions from acquired companies. Hydro Power also made a positive contribution to profit improvement for the year, due both to increased production volume and higher power prices. Financial Investments saw a decline in profit, chiefly due to fewer real estate transactions than in 2016.

Branded Consumer Goods posted 8% growth in EBIT (adj.)[1]. The improvement in profit is mainly attributable to organic[3] turnover growth, cost reduction programmes, structural growth from acquisitions and positive contributions from currency translation effects.

The improvement was somewhat counteracted by higher purchasing costs. The international commodity prices to which Orkla is exposed rose, on average, in 2017. Moreover, the weakening of the Norwegian and Swedish krone against the euro, compared with 2016, resulted in an increase in purchasing costs.

The results of foreign entities are translated into Norwegian krone on the basis of average monthly exchange rates. In 2017, due to currency market fluctuations, the Group benefited from positive currency translation effects of NOK 137 million on operating revenues and NOK 19 million on EBIT (adj.)[1].

Orkla continued its extensive improvement and integration work in 2017. The Group's other income and expenses mainly consisted of acquisition and integration costs and a number of improvement processes in the Group, particularly related to closures and changes in its manufacturing footprint. These costs were offset by gains realised, in part, on the sale of brands and companies during the year.

Profit from associates is primarily related to Orkla's 42.6% interest in Jotun. The investment is presented using the equity method. Jotun achieved good turnover growth in 2017, but operating profit was lower than in 2016, partly as a result of higher raw material prices. Jotun's contribution to profit amounted to NOK 307 million (NOK 471 million)[2].

Profit from Sapa totalled NOK 5,066 million, and is presented on the line for «Discontinued operations». The amount includes the gain on the sale of Orkla's interest in Sapa. Historical comparative figures have been reclassified in the income statement.

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 2017 financial year was 23% (21%). See Note 16 for further comments.

Diluted earnings per share amounted to NOK 8.43 (NOK 4.22)[2], while diluted earnings per share from continuing operations were NOK 3.46 (NOK 3.34)[2].

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).

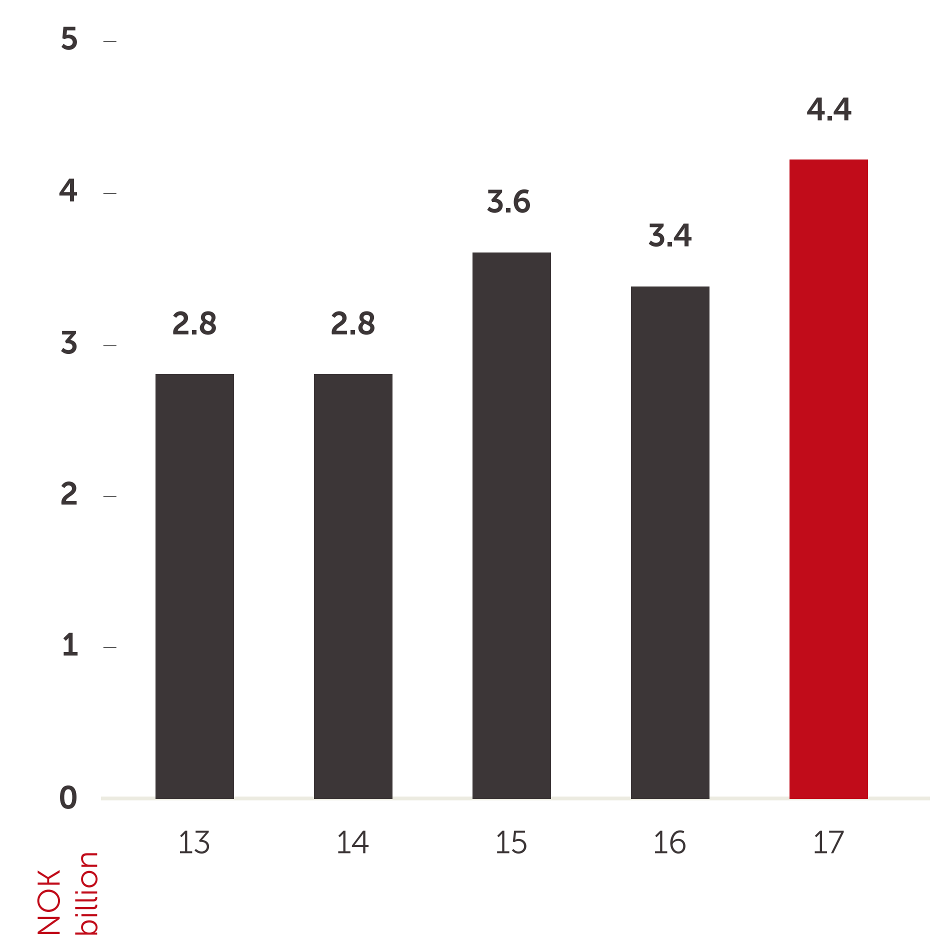
Cash flow from operations (excluding Financial Investments) amounted to NOK 4,405 million (NOK 3,368 million)[2]. For the full year, working capital performance was practically flat.

Net replacement investments totalled NOK 1,050 million (NOK 1,327 million)[2]. The reduction from 2016 was chiefly related to higher investment by Orkla Foods in 2016 in factory improvement and restructuring programmes. Cash flow from Financial Investments' operations amounted to NOK -290 million (NOK 45 million)[2], largely due to the construction of Orkla's new head office at Skøyen, Oslo.

An ordinary dividend of NOK 2.60 per share was paid out for the 2016 financial year, in addition to an extraordinary dividend of NOK 5.00 per share in connection with the sale of Sapa in 2017. Dividends paid totalled NOK 7,790 million (NOK 2,599 million)[2].

To fulfil the remaining option programme and the employee share purchase programme, net sales of Orkla shares were effected with a cash flow effect of NOK 50 million

Cash flow from operations[1]



[1]Cash flow from operations (excl. Financial Investments)

(NOK -77 million)[2]. Expansion investments totalled NOK 206 million (NOK 163 million)[2] in 2017.

Received dividends ended at NOK 1,727 million (NOK 283 million)[2], while sales of companies amounted to NOK 12,520 million (NOK 415 million)[2]. The increase consisted mainly of dividends from and the sale of Sapa. In total, Orkla received NOK 13.4 billion from Sapa in 2017. Acquisitions of companies totalled

NOK 901 million and consisted of acquisitions in Branded Consumer Goods, among which Riemann was the largest purchase. In 2017, net sales of shares and financial assets totalled NOK 43 million, and consisted of the sale of the remaining shareholding in Solsten Nordic Equities Fund and purchases in Orkla Venture.

Net cash flow for the Group amounted to NOK 8,471 million (NOK -956 million)[2] in 2017. The improvement from 2016 was largely due to the sale of Orkla's interest in Sapa. Exchange rate fluctuations resulted in negative translation effects of NOK 429 million on net interest-bearing liabilities, which totalled NOK 14 million. 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.

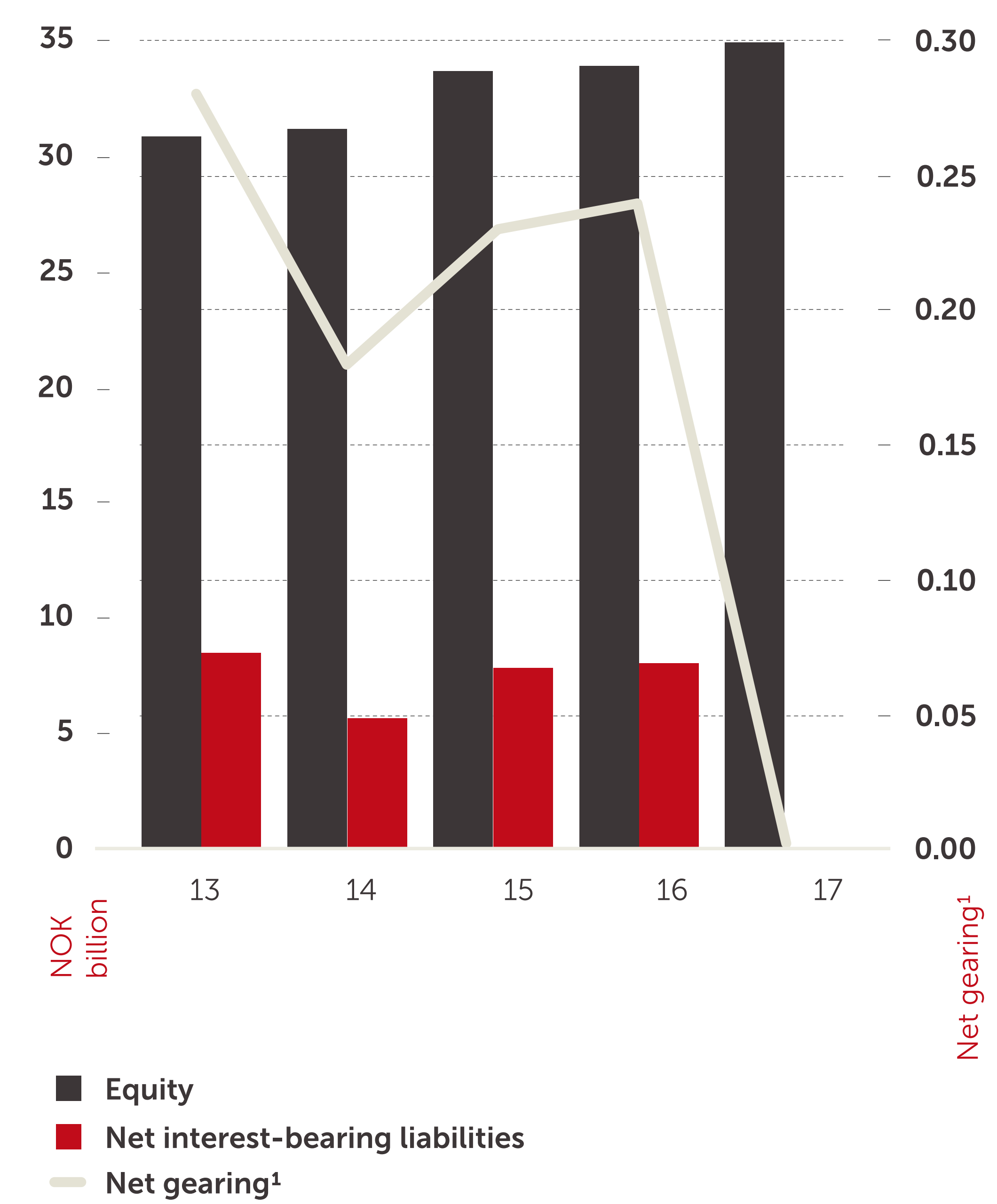
Contracts and financial hedge instruments

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

Capital structure

In 2017, the consolidated statement of financial position was reduced by NOK 2.2 billion, to NOK 53.4 billion at year end. Net interest-bearing liabilities were reduced by NOK 8 billion, to NOK 14 million, mainly due to the sale of Sapa. Orkla's financial position is robust, with substantial cash reserves and credit lines that give it the flexibility to support its business priorities. Orkla has no material loans that fall due in the next three years.

Equity, liabilities and net gearing[1]



[1](Net interest-bearing liabilities/Equity

After payment of the ordinary and extraordinary dividends in 2017, Group equity totalled NOK 34.8 billion at year end, with an equity ratio of 65.2% (60.9%)[2].

The Orkla share

As at 31 December 2017, there were 1,018,754,037 shares outstanding, and Orkla owned 176,933 treasury shares. The number of shareholders decreased from 38,796 to 38,280, and the proportion of shares held by foreign investors increased by 1 percentage point to 53% at the end of 2017.

The Orkla share price was NOK 78.20 at the end of the last trading day in 2016. At the end of 2017, the share price was NOK 87.05. Taking into account the dividends, the return on the Orkla share in 2017 was 22.5%, while the return on the Oslo Stock Exchange Benchmark Index (OSEBX) was 19.09%. Orkla shares were traded on the Oslo Stock Exchange for a total of NOK 33.9 billion. Further information on shares and shareholders may be found on page 215.

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, presented to the Board of Directors and considered regularly by the Board's Audit Committee.

In the course of 2017, Orkla further strengthened its position as a leading branded consumer goods group, through both organic[3] growth and acquisitions. Within Branded Consumer Goods, Orkla has a diversified company and product portfolio, which mitigates risk.

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 are a risk if Orkla fails to keep close track of developments. It is important to have an insight into trends, and Orkla works systematically to create innovations to meet changing trends. It also acquires companies in response to new trends. Orkla maintains strong focus on health and nutrition, and on the regulatory requirements that its products must meet. Food safety risk can have significant consequences for consumers, and Orkla has a central food safety team who work continuously to ensure improvements and conduct audits at Orkla's factories, as well as audits of key suppliers.

The grocery market is changing, and now faces greater competition from new sales channels, in particular e-commerce, which is an increasingly important channel. The agreement to purchase the Swedish company Health and Sports Nutrition Group HSNG AB ("HSNG") will strengthen Orkla's position in digital marketing and sales, in addition to providing good opportunities for collaboration with other businesses in Orkla's Branded Consumer Goods area, particularly within Orkla Care. The purchase of HSNG will also give Orkla better consumer insight in the digital channel, enabling it to become an even better partner for its present customers.

Orkla also faces risk attached to fluctuations in currency rates and commodity prices, which were highly volatile throughout 2017 for several of Orkla's most important raw materials. Steps taken to reduce the effects of such risk include close follow-up of suppliers and of prices to customers. Many of Orkla's companies do a substantial share of their sourcing in local currencies thereby reducing the impact of fluctuations against other currencies.

There is an inherent risk of fire, occupational accidents or other serious incidents at Orkla factories. 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 and instruction 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, out-of-home 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. Associates consist primarily of Jotun (42.6% interest).

The financial statements of the holding company Orkla ASA cover all activities at the Group's head office. These activities include the Group's executive management and the corporate and shared functions Communications, Legal Affairs, Sales & Business Development, Marketing & Innovation, Operations, Mergers & Acquisitions, Human Resources, Accounting/Finance, Compliance and Internal Audits. In addition to governance-related tasks, the departments largely carry out assignments and provide support for the Group's other companies and charge them for these services.

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Branded Consumer Goods

Amounts in NOK million	Operating revenues 2017	Operating revenues △ (%)	Organic[3] growth (%) 2017	EBIT (adj.)[1] 2017	EBIT (adj.)[1] △ (%)	EBIT (adj.)[1]-margin (%) 2017	EBIT (adj.)[1]-margin (%) △ (bps)
Orkla Foods	16,126	4.2	1.4	2,055	4.4	12.7	0.0
Orkla Confectionery & Snacks	6,439	3.4	3.1	1,045	11.5	16.2	1.2
Orkla Care	7,479	11.0	2.9	1,074	12.3	14.4	0.2
Orkla Food Ingredients	8,703	6.6	0.5	469	6.8	5.4	0.0
Total Branded Consumer Goods*	**38,510**	**5.7**	**1.6**	**4,643**	**8.0**	**12.1**	**0.3**

*)Intercompany sales between business areas have been eliminated for Branded Consumer Goods

Operating revenues, change in %	FX	Structure[4]	Organic[3] growth	Total
Branded Consumer Goods	0.4	3.7	1.6	5.7

Orkla Foods

Operating revenues for Orkla Foods equated to 4.2% growth in sales. Organic[3] growth for Orkla Foods in 2017 was 1.4%, and was driven by increases in both prices and volumes. Growth was somewhat hampered by destocking due to structural changes in the Norwegian retail sector and by temporary interruptions in India due to the introduction of a new national tax regime. The improvement in profit was broad-based and was largely attributable to turnover growth, in addition to the positive effects of cost-cutting measures. However, higher purchasing costs had a negative impact on both profit and margin for the year.

Orkla Confectionery & Snacks

Operating revenues for Orkla Confectionery & Snacks in 2017 represented 3.4% growth in sales. Organic[3] turnover growth was 3.1%, mainly driven by volume growth. Sales performance was particularly good in Finland, Sweden and Estonia. Market shares increased in the confectionery & biscuits segments, while the snacks segment's overall position weakened slightly. Orkla Confectionery & Snacks delivered improved profit, driven by sales growth and the effects of cost improvements in factories and the rest of the value chain.

Orkla Care

Operating revenues for Orkla Care represented 11% growth in sales in 2017. Organic[3] growth was 2.9%. Organic[3] growth in Orkla Home & Personal Care, Orkla Health, Lilleborg and Orkla Wound Care was partly offset by a decline for Pierre Robert Group and Orkla House Care. Broad-based profit improvement was driven by sales growth. The negative dilutive effects of the inclusion of acquired companies, and higher purchasing costs due to the weaker Norwegian krone, were compensated for by improved operations in existing businesses.

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Orkla Food Ingredients

Operating revenues for Orkla Food Ingredients increased by 6.6% in 2017. The organic[3] improvement of 0.5% was particularly related to increased sales of bread and cake improvers and mixes. The improvement in profit was driven by structural growth resulting from some small acquisitions in the ice cream ingredients segment in the Netherlands, Germany, the UK and Sweden, and to the acquisition of a sales company in Denmark that makes chilled fresh dough products. The Natural company in Italy, which delivered a negative profit performance in 2016, was divested. Profit was also boosted by positive currency translation effects due to the weaker Norwegian krone. Conversely, profit performance was negatively affected by a poor ice cream season weather-wise, lower contribution to profit from the Swedish bakery market, and temporarily low profitability in Romania as a result of higher costs imposed by the government.

Orkla Investments

Hydro Power

Amounts in NOK million	2017	2016
Volume (GWh)	2,729	2,396
Price (NOK/MWh)	269	233
EBIT (adj.)[1]	316	192

The increase in both operating revenues and EBIT (adj.)[1] is due to higher power prices during the year and higher production volume. At the end of 2017, reservoir levels were slightly higher than normal.

Financial Investments

EBIT (adj.)[1] for Financial Investments was NOK 8 million in 2017 (NOK 131 million)[2] and was chiefly related to the sale of a property in Bergen and an industrial park in Fredrikstad. As at 31 December 2017, Orkla's real estate investments had a book value of around NOK 1,460 million, of which around NOK 1,140 million was related to the three largest development projects. Priorities going forward will be to realise the potential value in the development projects, and secure assets and free up capital by disposing of properties and projects that are not to be further developed.

Jotun (42.6% interest)

Amounts in NOK million	2017	2016
Operating income (100 %)	16,401	15,785
EBIT (100 %)	1,354	1,763
Profit contribution	307	471

Jotun is one of the leading global manufacturers of paint and powder coatings, with 54 subsidiaries, three joint ventures and six associates. Jotun has 40 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 segment showed good growth in 2017, the Marine and Protective Coatings segments were affected by the continued low level of activity in the ship new-building and offshore sectors. The decline in operating profit is chiefly due to higher raw material prices in all segments, and lower average selling prices in a number of markets.

Sapa (discontinued operations)

In line with Orkla's strategy of becoming a leading branded consumer goods company, Orkla entered into an agreement on 10 July 2017 to sell its share of Sapa to Norsk Hydro. The competition authorities approved the transaction on 26 September 2017. As a consequence of the agreement with Norsk Hydro, profit from Sapa has been moved to the line for "Discontinued operations". Sapa's overall contribution to profit for 2017 amounted to NOK 5,066 million. For more information on discontinued operations, see Note 38.

Research and development (innovation)

Innovation is Orkla's primary tool for creating organic[3] growth, and is therefore a key element of day-to-day operations. Orkla's innovation work is based on a inter-professional focus that spans from idea to launch. Consumer, customer and market insight is combined with technological expertise and investments to develop products and solutions that delight consumers and meet their needs even more effectively.

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 strong product development capability across the Group.

In the time to come, therefore, there will be increased focus on innovation activities across companies and countries, under the heading "One Orkla". An example of this cross-cutting approach is Naturli' Foods, which offers a range of organic and vegetarian products, and the Laban fruit-flavoured jelly chews, which stretched all the way to India in 2017.

Another example of this thinking is the Orkla Growth Fair. This is an arena where management in product development and marketing at Orkla can present and discuss growth opportunities and share insights into local successes.

At the core of all innovation work lies the actual user experience, ranging from taste and function to how intuitive and easy a product is to use. Health and environmental aspects are also important drivers of innovation. Priority areas for innovation at Orkla are "Taste & Sensory Experience", "Health & Nutrition", "Sustainability & Environment", "Organic", "Vegetarian" and "Packaging Innovation". A good example of innovation in 2017 is the new brand Klar, which offers a range of sustainable laundry, hand soap and cleaning products. Other good examples are the launch of Grandiosa Nybakt pizza, Nutrilett Smart Meal and Snack Smart bars, Pierre Robert HANNELI wool garments and new products under the Felix Veggie, Anamma, NIC and Vitana brands.

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

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Corporate responsibility

Orkla's sustainability strategy

Orkla is committed to promoting sustainable development by developing healthy, more environmentally friendly products, maintaining high food safety standards, making efficient use of resources, carrying out supply chain improvements and generally operating responsibly. In 2017, Orkla drew up targets for its sustainability work up to 2025, which continue to build on the sustainability strategy established by the Group and cover 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 workers' 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 the Orkla companies are to address the human and workers' rights issues considered most relevant for the companies' day-to-day operations. These include the principles of the right to human dignity, freedom of opinion and expression, the right to life, liberty and security, competence development, personal data protection, diversity and non-discrimination, consultation and employee involvement, working conditions, prevention of child labour and protection of marginalised population groups. The guidelines were revised in 2016-2017, and new risk mapping tools and training programmes have been developed.

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 workers' rights, such as respect and tolerance, equality and non-discrimination, and environmental and anti-corruption standards.

Governance procedures

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.

The governing documents mentioned above 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 2017, courses were held on food safety, EHS, anti-corruption efforts and personal data protection. A total of some 68,100 hours of organised training were provided in topics related to corporate responsibility and sustainability, equivalent to an average of 3.7 hours per employee. Internal meetings were also held in connection with the formulation of Orkla's 2025 sustainability targets. 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 spheres.

In 2017, Orkla improved its procedures for risk assessment and control with regard to important issues such as workers' rights, anti-corruption, personal data protection and data security. Orkla monitors the companies' corporate responsibility and sustainability work by means of annual internal status reports. These reports are submitted in connection with business area reviews and in connection with Orkla's external sustainability 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 Executive Vice President, Chief of Group Functions and Legal Affairs, has administrative responsibility for Orkla's corporate responsibility work, and determines which matters are to be submitted to the Board of Directors.

Orkla has established a whistle-blowing function to enable employees and other stakeholders 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.

Alignment with external principles

Orkla has been a signatory to the UN Global Compact since 2005, and is a member of Transparency International Norge and 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 sustainability goals up to 2030, which were launched by the UN in 2015.

Reporting

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 2017 is provided in Orkla's sustainability report, which is included in this Annual Report, under the sections:

- "Orkla's sustainability work", page 54 (corporate responsibility)
- "Sustainable sourcing", page 79 (human rights, workers' rights, social conditions and environment in the supply chain)
- "Environmental engagement", page 89 (environment)

- “Care for people and society”, pages 99 (human and workers’ rights in own company, equality and non-discrimination, working environment, injuries, accidents, sickness absence, anti- corruption, social conditions)

In its sustainability reporting for 2017, 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 57.

Personnel and administration

As at 31 December 2017, the Group had 18,178 (18,154)[2] employees. Of these 3,226 (3,208)[2] worked in Norway, 5,230 (5,293)[2] in another Nordic country and 9,722 (9,653)[2] in countries outside the Nordic region.

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 2017, Stein Erik Hagen, Grace Reksten Skaugen, Ingrid Jonasson Blank, Lisbeth Valther, Lars Dahlgren, Nils Selte and Caroline Hagen Kjos (personal deputy for Hagen and Selte) were re-elected as shareholder-elected members of Orkla’s Board of Directors. In addition, Liselott Kilaas 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 2018 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, four are women and three 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.

No changes were made in the Group Executive Board in 2017.

The Board of Directors wishes to thank all employees for their efforts and for the results achieved in 2017.

Competence

Continuously developing capabilities is essential to strengthening the Group’s competitive edge. An important factor for employee performance and 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 2017 were to analyse the business goals' impact on leadership, expertise and organisation, conduct individual assessments of management performance and potential, and plan succession to business-critical roles. Reviews of Orkla's sales organisation were also carried out, with focus on capabilities in new channels. Development areas were identified, and steps were initiated to remedy any gaps.

The purpose of Group-wide competence-building activities is to ensure and underpin instruction and training within Orkla's core competency, management and expertise that affect the majority or everyone in Orkla's value chain. The aim is to develop this core competency in a normative direction, by systematising and coordinating the various training activities. These 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 with a view to ensuring crucial expertise in important specialist fields. Through its Academies, Orkla has developed employee skills for many years. Active use is made of educational methods and technology such as "blended learning" in both a price and quality perspective.

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

- A Strategic Leadership Programme was conducted for management personnel who have not previously participated in this programme.

- The Orkla Sales Academy has been extensively reorganised and now has a new set-up and content. Based on key sales roles, the expertise and skills required to succeed in each role have been defined so as to be able to meet present and future business challenges optimally.

- The HR Business Partner Programme was developed for HR employees and management staff with a view to developing and enhancing expertise on the role of business partner and business development, thereby furthering Orkla's Human Capital Strategy.

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 39 of this Annual Report. The statement of policy will be an item of business for discussion at the 2018 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 2018 Annual General Meeting. The note also provides details of remuneration and contractual arrangements.

Accounting principles

The consolidated financial statements for 2017 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 2017, Orkla ASA delivered profit after tax of NOK 9,795 million (NOK 4,942 million)[2]. The rise in profit was driven by dividends from subsidiaries, of which a dividend paid by Industriinvesteringer AS (the holding company for Orkla's investment in Sapa) amounted to NOK 13.7 billion. As at 31 December 2017, Orkla ASA had total assets of NOK 47,257 million (NOK 50,036 million)[2], equivalent to a reduction of 5.6%. The equity ratio was 73.2% (64.9%)[2].

Allocation of comprehensive income

In 2017, Orkla ASA posted comprehensive income of NOK 9,793 million. The Board of Directors proposes the following allocation:

Transferred to equity	NOK 7,144 million
Proposed dividend	NOK 2,649 million

As at 31 December 2017, Orkla ASA had total equity of NOK 34.6 billion (NOK 32.5 billion)[2]. The Board of Directors has determined that Orkla ASA had adequate equity and liquidity at the end of 2017.

The Board of Directors proposes to pay an ordinary dividend of NOK 2.60 per share for the 2017 financial year.

Outlook

In the markets in which Orkla has a presence, growth is still expected to remain moderate in the coming years, varying somewhat from one market to another.

Orkla continues to face strong competition from imported international brands and the grocery trade's private labels. However, a change can be seen in consumer behaviour,

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whereby local players are gaining strength at the expense of large global suppliers. With over 300 local brands and a strong focus on innovations, Orkla is well positioned for this change. Nonetheless, operational and portfolio optimisation will still be important to ensure that Orkla remains competitive. Efforts to optimise and rationalise the supply chain to leverage economies of scale and reduce costs will continue.

Mars Norge terminated its distribution agreement with Orkla Confectionery & Snacks Norge, effective 1 January 2018, which primarily concerned the distribution of chewing gum under the Extra brand. This will have a negative impact on growth for Orkla Confectionery & Snacks in 2018.

In 2017, the global raw material prices to which Orkla is exposed were somewhat higher, overall, than last 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. Many of Orkla's companies do a significant share of their purchasing in local currencies, thereby reducing the overall impact of exchange rate fluctuations against other currencies.

The strategy of being a leading branded consumer goods company with the Nordic and Baltic regions as main markets, in addition to selected geographies where Orkla already has a presence, remains unchanged. Orkla aims to deliver organic[3] growth that at least matches market growth and growth in annual EBIT (adj.)[1]* of 6–9% in Branded Consumer Goods in the period 2016–2018.

Oslo, 13 March 2018
The Board of Directors of Orkla ASA

Stein Erik Hagen styreleder	Grace Reksten Skaugen styrets nestleder	Ingrid Jonasson Blank
Lars Dahlgren	Liselott Kilaas	Nils K. Selte
Lisbeth Valther	Terje Utstrand	Karin Hansson
Sverre Josvanger	Roger Vangen	Peter A. Ruzicka konsernsjef

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

*Including minor acquisitions and divestments, adjusted for currency effects and large acquisitions
[1]Operating profit before other income and expenses.
[2]Figures in brackets are for the corresponding period of the previous year.
[3]Reported growth in operating revenues adjusted for currency translation effects and acquired and sold companies. Acquired and sold companies have been adjusted to reflect a 12-month period. The main reason for using this alternative performance measure (APM) is to show like-for-like sales growth in the existing business.
[4]Structural growth comprises adjustments for the acquisition of Hamé, Kavli, Agrimex, brands in PRG Finland, Harris, Colon C, Riemann, Broer, Laan, Orchard Valley, SR Food and various minor acquisitions within Orkla Food Ingredients, as well as an adjustment for the closure of Natural Food and the sale of K-Salat.