Notes Group

NOTE 1 GENERAL INFORMATION

This general information provides an overview of the financial statements presented, who approves them and where the company is listed on a stock exchange. Individual events that are unusual in this year's financial statements and any changes in accounting policies compared with previously presented financial statements are also described.

General

The consolidated financial statements for Orkla ASA, including notes, for the year 2019 were approved by the Board of Directors of Orkla ASA on 11 March 2020. Orkla ASA is a public limited company and its offices are located at Drammensveien 149, Oslo (Norway). Orkla ASA's organisation number is NO 910 747 711. The company's shares are traded on the Oslo Stock Exchange. The Orkla Group operates primarily in the branded consumer goods, renewable energy and real estate sectors. The business areas are described in the segment information in Note 7.

The financial statements for 2019 have been prepared and presented in full compliance with applicable International Financial Reporting Standards (IFRS), as adopted by the EU.

Jaan Ivar Semlitsch took up the position of Orkla President and CEO on 15 August 2019, after Peter A. Ruzicka resigned on 7 May 2019. On 10 October 2019, changes were announced in both Orkla's Group Executive Board and in Orkla's segment structure. In Orkla's Annual Report the segments are presented according to the new segment structure.

In the new segment structure, Orkla Consumer & Financial Investments is a new business area in Orkla. The new business area will have two parts:

- Orkla Consumer Investments consisting of Orkla House Care, Lilleborg, Pierre Robert, Kotipizza and Gorm's.
- Industrial & Financial Investments consisting of Hydro Power, Real Estate, Venture and Orkla's non-controlling interest in Jotun.

Orkla Consumer Investments is now the fifth business area in Branded Consumer Goods, while Industrial & Financial Investments will be reported outside Branded Consumer Goods. Hydro Power will be shown separately in the segment reporting. For further information on the segments, see Note 7. All the figures for 2018 have been restated according to the new segment structure.

The Group has implemented IFRS 16 Leases since 1 January 2019. The standard requires that discounted right-of-use leases with associated payment liabilities be capitalised as an asset. Orkla has chosen to apply the modified retrospective method when implementing IFRS 16, which gives rise to an equity effect upon implementation. The comparative figures have not been restated, but a new balance as at 1 January 2019 is presented in the statement of financial position. See also Note 21 for information on leases.

No changes have otherwise been made in IFRS that have a material effect on this year's financial statements. For information regarding future changes in financial standards, see Note 3.

Accounting policies and estimate uncertainty are largely incorporated into the individual notes. The accounting policies have been highlighted with a "P" and estimate uncertainty is marked with an "E". Estimate uncertainty will vary, and the areas in which estimates will be most significant will be specified in both Note 4 and in the relevant notes, with cross-references. In addition, certain sustainability elements have been presented in relevant notes and marked with an "S".

Apart from the changes described above, the Group has made no other changes in presentation or accounting policies nor applied any new standards that materially affect its financial reporting or comparisons with previous periods.

Alternative performance measures (APM)

Orkla uses EBIT (adj.) in both the income statement and in its presentation of segment results. EBIT (adj.) is defined as "Operating profit or loss before other income and expenses". "Other income" and "Other expenses" are items that only to a limited degree are reliable measures of the Group's ongoing profitability. The most important matters are disclosed in Note 14.

Orkla uses the terms "Organic growth", "Changes in underlying EBIT (Adj.)" and "Underlying EBIT (adj.) margin growth" to explain changes in operating revenues and EBIT (adj.). These are not accounting terms, but are used in the Report of the Board of Directors and the segment information in Note 7. Organic and underlying growth have been adjusted for currency translation effects, acquisitions and disposals.

The terms "Replacement and expansion investments" are used in the "Orkla-format cash flow presentation" in Note 38 and in Note 7 "Segments".

The definitions of the various alternative performance measures may be found on page 227.

Note 1 cont.

Sales and purchases of companies

Acquisitions and disposals of companies are presented in Note 5. The biggest acquisition in 2019 was the purchase of Kotipizza Group Oyj.

Other matters

Orkla has no loan agreements containing financial covenants.

In accordance with adopted policies, the Group carried out impairment tests for all intangible assets with an indefinite useful life and for all goodwill prior to the preparation and presentation of results for the third quarter. As a result of these tests, goodwill and brands were written down, mainly in Orkla Care and Orkla Consumer Investments. Apart from the write-downs taken in 2019, no value shortfalls related to property, plant or equipment or intangible assets were identified in the Group as at 31 December 2019; see Note 18.

The Norwegian krone strengthened marginally against the EUR and the SEK in 2019. This resulted in the recognition in equity of a net total of NOK 149 million in negative translation differences.

SUSTAINABILITY

A good dialogue with stakeholders is essential to fulfilling Orkla's responsibility towards various stakeholder groups, adapting to changes in society and building trust in Orkla's operations. Orkla is engaged in an active dialogue with customers, suppliers, employees, shareholders, authorities and civil society actors, and wishes to provide an insight into the way the Group deals with matters of importance for the Group's operations and key stakeholder groups. Orkla reports on the progress made in its efforts to address environmental and social issues in a Sustainability Report, which is included as a separate section in Orkla's Annual Report. Further information on the reporting criteria may be found on page 61-62.

NOTE 2 BASIS FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

It is crucial to understanding these financial statements that the user is informed of the fundamental principles for the recognition of items and the consolidation of the Group. Similarly, the use of parentheses and the currency in which the financial statements are presented will be significant for the correct understanding of the financial statements.

The assets in the statement of financial position are recognised on the basis of the purchase cost, and this will largely determine their further accounting treatment. Normally, the purchase cost will be the highest value at which an asset may be recognised. However, this does not apply to the treatment of financial assets and accounting hedges, which are reported at fair value on an ongoing basis. Assets that no longer justify their value are written down to the recoverable amount, which is the higher of value in use and fair value minus selling costs.

The financial statements are prepared on the basis of the underlying assumptions of the accrual accounting principle and the going concern assumption. In general, the latter can be justified by Orkla's financial strength with an equity ratio of 60.8% as at 31 December 2019 and financial reserves that more than cover the Group's liabilities in the next 12 months; see Note 29.

An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it consists of cash or cash equivalents on the statement of financial position date or when the entity concerned does not have an unconditional right to defer payment for at least 12 months. Other items are non-current. A dividend does not become a liability until it has been formally approved by the General Meeting. Discontinued operations and assets held for sale are presented on separate lines as current items.

All amounts are in NOK million unless otherwise stated. Figures in parentheses are expenses or disbursements (cash flow). The functional currency of the parent company (Orkla ASA) is NOK and the Group's reporting currency is NOK.

The information in italics preceding the income statement, statement of financial position, statement of cash flows and notes is provided to give a more detailed explanation of the various presentations.

Consolidation principles and recognition of companies in the Group

The consolidated financial statements show the overall financial results and the overall financial position when the parent company Orkla ASA and companies in which the Group has sole control (subsidiaries) are presented as a single economic entity. All the companies that are

Note 2 cont.

consolidated have applied consistent accounting policies and all intercompany matters have been eliminated. In addition, associates and joint ventures are presented using the equity method, while any minor assets in other companies are presented at fair value, with changes in value reported in the comprehensive income statement.

Interests in companies in which the Group alone has controlling interest (subsidiaries) have been consolidated, line by line, on a 100% basis in the consolidated financial statements from the date the Group has control and are consolidated until the date that such control ends. The Group will have control if it has the power to govern the subsidiary, has exposure or rights to variable returns from the subsidiary and can affect the amount of the returns in the subsidiary. If the Group has control, but owns less than 100% of the subsidiaries, the companies are still consolidated, line by line, on a 100% basis, while the non-controlling interests' share of profit or loss after tax and their share of equity are presented on separate lines. As at 31 December 2019, no companies were consolidated in the Group based on the rules regarding de facto control, i.e. that the Group has < 50% ownership, but by virtue of the ownership composition nonetheless in fact has control.

Profit or loss from associates and joint ventures is presented on an ongoing basis as part of the Group's profit or loss. These are both presented using the equity method. This applies to interests in companies in which the Group together with others has controlling interest (joint ventures) and interests in companies where the Group has significant influence (associates). Both these categories are disclosed in Note 6.

Small ownership interests in other companies are disclosed in Notes 22 and 24. These financial investments are mainly capitalised at fair value and both changes in value and any gains or losses are recognised as other items in comprehensive income.

If a material part of the Group's operations is divested, an agreement is made to divest it, or if the Group loses its controlling interest/significant influence, these operations are presented as "Discontinued operations" on a separate line in the income statement and the statement of financial position. A material part is defined as an individual segment, an individual geographical area or a substantial asset. Consequently, all other figures are presented exclusive of the "Discontinued operations". The comparative figures in the income statement are restated and aggregated with the "Discontinued operations" on one line. The comparative figures for the statement of financial position and the statement of cash flows are not restated correspondingly. If an agreement is entered into to sell operations or assets that constitute less than a segment, assets and liabilities are reported on separate lines of the statement of financial position as "Held for sale". The income statement and the statement of cash flows are not restated.

Principles for translating foreign currency

Revenues and expenses in subsidiaries with a different functional currency from that of the parent company are translated monthly at the average exchange rate for the month and accumulated. Statement of financial position items in subsidiaries with a different functional currency are translated at the exchange rate on the statement of financial position date. Translation differences arise from two different situations. The first is when an income statement with a different functional currency than that of the parent company is translated at the average monthly exchange rate, while the statement of changes in equity is translated at the closing rate. The second is when the opening and closing rates of the statement of changes in equity differ. When the average exchange rate in the income statement and the opening rate in the statement of changes in equity differ from the closing rate, translation differences arise in the explanation of changes in equity. Translation differences are recognised as other items in comprehensive income.

Translation differences related to borrowing and lending in another functional currency, identified as net investment, are also reported as other items in comprehensive income. This is shown as a separate item.

All exchange rates have been obtained from Norges Bank.

Main exchange rates on consolidation against NOK

	Average of monthly exchange rates		Closing rate 31 December	
	2019	2018	2019	2018
EUR	9.85	9.60	9.86	9.95
SEK	0.93	0.94	0.94	0.97
DKK	1.32	1.29	1.32	1.33

Transactions in foreign currencies are recognised at the exchange rate on the date of the transaction. Financial receivables and liabilities in foreign currencies are presented at the exchange rate on the statement of financial position date, and any gain/loss is reported in the income statement as a financial item. Other monetary items (e.g. accounts receivable and accounts payable) in a foreign currency are presented at the exchange rate on the statement of financial position date, and any gain/loss is reported in the income statement as an operating item.

NOTE 3 PRESENTATION OF THE FINANCIAL STATEMENTS AND FUTURE DEVELOPMENTS

Key accounting policies elaborate on the basic principles applied and describe how individual items in the financial statements have been treated. All the policies are consistent with current IFRS, but choices, interpretations and adaptations must nonetheless be made which may affect the preparation and presentation of financial statements to varying degrees. Accounting is constantly evolving and changes in rules can to some extent give rise to significant changes in accounting practices.

As stated by way of introduction, the disclosure of accounting policies has been presented in the relevant notes. This has been done so as to give financial statement users as clear an overview as possible when they consult the various notes.

The financial statements

The complete set of financial statements consists of an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows and a statement of changes in equity. The financial statements present one comparative year. As a result of the implementation of IFRS 16, the statement of financial position has been restated as at 1 January 2019.

The income statement shows the Group's ordinary profit or loss, is divided into lines for various income and expense items and culminates in the Group's profit or loss for the year. Orkla has chosen to present its income statement based on a traditional classification of expenses by nature.

The statement of comprehensive income is based on the Group's profit or loss for the year and presents items that are recognised in equity, but not included in ordinary profit or loss for the period. Actuarial gains and losses on pensions and gains or losses and changes in the value of share investments are recognised in equity with permanent effect, while the other items are recognised in equity temporarily and reversed when the related assets/items are sold or settled. Corresponding items in associates and joint ventures are reported in the same way.

The statement of financial position is traditionally structured, the assets section starting out with non-current assets and ending with cash and cash equivalents. Interest-bearing receivables except for cash and cash equivalents are not presented on separate lines, based on materiality considerations. The interest-bearing items are disclosed in notes. In the equity and liabilities section, a distinction is made between equity, interest-bearing and non-interest-bearing non-current and current items.

The statement of cash flows is structured using the indirect method, presenting cash flows from operating, investing and financing activities, and explains changes in "Cash and cash equivalents" in the reporting period.

Orkla also presents an Orkla-format cash flow statement in the Report of the Board of Directors and in Note 38. The bottom line of the statement shows the change in net interest-bearing liabilities. Segment information refers to this statement, as the Group's cash flows are reported and managed in this way. Cash flow from operations is an important management parameter at Orkla; see Note 7.

The statement of changes in equity presents all the items reported in equity, including items from the comprehensive income statement. Other items in addition to the latter consist of transactions relating to shareholders, such as dividends, the purchase and sale of treasury shares and transactions relating to non-controlling interests.

Future amendments to standards

The consolidated financial statements will be affected by future changes in IFRS. The International Accounting Standard Board (IASB) has both published standards and is working on projects that could affect the Orkla Group's financial statements to varying degrees. Work is in progress, for instance, on a new standard for Insurance Contracts (IFRS 17), as well as minor changes in the standard for Business Combinations (IFRS 3), the standard for Presentation of Financial Statements (IAS 1) and for Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8). The changes in existing standards are intended to assist companies in determining whether they have acquired a business or a group of assets and to create a uniform definition of materiality across all the IFRS standards. These changes are not expected to have a material effect on the consolidated financial statements.

01
02
03
04
05

NOTE 4 USE OF ESTIMATES AND ASSUMPTIONS IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The preparation of financial statements entails that the executive management must make decisions on the closing date on the basis of the information and discretionary assessments available on the date in question. This may apply to estimates and assumptions relating to financial statement items or other matters that may also have a material influence on the valuation of the company. Any material change in value from 31 December and up until the time the Board of Directors approves the annual financial statements will be reflected in either the financial statements or in the notes.

Areas of greatest estimate uncertainty

The management has made use of estimates and assumptions in preparing the consolidated financial statements. This applies to assets, liabilities, revenues, expenses and supplementary information related to contingent liabilities.

Fair value assessments are affected by estimates of required rates of return. The required rate of return is determined by using the capital asset pricing model and is affected by estimates of risk-free interest and risk premium.

Most statement of financial position items will be affected to some degree by estimate uncertainty. This is disclosed in the respective notes. Some areas are substantially affected by estimate uncertainty, and the areas where estimates will have the greatest significance will be:

Amounts in NOK million

Accounting item	Note	Estimate/assumptions	Carrying value
Goodwill	18, 19	Net present value future cash flows/NSV[1]	16 533
Trademarks with indefinite life	18, 19	Net present value future cash flows/NSV[1]	5 653
Property, plant and equipment	18, 20	Net present value future cash flows/NSV[1]	13 955
Leases	21	Lease period, renewal options and net present value future cash flows	1 447
Discounts, reduction in prices of seasonal goods, etc.	9, 27	Estimated need for provision in line with agreements	1 516
Provisions for liabilities and other non-current liabilities	26	Estimated need for provision based on incurred liabilities and estimated exposure	695

[1]NSV: Net sales value

The areas where there is the greatest risk of material changes are capitalised goodwill and trademarks with an indefinite useful life. This is because the amounts involved are substantial and the value of the asset is based on recognition principles from purchase price allocations. Valuations relating to these non-current assets are described in Note 18. It is important to be aware that proprietary trademarks are not capitalised and consequently do not entail any risk in relation to the statement of financial position.

The valuation and estimated useful life of property, plant and equipment are based on future information and will always involve a degree of uncertainty. Especially in a situation where the Group is planning major changes in its manufacturing structure and number of production sites, there will be extra focus on the assessments made of different production facilities. The various production sites are routinely assessed based on a going concern approach, but in a situation where a change in organisational structure could mean that some plants will be closed or reorganised, these assessments will have to be changed on an ongoing basis and could lead to the identification of both net book value surpluses and net book value deficits.

Similarly, the Group's decision to invest in a common ERP platform may make it necessary to change the useful life of or write down some currently used IT systems. A valuation of the IT systems concerned will be made on the date the various companies formally confirm their investment in a new ERP system. (For more information on the new ERP system, see Note 19.)

In Branded Consumer Goods, discounts amount to a substantial total. The discounts do not appear directly in the financial statements. It is net turnover after discounts that is presented as the Group's operating revenues. The majority of the discounts are netted in the invoices. Provisions are made for the share of discounts that are not netted directly in the invoice.

Discounts for which provisions are made are reported as a current liability as at 31 December and totalled NOK 1.5 billion in 2019. Discounts for which provisions are made are related to contractual arrangements that are largely based on agreements with chains and reported sales. The discount structure is complex and discounts are calculated on the basis of various discount matrices and agreements, and entail an inherent risk of estimate variance.

Other sales revenue reductions such as reductions in the price of seasonal goods, etc. must be estimated, due to the fact that externally-sourced data will not be available until after the

Note 4 cont.

financial statements have been prepared and presented. These arrangements also entail an inherent risk of estimate variance. There have been no material variances between provisions for and actually reported sales revenue reductions in the past few years.

After the sale of its stake in Sapa in 2017, Orkla retained certain liabilities arising from its former ownership. These are primarily liabilities related to guarantees and specific indemnities given to Norsk Hydro. In the second quarter of 2019, Orkla paid approximately NOK 200 million to Norsk Hydro in connection with the settlement reached between subsidiaries of Norsk Hydro and the US Department of Justice (DOJ), Civil and Criminal Divisions. The remaining provision as at 31 December 2019 (see Note 26) is deemed to be sufficient to cover Orkla's remaining liabilities.

Other estimates and assumptions are disclosed in various notes, and any information that is not logically included in other notes is presented in Note 37.

Looking ahead

Future events and changes in operating parameters may make it necessary to change estimates and assumptions. Orkla's partnership agreements with customers are mainly entered into for limited periods of time, as is the case for the rest of the industry. The parameters for the partnership are thus normally renegotiated at regular intervals. These negotiations can result in changes in both the conditions and positions covered by the individual partnership agreement. Agreements with individual customers are normally entered into by the Orkla companies (business units).

New standards and new interpretations of current standards may result in changes in the choice of accounting policies and presentation. Such changes will be recognised in the financial statements when new estimates are prepared and whenever new requirements regarding presentation are introduced. These matters are disclosed in both the description of policies and in notes.

Exercise of judgement

The financial statements may be affected by the choice of form of presentation, accounting principles and exercise of judgement. This applies, for instance, to items that only to a limited degree are reliable measures of the Group's current earnings. These items are presented as "Other income" and "Other expenses" in the income statement. The items are included in the Group's operating profit, but not in EBIT (adj.) broken down by segment.

Assessments regarding the recognition of leases may also entail exercise of judgement. This applies, for instance, when assessing whether renewal options should be recognised as well as whether a distinction should be made between leases and service agreements.

Orkla has also chosen to present profit or loss from associates and joint ventures after operating profit or loss.

Use of a different set of assumptions for the presentation of the financial statements could have resulted in significant changes in the different lines of the income statement presented. However, the bottom line would have been the same.

SUSTAINABILITY

The global challenges related to climate change, resource scarcity, nutrition and health affect Orkla's activities in the form of a risk of changes in raw material availability, costs, consumer preferences and political framework conditions. The Group monitors developments closely through an active dialogue with stakeholders and ongoing analyses. Orkla's sustainability strategy covers the topics considered particularly important for the Group based on a combined sustainability and business perspective. Through its sustainability work, Orkla's ambition is to contribute towards achieving the global sustainability goals, ensure effective risk management and exploit sustainability-related opportunities to create growth, trust and long-term profitability. The business risk for Orkla related to the global sustainability challenges is described in greater detail on pages 59-60 and 69-70.

NOTE 5 DISPOSALS AND ACQUISITIONS OF COMPANIES AND MATERIAL ASSETS

Sales and purchases of companies affect the comparison with the previous year's figures, and the changes in the various notes must be seen in the light of this factor. Purchased companies are presented in the financial statements from the date on which control transfers to the Group. Sold companies, which are not covered by the rules regarding "Discontinued operations", cease to be included in the financial statements from the date the Group no longer has control.

ACCOUNTING POLICIES

Disposals of companies

When a business is divested, the gain is measured as the difference between the selling price and the company's booked equity, minus any remaining excess value related to the business. Any sales expenses incurred will reduce the gain/increase the loss. Accumulated translation differences and any hedging reserves related to the divested business will be recognised in the income statement as part of the gain/loss, with a corresponding contra entry in other items in comprehensive income. The gain will be reported before tax and the business's associated tax will be recognised on the tax line of the income statement. The real gain is reflected in the sum total of the gain and the tax. If the sold business qualifies for recognition as "Discontinued operations", all the effects associated with the gain will be reported on the line for "Discontinued operations" in the income statement.

Acquisitions of companies

Business combinations are accounted for using the acquisition method. When a subsidiary is acquired, a fair value assessment is carried out, and assets and liabilities are valued at their fair value at the time of acquisition. The residual value in the acquisition will be goodwill. The acquisition is reported in the financial statements from the date the Group has control. The date of control is normally the date on which the acquisition agreement takes effect and has been approved by all the relevant authorities and will normally be after the contract date. If there are non-controlling interests in the acquired company, these will receive their share of allocated assets and liabilities, except for goodwill. Transactions with the non-controlling interests will be recognised in equity. In companies where the Group already owned interests prior to the business combination, any change in the value of earlier interests will be recognised in the income statement. The Group's equity will therefore be affected by the fact that the assets are repriced as if the entire acquisition had been made at this time. The same procedure will in principle be carried out in connection with the establishment of a joint venture and with the acquisition of an associate. However, these are not considered to be business combinations because the Group does not obtain control. M&A costs and subsequent integration costs are recognised as "Other expenses".

Disposal of companies

In June 2019, Orkla signed an agreement with the City of Oslo on the sale of the property at Treschows gate 16. The agreement was approved by the Oslo City Council on 25 September, and a gain of NOK 294 million on the sale was taken to income; see Note 14.

In the second quarter of 2019, Orkla Foods Denmark sold the Glyngøre brand, Denmark's best-known herring and tuna brand. The brand had net sales of DKK 43 million (approx. NOK 56 million) in 2018. The sale of the Russian nut company Chaka was completed in the first quarter of 2019.

In the fourth quarter of 2019, Orkla sold its 50% interest in the Oslo Business Park property to Stor-Oslo Eiendom; see Note 6.

Acquisition of companies

On 22 November 2018, Orkla made an offer to purchase all the shares in Kotipizza Group Oyj ("Kotipizza"). Kotipizza was listed on Nasdaq Helsinki, and as at 31 December 2018, Orkla owned 11% of the shares. The share purchase offer was completed in accordance with its conditions in the first quarter of 2019. Kotipizza is a leading player in the growing Finnish restaurant market, and Finland is one of Orkla's home markets. The restaurants are mainly franchise-operated. Kotipizza has 95 employees, and the company was consolidated as of 1 February 2019. Goodwill in Kotipizza is chiefly related to the business system in the form of processes, procedures and employees.

In December 2018, Orkla entered into an agreement to purchase 90% of the shares in Easyfood A/S, a Danish manufacturer of bake-off bakery goods for the out-of-home channel. Easyfood has established itself as a solid supplier to the out-of-home market in Denmark and has a growing customer base. Easyfood currently has 144 employees. The company was consolidated into the Group's financial statements as of 1 May 2019. Orkla has an option to purchase the remaining 10% of the company.

Orkla Food Ingredients purchased the majority of the shares in the Greek company Stelios Kanakis Industrial and Commercial S.A. ("Kanakis"). Kanakis is market leader for the sale and distribution of confectionery, bakery and ice cream ingredients in Greece. Kanakis was listed on the Athens stock exchange. Upon completion of the squeeze-out process, Orkla will own 80% and the Kanakis family 20% of the company. Kanakis has 73 employees. The company was consolidated into Orkla's financial statements as of 1 April 2019.

Note 5 cont.

Orkla House Care completed an agreement to take over the remaining 50% of the shares in the joint venture Anza Verimex Holding. Since 2018, Orkla House Care has owned 50% of the company which is market leader for the sale and distribution of painting tools in the Netherlands and Belgium. The business that is to be transferred consists of Anza Verimex Holding B.V. (Netherlands) and its two subsidiaries PGZ Nederland B.V. (Netherlands) and Anza Verimex NV (Belgium). Going forward, the companies will be operated under the name Orkla House Care Benelux. The companies involved in the transaction have around 10 employees. While the joint venture was part-owned by Orkla, the business's profit was reported as "Profit/loss from associates and joint ventures" using the equity method (see Note 6), but as of 1 October 2019 the wholly-owned company was consolidated into Orkla's income statement. As a result of the company's transition from a joint venture to a subsidiary, all the company's assets have been recognised at fair value. This has resulted in recognition of NOK 33 million in income under "Other income" related to the adjustment in the value of the previously recognised interest as a joint venture; see Note 14.

Orkla Food Ingredients purchased the Netherlands company Vamo produkten voor de Bakkerij B.V. ("Vamo"). Vamo manufactures specialised concentrates and ingredient mixes for sale to manufacturers of artisan and industrial bakery products. The company also holds a leading position in the Benelux in special ingredients for corn-based products, a segment that has seen good growth in Europe for several years. Vamo has 20 employees. The company was consolidated into Orkla's financial statements as of 1 September 2019.

Orkla Food Ingredients purchased the British caramel manufacturer Confection by Design Ltd. Confection by Design offers fudge and toffee to ice cream manufacturers, bakeries and confectioners, and approximately two thirds of its portfolio are distributed by Orkla's UK subsidiary Orchard Valley Foods. The company has 35 employees. The company was consolidated into Orkla's financial statements as of 1 July 2019.

Orkla Food Ingredients acquired the Swedish sales and distribution company Bo Risberg Import AB ("Risberg"). Risberg holds a strong position in high-growth categories in Sweden, supplying products such as Asian spices, sauces, spice mixes and other high-quality flavourings. The company has five employees. The company was consolidated into Orkla's financial statements as of 1 June 2019.

Other acquisitions
Orkla Food Ingredients purchased Zeelandia Sweden AB (Credin Sverige), a supplier of margarine, vegetable oils and bakery ingredients to the Swedish market. The company has most of its sales in Sweden, and exports to Finland, the Baltics and Norway. The company has around 60 employees and its turnover totalled EUR 22.9 million (approx. NOK 222.5 million) in 2018. The company was consolidated into Orkla's financial statements as of 1 June 2019.

Orkla Foods acquired Lecora, a Swedish manufacturer of frozen and chilled vegan and vegetarian dishes. A large portion of the company's product assortment is organic. Lecora has 35 employees and the company had a turnover of SEK 95.9 million (approx. NOK 88.2 million) in 2018, and EBIT of SEK 5.9 million (approx. NOK 5.4 million). The company was consolidated into the income statement as of 1 April 2019.

Orkla Food Ingredients also acquired non-controlling interests in companies including the NIC and Dragsbæk groups.

Acquisitions of associates and joint ventures are disclosed in Note 6.

Other matters relating to purchase price allocations
Capitalised goodwill related to acquisitions comprises synergies, assets related to employees, other intangible assets that do not qualify for separate capitalisation, future excess earnings and the fact that deferred tax in accordance with IFRS is not discounted.

None of the purchase price allocations for the acquisitions made in 2019 had been finalised as at 31 December 2019, due to uncertainty attached to certain valuation factors.

The purchase price allocations for all companies acquired in 2018 were completed in 2019. No material changes were made in the purchase price allocations.

Operating revenues and EBIT (adj.) for the largest acquisitions, before and after the acquisition, are presented in the table on the next page.

A total of NOK 94 million (NOK 64 million in 2018) was expensed in acquisition costs in 2019.

E ESTIMATE UNCERTAINTY

In company acquisitions, the assets taken over are valued at fair value at the time of purchase. The various assets are valued on the basis of different models, and goodwill is the residual in this type of purchase price allocation. Errors in estimates and assumptions can lead to an error in the split of the value between the various assets, but the sum of the total value surpluss will always be consistent with the purchase price paid.

Note 5 cont.

Acquired companies

Amounts in NOK million	Acquisition			Allocation of excess and deficit values					Operating revenues		EBIT (adj.)	
	Date of control	Interest (%) after acquisiton	Acquisition cost	Trade-marks	Property, plant and equipment	Other	Deferred tax	Goodwill	After acquisition date	Before acquisition date	After acquisition date	Before acquisition date
2019												
Kotipizza Group, Orkla Consumer Investments	February	100%	1 547	431	-	(8)	(85)	1 146	982	83	82	5
Easyfood, Orkla Foods	May	90%[2]	398	-	-	(1)	-	310	293	141	18	9
Kanakis, Orkla Food Ingredients	April	80%	191	-	-	-	-	104	174	46	22	4
Anza Verimex, Orkla Consumer Investments	October	100%	168	-	-	-	-	274[3]	43	140	9	30
Vamo, Orkla Food Ingredients	September	100%	148	-	4	(2)	-	102	44	84	5	10
Confection By Design, Orkla Food Ingredients	July	100%	131	-	-	-	-	108	33	36	9	12
Risberg, Orkla Food Ingredients	June	100%	112	-	-	(2)	-	98	44	33	10	7
Other acquisitions			227	10	-	(7)	(5)	56				
Acquisitions at enterprise value			**2 922**	**441**	**4**	**(20)**	**(90)**	**2 198**				
Investments in associates and joint ventures (see Note 6)			115									
Purchase of other shares			26									
Acquisitions in segments, enterprise value (see Note 38)			**3 063**									
Interest-bearing liabilities acquisitions			(205)									
Cash flow effect acquisitions[1]			**2 858**									
2018												
Health and Sport Nutrition Group (HSNG), Orkla Care	February	100%	356	95	-	(40)	(12)	273	631	69	18	2
Werners Gourmetservice, Orkla Food Ingredients	May	92%[2]	146	-	5	-	(1)	117	114	47	7	3
Struer Brød, Orkla Foods	February	100%	117	-	(3)	1	(1)	70	134	11	7	1
Pizza restaurant chain Gorm's, Orkla Consumer Investments	April	67%[2]	64	-	-	-	-	111	86	19	3	1
County Confectionery, Orkla Food Ingredients	October	100%	49	-	-	2	-	3	16	70	3	5
Other acquisitions			106	-	-	-	-	29				
Acquisitions at enterprise value			**838**	**95**	**2**	**(37)**	**(14)**	**603**				
Investments in associates and joint ventures (see Note 6)			75									
Purchase of other shares			167									
Acquisitions in segments, enterprise value (see Note 38)			**1 080**									
Interest-bearing liabilities acquisitions			(108)									
Cash flow effect acquisitions[1]			**972**									

[1]Equivalent to compensation for equity adjusted for cash and cash equivalents. Cash and cash equivalents in acquisitions totalled NOK 275 million in 2019 (NOK 14 million in 2018).
[2]The companies have been recognised on a 100% basis due to option agreements entered into at the time of acquisition.
[3]Includes goodwill carried in the company's statement of financial position before the acquisition of the remaining 50% of the shares in Anza Verimex.

Note 5 cont.

01
02
03
04
05

Acquired companies statement of financial position

Amounts in NOK million	Total 2019 Fair value	2019 Kotipizza	Total 2018 Fair value
Property, plant and equipment	385	190	170
Intangible assets	474	469	123
Other long-term assets	-	-	1
Inventories	239	42	148
Receivables	347	91	105
Assets	1 445	792	547
Provisions	(92)	(83)	(26)
Non-current liabilities, non interest-bearing	(85)	(42)	(79)
Current liabilities, non interest-bearing	(311)	(109)	(207)
Non-controlling interests	45	-	-
Net assets	1 002	558	235
Goodwill	2 198	1 146	603
Total acquisition cost at enterprise value	3 200	1 704	838
Previous ownership interest in acquired companies	(278)	(157)	-
Acquisition cost at enterprise value 2019	2 922	1 547	-

Ⓢ SUSTAINABILITY

Orkla purchased companies in 2019 that enhance the Group's ability to promote sustainable consumption. The Kotipizza Group pizza restaurant chain holds a strong position in the Finnish restaurant market and engages extensively in promoting sustainability. Through its 43.5% interest in the Portuguese company Asteriscos e Reticências, S.A. and its Captain Kombucha brand, Orkla has achieved a European position in tea-based health drinks. Through the acquisition of the Swedish company Lecora, Orkla expanded its portfolio of organic, vegan and vegetarian foods.

NOTE 6 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates and joint ventures are investments in companies where the Group has significant, but not controlling influence. In order to show the financial performance of such companies they are consolidated on a single line of the income statement and the statement of financial position using the equity method.

Ⓟ ACCOUNTING POLICIES

The equity method

Investments in associates are investments in companies in which the Orkla Group has significant influence by virtue of its ownership interest. These are usually companies in which Orkla owns a 20-50% stake. Joint ventures are investments in companies where the Group, together with others, has controlling influence. Both of these types of investment are accounted for using the equity method. The Group presents its share of the companies' results after tax and non-controlling interests on a separate line in the income statement and accumulates the results reported for the share on a single line in the statement of financial position. Any value surplus that is to be amortised is deducted from profit according to the same principles as for consolidated companies. Goodwill is not amortised. Dividends received are reported against the ownership interest in the statement of financial position and are regarded as repayment of capital. The value presented in the statement of financial position thus represents the original cost price plus profit or loss accumulated up to the present date, minus any amortisation of value surpluses and accumulated dividends received. Account is also taken of the share of any translation differences and other equity transactions. Any write-downs of the value of the ownership interest are presented on the same line.

Associates and joint ventures

Orkla's 42.6% interest in Jotun is presented as an associate; see separate paragraphs below. In addition to the companies commented on below, Orkla has only some smaller associates.

Orkla Foods acquired 43.5% of the shares in the Portuguese company Asteriscos e Reticências, S.A. The company produces fermented tea-based health drinks sold all over Europe under the Captain Kombucha brand. The company's turnover increased from EUR 0.9 milllion (approx. NOK 9 million) in the start-up year 2017 to EUR 3.1 million (approx. NOK 30 million) in 2018. The company was consolidated into the income statement as of 1 April 2019.

Note 6 cont.

Orkla purchased 20% of the Icelandic company Nói Síríus, Iceland's leading chocolate and confectionery manufacturer. Nói Síríus is market-leading in Iceland and over 70% of the company's turnover comes from its domestic market. The company also has a growing share of exports and tax-free sales. The company also distributes certain strong global branded consumer brands of chocolate, snacks and breakfast products. Nói Síríus has around 150 employees and the company's turnover totalled ISK 3,436 million (approx. NOK 244 million) in 2018. Under the agreement, Orkla has an option to acquire the remaining shares after 2020. The company was consolidated into the income statement as of 1 December 2019.

Orkla House Care completed an agreement to take over the remaining 50% of the shares in the joint venture Anza Verimex Holding. Since 1 April 2018 Orkla House Care has held 50%, and the company was accounted for using the equity method. As a result of Anza Verimex's transition from a joint venture to a subsidiary, all the company's assets have been recognised at fair value. This has resulted in the recognition in income of NOK 33 million under "Other income" related to the adjustment in the value of the interest previously recognised as a joint venture; see Notes 5 and 14.

Orkla sold the Oslo Business Park property to Stor-Oslo Eiendom. Orkla owned 50% of Oslo Business Park. The transaction generated a gain of NOK 35 million. A seller's credit for a term of up to five years was granted in connection with the sale.

Figures for associates and joint ventures which do not report in accordance with IFRS are restated prior to inclusion in the consolidated financial statements. Orkla has no contingent liabilities, either on its own or jointly with other investors, in associates or joint ventures.

Associates and joint ventures

Amounts in NOK million	Jotun	Other	Total
Book value 1 January 2018	3 439	244	3 683
Additions/disposals	7	68	75
Share of profit/loss	258	6	264
Dividends	(182)	(1)	(183)
Items charged to equity	8	2	10
Book value 31 December 2018	3 530	319	3 849
Additions/disposals	-	(177)	(177)
Share of profit/loss	625	34	659
Dividends	(182)	(2)	(184)
Items charged to equity	29	-	29
Book value 31 December 2019	4 002	174	4 176
Cost price 31 December 2019	189		
Ownership interest	42.6%[1]		

[1] The Group has 38.4% of the voting rights in Jotun.

Note 6 cont.

Jotun

Jotun is one of the world's leading manufacturers of paints and powder coatings, with 56 subsidiaries, three joint ventures and five associates. Jotun has 39 production plants distributed across all of the world's continents. Jotun's activities consist of the development, manufacture, marketing and sale of various paint systems for the residential, shipping and industrial sectors. Jotun is divided into four segments: Decorative Paints, Marine Coatings, Protective Coatings and Powder Coatings.

The cost price for Jotun is NOK 189 million, while the carrying value using the equity method is NOK 4,002 million. Orkla's equity interest (42.6%) serves as the basis for recognition using the equity method, while Orkla has 38.4% of the voting rights. Orkla owns 42,203 A shares and 103,446 B shares in the company. An A share carries 10 times as many votes as a B share.

Jotun is a family-controlled group, and Orkla has been an active minority shareholder in Jotun for almost 50 years. The value of Orkla's interest in Jotun must be seen in the light of this situation. An internal valuation of Jotun substantiates that there are considerable value surpluses in Orkla's investment in Jotun in relation to its carrying value.

The following tables show 100% figures for Jotun.

Items in the income statement and statement of financial position

Amounts in NOK million	2019	2018
Operating revenues	19 652	17 660
Operating profit/loss	2 320	1 361
Profit/loss after tax and non-controlling interests	1 468	605
Other comprehensive income after non-controlling interests	1 487	596
Non-current assets	9 137	7 743
Current assets	9 998	8 971
Total assets	19 135	16 714
Non-current liabilities	3 939	2 565
Current liabilities	5 613	5 680
Total liabilities	9 552	8 245

Reconcilation of equity Jotun against Orkla's share

Equity in Jotun	9 584	8 469
Non-controlling interests	280	224
Owners of the parent's equity	9 304	8 245
Orkla's share of equity (42.6%)	4 002	3 530

NOTE 7 SEGMENTS

In the segment information, sales revenues, organic growth, profit and loss, cash flows and capital employed, together with operating margin and the number of man-years, are broken down between the different business areas. Sales revenues are also broken down geographically based on the customer's location.

Branded Consumer Goods

Orkla Foods offers well-known local branded products to consumers in the Nordics, Baltics, Central Europe and India. The business area holds leading market positions in a number of categories, including frozen pizza, ketchup, soups, sauces, bread toppings and ready-to-eat meals. A steadily growing percentage of sales comes from plant-based food products. Orkla Foods primarily sells its products through the grocery retail trade, but also holds strong positions in the out-of-home, convenience store and petrol station sectors. Norway and Sweden are Orkla Foods' two largest markets.

Orkla Confectionery & Snacks holds strong number one and number two positions in the confectionery, biscuits and snacks categories, with well-known local brands and tastes in Norway, Sweden, Denmark, Finland, Latvia and Estonia. The business area also develops bran and crispbread products, as well as healthy, high-energy snack meals. Its turnover chiefly comes from the Nordic and Baltic markets. Norway is its largest single market.

Orkla Care consists of four branded consumer goods companies which serve markets in the Nordics, Baltics, Poland and Spain, in addition to making substantial export sales outside its home markets. The two largest business entities are Orkla Home & Personal Care which holds leading positions in personal care and cleaning products, and Orkla Health, which has strong dietary supplement, sport nutrition and weight control brands. Orkla Care is also well positioned in several European countries with Orkla Wound Care in wound care products and first aid equipment. HSNG runs the e-commerce portals Gymgrossisten and Bodystore, and is the biggest online player in the Nordics in the health and sport nutrition category.

Orkla Food Ingredients manufactures, sells and distributes ingredients and products to the bakery and ice cream markets in 23 countries. The Nordic region accounts for around half of the sales. Artisanal and industrial bakeries are the largest customer group, with around 50% of sales. Sales of ice cream ingredients account for around 15%, and around 20% are sales directly to consumers under well-known brands. The biggest product categories are margarine and butter blends, bread and cake improvers and mixes, yeast, marzipan and ice cream ingredients.

Orkla Consumer Investments consists of Orkla's painting tool businesses (Orkla House Care), basic garments sold through the grocery retail trade (Pierre Robert Group), professional cleaning (Lilleborg) and restaurant businesses (Kotipizza Group and Gorm's). The businesses operate primarily in the Nordic countries, but the UK is also an important market for Orkla House Care. Orkla Consumer Investments is part of the Orkla Consumer & Financial Investments business area.

Headquarters (HQ)

Activities at Orkla HQ include the Group's top executive management and the corporate and shared functions Group HR, Compensation & Benefits, Corporate Communications & Corporate Affairs, Orkla Services, Internal Audit, Legal and Compliance, EHS, Finance and IT, Strategy and M&A, Group Sales, Orkla Marketing & Innovation and Orkla Group Procurement. Most of the activities at Orkla HQ are related to Branded Consumer Goods.

Industrial & Financial Investments

Orkla has investments outside Branded Consumer Goods, which are organised under Industrial & Financial Investments. The business area comprises Hydro Power and Financial Investments, in addition to the associate Jotun (42.6% interest); see Note 6. Industrial & Financial Investments are part of the Orkla Consumer & Financial Investments business area.

Hydro Power consists of wholly-owned power plants in Sarpsfoss and leased power plants through Orkla's 85% interest in AS Saudefaldene. The power operations in Sauda are regulated by a lease with Statkraft that runs until 31 December 2030. The energy operations produce and supply power to the Nordic power market and mean annual production (2011-2019) totals 2.5 TWh, of which around 1.1 TWh is a fixed delivery commitment with a net effect of zero on profit. See also Note 34.

Note 7 cont.

Financial Investments consists of Orkla Eiendom and Orkla Venture. Orkla Eiendom is responsible for developing real estate properties freed up by the restructuring of Branded Consumer Goods, and the development of the Group's new headquarters that was completed in February 2019. Orkla Ventures was established in 2017 to reach out to a growing universe of entrepreneurial businesses and start-up companies. The purpose of Orkla Ventures is to invest in technology, concepts and business models that might be relevant for Orkla's businesses. Besides offering risk capital, Orkla provides both expertise and collaboration in relevant parts of the value chain. Investments will initially be concentrated in the Nordic and Baltic regions, in line with Orkla's other core activities.

Further information on the individual business areas:
For a complete overview of Orkla companies, reference is made to page 262.

Ⓟ ACCOUNTING POLICIES

Orkla has business areas as operating segments. Internally, Orkla Foods is reported as two operating segments, but externally is presented as a single operating segment based on the segment aggregation rules. The operating segments otherwise correspond to the way in which the business areas report figures to the Group Executive Board (chief operating decision maker), but are limited to an expedient number. The business area Orkla Consumer & Financial Investments is divided into two operating segments. Orkla Consumer Investments is reported as part of Branded Consumer Goods, while Industrial & Financial Investments is reported outside Branded Consumer Goods.

Sales revenues are broken down by geographical market based on the customer's location. The accounting policies on which segment reporting is based are the same as for the rest of the consolidated financial statements.

Transactions between different segments are priced on market terms. Orkla ASA provides services to the companies in the Orkla Group and charges them for these services based on the aforementioned principles.

Segment information
The operating profit or loss in the segment information is identical to the information presented in the income statement for the Group. The operating costs in the segment presentation are equal to the sum total of the costs of materials, payroll expenses and other operating expenses. The Orkla Group has a central finance function and the financing of the various segments does not necessarily reflect the real financial strength of the individual segments. Financial items are therefore presented for the Group as a whole. The same applies to tax expense. Cash flow figures have been taken from the Orkla-format cash flow statement; see Note 38.

The segment information tables show sales broken down by geographical market, based on the customers' location. The products and services from which revenues are generated are specified in the description on the previous page. Orkla has three customers who each account for around 10% of turnover in Branded Consumer Goods.

Net operating capital is defined in a separate table below.

Specification net working capital Branded Consumer Goods incl. HQ

Amounts in NOK million	2019	2018
Trade receivables	6 062	5 963
Other current receivables	729	567
Inventories	5 868	5 866
Trade payables	(5 573)	(4 860)
Value added tax, employee taxes etc.	(845)	(769)
Other current liabilities	(1 975)	(1 918)
Net working capital	4 266	4 849

Figures showing the geographical breakdown of capital employed, investments in owned property, plant and equipment and the number of man-years are also presented; see Note 8.

Note 7 cont.

Segments 2019

Amounts in NOK million	Orkla Foods	Orkla Confectionery & Snacks	Orkla Care	Orkla Food Ingredients	Orkla Consumer Investments	HQ	Elimin-ations	Branded Consumer Goods incl. HQ	Hydro Power	Financial Investments	Elimin-ations	Orkla
REVENUES/PROFIT/LOSS												
Norway	4 706	1 878	1 986	1 065	1 164	7	-	**10 806**	794	4	-	**11 604**
Sweden	4 466	1 378	1 263	1 619	219	-	-	**8 945**	-	1	-	**8 946**
Denmark	1 256	693	519	1 900	186	-	-	**4 554**	-	-	-	**4 554**
Finland and Iceland	978	1 097	560	715	1 156	-	-	**4 506**	-	-	-	**4 506**
The Baltics	521	1 155	67	366	11	-	-	**2 120**	-	-	-	**2 120**
Rest of Europe	3 608	354	1 126	4 322	609	12	-	**10 031**	-	4	-	**10 035**
Rest of the world	1 130	43	312	102	28	1	-	**1 616**	-	-	-	**1 616**
Sales revenues	16 665	6 598	5 833	10 089	3 373	20	-	**42 578**	794	9	-	**43 381**
Other operating revenues	9	8	23	20	5	24	-	**89**	32	113	-	**234**
Intercompany sales	102	6	31	183	7	534	(846)	**17**	-	60	(77)	**-**
Operating revenues	16 776	6 612	5 887	10 292	3 385	578	(846)	**42 684**	826	182	(77)	**43 615**
Organic growth (Branded Consumer Goods)	*1.8%*	*4.6%*	*0.0%*	*0.6%*	*-3.4%*			*1.3%*				
Operating expenses	(13 860)	(5 225)	(4 874)	(9 379)	(2 946)	(879)	846	**(36 317)**	(393)	(151)	77	**(36 784)**
Depreciation, amortisation and write-downs	(640)	(293)	(158)	(287)	(142)	(61)	-	**(1 581)**	(141)	(21)	-	**(1 743)**
EBIT (adj.)	2 276	1 094	855	626	297	(362)	-	**4 786**	292	10	-	**5 088**
Other income and expenses	(159)	(73)	(196)	(85)	(223)	(56)	-	**(792)**	-	231	-	**(561)**
Operating profit/loss	2 117	1 021	659	541	74	(418)	-	**3 994**	292	241	-	**4 527**
CASH FLOW (SEE NOTE 38)												
Cash flow from operations	2 649	1 061	902	568	348	(730)	-	**4 798**	276	(141)	-	**4 933**
Of this replacement expenditures	(504)	(318)	(172)	(389)	(180)	(368)	-	**(1 931)**	(162)	(194)	-	**(2 287)**
Expansion investments	(424)	(26)	(17)	(164)	-	-	-	**(631)**	-	-	-	**(631)**
CAPITAL EMPLOYED												
Net working capital	1 600	344	847	1 425	323	(273)	-	**4 266**	4	62	-	**4 332**
Investments in associates and joint ventures	78	-	-	-	27	37	-	**142**	-	4 034	-	**4 176**
Intangible assets	8 765	4 974	4 236	2 125	2 547	60	-	**22 707**	19	1	-	**22 727**
Property, plant and equipment	5 027	2 121	1 028	2 164	610	764	-	**11 714**	2 042	1 646	-	**15 402**
Pension liabilities, net	(907)	(233)	(322)	(178)	(34)	(632)	-	**(2 306)**	(17)	(3)	-	**(2 326)**
Deferred tax, net value, surpluses	(421)	(403)	(132)	(8)	(100)	-	-	**(1 064)**	-	(4)	-	**(1 068)**
Capital employed	14 142	6 803	5 657	5 528	3 373	(44)	-	**35 459**	2 048	5 736	-	**43 243**
KEY FIGURES												
Operating margin EBIT (adj.)	13.6%	16.5%	14.5%	6.1%	8.8%	-	-	**11.2%**	35.4%	-	-	**11.7%**
Total man-years 31 December	7 488	2 825	1 839	3 541	1 352	580	-	**17 625**	47	20	-	**17 692**

Note 7 cont.

Segments 2018

Amounts in NOK million	Orkla Foods	Orkla Confectionery & Snacks	Orkla Care	Orkla Food Ingredients	Orkla Consumer Investments	HQ	Elimin-ations	**Branded Consumer Goods incl. HQ**	Hydro Power	Financial Investments	Elimin-ations	**Orkla**
REVENUES/PROFIT/LOSS												
Norway	4 668	1 784	2 057	1 095	1 177	1	-	**10 782**	973	-	-	**11 755**
Sweden	4 261	1 313	1 251	1 425	234	-	-	**8 484**	-	-	-	**8 484**
Denmark	1 029	642	484	1 815	166	-	-	**4 136**	-	-	-	**4 136**
Finland and Iceland	949	1 004	525	677	188	-	-	**3 343**	-	-	-	**3 343**
The Baltics	487	1 099	67	339	10	-	-	**2 002**	-	-	-	**2 002**
Rest of Europe	3 487	338	965	3 942	575	-	-	**9 307**	-	38	-	**9 345**
Rest of the world	1 002	49	389	91	32	1	-	**1 564**	-	-	-	**1 564**
Sales revenues	15 883	6 229	5 738	9 384	2 382	2	-	**39 618**	973	38	-	**40 629**
Other operating revenues	17	6	21	13	3	32	-	**92**	52	64	-	**208**
Intercompany sales	100	11	19	165	8	562	(863)	**2**	-	12	(14)	**0**
Operating revenues	16 000	6 246	5 778	9 562	2 393	596	(863)	**39 712**	1 025	114	(14)	**40 837**
Organic growth (Branded Consumer Goods)	*1.5%*	*-3.4%*	*-2.4%*	*1.2%*	*-1.1%*			*-0.2%*				
Operating expenses	(13 401)	(5 005)	(4 833)	(8 854)	(2 108)	(828)	863	**(34 166)**	(580)	(114)	14	**(34 846)**
Depreciation, amortisation and write-downs	(551)	(235)	(104)	(175)	(39)	(52)	-	**(1 156)**	(55)	(3)	-	**(1 214)**
EBIT (adj.)	2 048	1 006	841	533	246	(284)	-	**4 390**	390	(3)	-	**4 777**
Other income and expenses	(165)	(61)	(88)	(44)	(70)	(29)	-	**(457)**	-	(25)	-	**(482)**
Operating profit/loss	1 883	945	753	489	176	(313)	-	**3 933**	390	(28)	-	**4 295**
CASH FLOW (SEE NOTE 38)												
Cash flow from operations	1 941	863	651	433	229	(657)	-	**3 460**	462	(434)	-	**3 488**
Of this replacement expenditures	(468)	(256)	(91)	(224)	(39)	(323)	-	**(1 401)**	(5)	(357)	-	**(1 763)**
Expansion investments	(356)	(38)	(68)	(69)	-	-	-	**(531)**	-	-	-	**(531)**
CAPITAL EMPLOYED												
Net working capital	2 029	418	1 016	1 383	348	(345)	-	**4 849**	11	103	-	**4 963**
Investments in associates and joint ventures	3	-	-	1	110	-	-	**114**	-	3 735	-	**3 849**
Intangible assets	8 492	5 049	4 412	1 666	895	42	-	**20 556**	19	2	-	**20 577**
Property, plant and equipment	4 382	1 888	815	1 481	317	437	-	**9 320**	1 894	1 546	-	**12 760**
Pension liabilities, net	(771)	(195)	(264)	(150)	(25)	(563)	-	**(1 968)**	(18)	(3)	-	**(1 989)**
Deferred tax, net value, surpluses	(426)	(408)	(154)	(8)	(20)	-	-	**(1 016)**	-	(4)	-	**(1 020)**
Capital employed	13 709	6 752	5 825	4 373	1 625	(429)	-	**31 855**	1 906	5 379	-	**39 140**
KEY FIGURES												
Operating margin EBIT (adj.)	12.8%	16.1%	14.6%	5.6%	10.3%	-	-	**11.1%**	38.0%	-	-	**11.7%**
Total man-years 31 December	7 511	2 923	1 943	3 409	1 329	385	-	**17 500**	47	86	-	**17 633**

NOTE 8 GEOGRAPHICAL BREAKDOWN OF CAPITAL EMPLOYED, INVESTMENTS AND NUMBER OF MAN-YEARS

Capital employed, investments and number of man-years are broken down by geographical markets based on the location of the companies. The note shows to what extent and in which countries/areas the Orkla Group has a physical presence.

	Capital employed		Investments[1]		Number of man-years	
Amounts in NOK million	2019	2018	2019	2018	2019	2018
Norway	17 573	16 237	1 148	1 228	2 841	3 053
Sweden	6 708	6 894	462	444	3 339	3 105
Denmark	5 783	5 454	262	238	1 632	1 483
Finland and Iceland	4 448	2 554	111	74	824	761
The Baltics	2 023	1 920	158	75	1 797	1 865
Nordic region and the Baltics	36 535	33 059	2 141	2 059	10 433	10 267
Rest of Europe	5 829	5 258	356	226	5 511	5 586
Rest of the world	879	823	30	46	1 748	1 780
Total	43 243	39 140	2 527	2 331	17 692	17 633
Link between segments and "Investments":						
Net replacement expenditures, from segments (see Note 7)			2 287	1 763		
Sale of property, plant and equipment (see cash flow statement)			54	38		
Expansion investments (see Note 7)			631	531		
New capitalised leases (see Note 21 and 38)			(450)	-		
Changes in accounts payable investments			5	(1)		
Total			2 527	2 331		

[1]Does not apply to property, plant and equipment acquired through purchases of companies.

ACCOUNTING POLICIES

Capital employed is the enterprise's net capitalised productive capital and is defined in the segment note as the net of segment assets and liabilities. Goodwill and intangible assets constitute a large share of capital employed. Investments are the total of replacement expenditures and expansion investments in owned property, plant and equipment. The number of man-years is the number of employees adjusted for fractional posts in the current reporting period. See Note 7 for segment information.

The increase from 2018 to 2019 in capital employed in Norway is largely related to investments in a new pizza factory at Stranda, a new head-quarters and a new common ERP platform. Capitalisation of leases also generally increases capital employed. The figures for Sweden, Denmark, Finland and the rest of Europe were otherwise impacted by acquisitions in 2019.

SUSTAINABILITY

Many Orkla companies are major employers, and both employees and management are chiefly recruited from the country in which the business is located. By developing profitable workplaces, Orkla creates positive ripple effects for society in the form of skills development, new jobs at supplier companies and in the public sector, and payment of direct and indirect taxes. To ensure long-term, competitive operations, Orkla made a number of changes in its manufacturing footprint in 2019. Along with the acquisition of new companies, this resulted in substantial investments in Norway, Sweden, Denmark, the UK, the Czech Republic, Portugal and Latvia.

NOTE 9 REVENUE RECOGNITION

The date on which revenue is recognised and the policies applied will be decisive in determining the profit or loss in the reporting period. In the same way, both the policies applied to and the definition of the term "sales revenue reductions" (discounts, etc.) will play a role in determining the total amount of operating revenues.

ⓟ ACCOUNTING POLICIES

IFRS 15 Revenue from Contracts with Customers establishes a theoretical framework for recognition and valuation of revenue. The date on which the revenue is recognised is determined through a five-step model, the main points of which are identification of a contract with the customer, identification of separate performance obligations, fixing of a transaction price, allocation of the transaction price to separate performance obligations and recognition of revenue upon fulfilment of the performance obligations. Recognition means the date on which an amount is to be taken to income and valuation means how much is to be reported in income. An enterprise fulfils a performance obligation by transferring control of the agreed product or service to the customer, and revenue is recognised at the time the performance obligation is fulfilled.

Sales revenues are presented after deducting discounts, value added tax and other government charges and taxes such as the confectionery tax. The Orkla Group sells goods and services in many different markets.

Breakdown of external operating revenues

Amounts in NOK million	2019	2018
Branded Consumer Goods	42 623	39 676
HQ	44	34
Branded Consumer Goods incl. HQ	42 667	39 710
Hydro Power	826	1 025
Financial Investments	122	102
Industrial & Financial Investments	948	1 127
Total external operating revenues	43 615	40 837

See Note 7 Segments for further breakdown of operating revenues in Branded Consumer Goods and operating revenues broken down by geographical areas.

Operating revenues Branded Consumer Goods

Sales channels split of external operating revenues Branded Consumer Goods:

Amounts in NOK million	2019	2018
Grocery	23 515	22 692
Specialised Trade[1]	5 688	5 240
Industry[2]	5 339	5 416
Hotel, Restaurants and Catering	4 111[4]	2 681
Export[3]	2 496	2 324
Other channels	1 474	1 323
Total external operating revenues Branded Consumer Goods	42 623	39 676

[1]External sales where the product is sold in a specialised outlet.
[2]External sales to other industrial companies or business-to-business customers.
[3]External sales (independent of channels) outside the company's home market.
[4]The increase in sales linked to Hotels, Restaurants and Catering is largely related to the purchase of Kotipizza; see Note 5.

A sale is chiefly defined as an isolated delivery obligation that has been fulfilled and is recognised in income when the goods are transferred to the counterparty, either when they leave the Group's factory premises or when they arrive at the customer's property. Sales are recognised in income at the expected value of the consideration after deducting benefits to customers, including estimated bonus payments, discounts and reductions in the price of seasonal goods. As at 31 December 2019, a provision of NOK 1.5 billion (NOK 1.4 billion in 2018) was made for total discounts; see Note 27. These are mainly yearly discounts that will be paid out in the following year.

Operating revenues Industrial & Financial Investments

In Hydro Power, external sales of electric power are recognised in income on the basis of the price agreed with the customer upon delivery. Electric power is mainly sold by the Saudefaldene and Sarpsfoss plants.

In Financial Investments rental revenues are recognised in income when earned. Payments related to housing projects for which the company has profit and loss responsibility are recognised in income upon delivery. This means that a long period of time may elapse between the start of a building project and the recognition of revenues. In the intervening period, incurred project expenses are reported as inventories. Any sales of companies are taken to income when the agreement is completed.

Note 9 cont.

Miscellaneous income
Interest revenues are recognised when earned, while dividends are taken to income on the date they are approved by the company paying the dividend.

Gains or losses on the sale of shares and financial assets are presented as other items in the comprehensive income statement, along with ongoing changes in the value of similar assets.

Ⓔ ESTIMATE UNCERTAINTY

The estimate uncertainty relating to sales revenue reductions in the Branded Consumer Goods business is disclosed in Note 4.

Ⓢ SUSTAINABILITY

Orkla strives to foster a corporate culture characterised by good judgement and the ability to comply with rules and regulations and deal with ethical challenges. The Group has zero tolerance for corruption, price-fixing agreements, market sharing or other practices that hamper free competition; see also Note 37. Internal training is regularly provided and the Group companies are monitored to reduce the risk of non-compliance with rules.

NOTE 10 COST OF MATERIALS

The cost of materials is by far the largest cost item in the income statement and accounts for close to 50% of operating revenues. The cost of materials consists of the cost of all raw materials, goods for resale, packaging, etc. that are necessary to be able to sell the quantity of goods recognised in the sales revenues.

Ⓟ ACCOUNTING POLICIES

The cost of materials is incurred as goods are sold according to the price-related "first in, first out" inventory method. Changes in stocks of internally manufactured finished goods will have a virtually neutral impact on profit or loss based on the full cost pricing method. The cost of goods is correlated with the sale of the goods and accounted for on an accruals basis through changes in inventory. This applies to both purchased raw materials and goods for resale. Purchased goods are not recognised as a cost until the goods are in the manufacturing process.

The cost of goods is estimated and recognised through standard cost systems. Goods in inventories are counted at least once a year. Due to materiality considerations, the change in stocks of internally manufactured finished goods is presented on the line for cost of materials.

In 2019, the biggest product categories were (figures in parentheses show the category ranking in 2018):

1. (1.) Packaging
2. (2.) Animal products
3. (3.) Food additives
4. (4.) Vegetable oil and margarine
5. (5.) Vegetables
6. (6.) Grain-based products
7. (9.) Nuts and seeds
8. (7.) Marine products
9. (10.) Sugar
10. (8.) Fruits and berries
11. (12.) Cocoa and chocolate
12. (11.) Chemicals

Ⓢ SUSTAINABILITY

The challenges posed by climate change and commodity scarcity entail a risk of increased raw material costs, reduced availability of certain raw materials and breaches of Orkla's Supplier Code of Conduct. Orkla helps to ensure responsible production of raw materials by monitoring suppliers, applying certification systems, participating in industry initiatives and collaborating on projects with authorities and specialised organisations. The Group works purposefully to ensure that the raw materials used in Orkla products are sustainably produced by 2025. To reduce the risk of raw material shortages, the Group has alternative suppliers for at-risk raw materials.

Orkla seeks to prevent plastic pollution and achieve efficient use of resources by contributing to circular value chains for packaging materials. This work includes increased use of recycled packaging materials, development of packaging solutions that can be recovered, and collaborating with other value chain players on actions to increase recovery.

NOTE 11 PAYROLL EXPENSES

Payroll expenses are the total disbursements relating to remuneration of personnel employed by the Group and of Group officers. These expenses concern only the Group's own employees, not contract manpower.

Ⓟ ACCOUNTING POLICIES

Payroll expenses comprise all types of remuneration to personnel employed by the Group and are expensed when earned. Ordinary pay can be both fixed pay and hourly wages and is earned and paid periodically. Holiday pay is earned on the basis of ordinary pay and is normally paid in the holiday months of the following year. Bonuses (see below) are earned and calculated on the basis of various performance targets, and are paid in arrears. The employer's national insurance contribution is calculated and expensed for all payroll-related expenses, and is normally paid in arrears every other month. Pensions are earned in accordance with special rules; see Note 12. Other payroll expenses largely consist of the remuneration of the Board of Directors, which is earned on an ongoing basis in accordance with special agreements approved by the General Meeting.

Ⓢ SUSTAINABILITY

Orkla wants to be an attractive employer that offers good working conditions and fair and competitive conditions for all employees. Pay is determined locally, based on the Group's general guidelines and using external benchmarking tools for pay and conditions. All full-time employees shall, as a minimum, receive pay and additional benefits that are adequate to meet their fundamental needs.

Amounts in NOK million	2019	2018
Wages	(6 540)	(6 232)
Employer's national insurance contributions	(1 155)	(1 040)
Pension costs[1]	(467)	(427)
Other remuneration etc.	(40)	(35)
Payroll expenses	(8 202)	(7 734)
Average number of man-years	17 622	17 667

[1]Pension costs are disclosed in further detail in Note 12.

General comments on remuneration at Orkla

Orkla has a reward policy that determines the different elements of the Group's overall compensation. The policy aims to ensure that Orkla is able to recruit, develop and retain personnel with the necessary competence to create results and shareholder value. Orkla's reward policy is adopted by the Board of Directors and administered by the Board's own Compensation Committee.

Orkla operates in 34 different countries, and compensation elements are organised locally in accordance with local practice, thereby ensuring that the compensation plans are competitive but not leading. The companies in the various countries must adhere to the principles of Orkla's reward policy, which is based on the market median for fixed remuneration and above market median for variable remuneration.

(i) Fixed salaries

Orkla uses internationally recognised job assessment systems to determine the "right" level of job position and compensation. 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 the amount of compensation. Fixed salaries at Orkla must be competitive in the different countries in which the Group operates.

(ii) Bonus programmes

Orkla has bonus programmes in the various countries which reflect local practice for ensuring competitiveness. Orkla's practice is to have variable reward systems offering the possibility of making awards at above market median levels. The annual bonus programmes in the different countries are based on guidelines ensuring that they underpin the Group's strategy and reflect Orkla's central annual bonus programme for executive management and senior managers and key personnel.

a) Orkla's central annual bonus programme

Orkla has an annual bonus programme for around 150 senior executives and key personnel in the Group (2019).

The purpose of Orkla's central annual bonus programme is to:
- Reward annual performances in line with externally communicated targets for the Group
- Incentivise desired behaviour in accordance with Orkla's values and leadership principles
- Ensure that the organisation works to achieve prioritised targets that underpin the Group's strategy

Note 11 cont. ➔

Under the central annual bonus programme, a maximum bonus equivalent to 100% of the employee's annual salary may be paid. A "good performance", defined as achievement of results in line with externally communicated financial targets, can result in a bonus payout of approximately 30% of the employee's annual salary. Historical outcomes averaged around 29% in 2015-2018.

Certain adjustments are being made in the annual bonus programme from 2020 (to be paid out in 2021). These adjustments are described below.

The elements of Orkla's central annual bonus programme for 2019 (bonuses to be paid out in 2020)
The annual bonus programme consists of five elements:
• Financial quantitative measures (70% weighting)
  - Underlying[1] EBIT (adj.)[2] improvement "own level"[3] (15% weighting)
  - Underlying EBIT (adj.) improvement "level above"[4] (25% weighting)
  - Underlying improvement in contribution margin[5] "own level" (10% weighting)
  - Improvement in current capital[6] "own level" (20% weighting)
• Individual measures (30% weighting):

Since the bonus awarded may not exceed a maximum of 100% of the employee's annual salary, the weighting for each element listed above is equivalent to the maximum bonus (as a percentage of annual salary) for the element concerned.

---

[1]Underlying improvement/growth – definition under "Alternative Performance Measures (APM)"; see page 227.
[2]EBIT (adj.) – definition under APM; see page 227.
[3]"Own level" is the company level of the position of the individual manager. This will depend on the different participants in the bonus programme, and may be an operating company, a business area or the entire Branded Consumer Goods business at Group level.
[4]"Level above" is the reporting level above the reporting level of the position of the individual manager. For participants employed in an operating company, it will be the business area of which the operating company is a part. For participants in business areas, the "level above" will be the entire Branded Consumer Goods business. For participants in the programme at Group level, there is no "level above", but they will be measured on the basis of an equal weighting of the change in underlying EBIT (adj.) in the business areas in Branded Consumer Goods.
[5]Contribution margin is defined as sales revenues minus variable costs. Variable costs are costs that are directly related to manufactured and sold volume. This primarily applies to intermediate goods such as raw materials, packaging, payroll expenses (which vary with manufactured volume) and energy costs. For goods manufactured by a third party, the contribution margin is sales revenues minus purchasing costs of goods sold.
[6]Current capital is accounts receivables plus inventories minus accounts payable.

Bonus calculation for the financial quantitative bonus elements
Profit growth is the main measure for the bonus programme with a weighting of a total of 40%. To incentivise collaboration within the Group, part of the profit element of the bonus programme is linked to "level above" performance.

The bonus model is designed in such a way that an improvement scale (in percentages of the previous year's level) is linked to a fixed bonus scale with starting points and maximum points for both improvement and bonus payout.

Underlying EBIT (adj.) improvement "own level" and "level above"
The calculation of bonuses earned is tied to underlying EBIT (adj.) improvement as a percentage of EBIT (adj.) the previous year at "own level" and at "level above", based on fixed bonus scales with starting points and maximum points for improvement and bonus payout.

Underlying contribution margin improvement
Calculation of bonuses earned for underlying contribution margin improvement as a percentage of contribution margin improvement the previous year is tied to the company level of the position of the individual manager, with a fixed scale with starting points and maximum points for both improvement and bonus payout.

Improvement in current capital
The calculation of bonuses earned for improvement in current capital is tied to the level of the position of the individual manager. Improvement in current capital is defined as the key figure "rolling 12-month current capital as a percentage of operating revenues in the last 12 months" compared with the level of the same key figure for the previous 12 months. Here, too, improvement is linked to a fixed scale for bonus achievement with starting points and maximum points for both improvement and bonus payout.

Bonus calculation for the individual measures
The individual measures are based on behaviour aligned with Orkla's leadership principles and One Orkla. The amount paid out is based on qualitative assessments of the achievement of the agreed measures.

Concluding discretionary assessment
After bonuses have been determined on the basis of the financial quantitative measures and individual performance, each manager must make a discretionary assessment of employee

Note 11 cont.

01 02 03 04 05

bonuses, attaching weight to individual contributions to support One Orkla, value chain simplifications and exploitation of new business opportunities.

The elements of Orkla's central annual bonus programme as from 2020 (bonuses to be paid out in 2021)
A change is proposed in the annual bonus programme adopted in 2020. The 2020 programme is to be changed from the previous year's principle of measuring improvement from the preceding year to measuring achievement in relation to defined, ambitious targets for the year for the various financial elements.

The bonus payout is calculated on the basis that achievement equal to the defined target entitles the employee to half of the maximum bonus for the financial bonus element concerned. There will be an equal result interval below and above the defined target. The starting point for the result interval below the defined target is the starting point for bonus achievement, while the end point for the result interval above the defined target entitles the employee to the maximum bonus for the financial bonus element concerned.

At the same time, the programme will be restructured from being the same for everyone to being adapted to different functions in Orkla. Consequently, as from 2020 there will be
- a programme for Branded Consumer Goods, including Group Executive Board members who are in charge of a business area
- a programme for Consumer & Financial Investments
- a programme for Group Functions, including Group Executive Board members who are not in charge of a business area, including the President and CEO.

Since the maximum bonus award is 100% of the employee's annual salary, it means that the weighting of each element in the following description is equivalent to the maximum bonus (as a percentage of annual salary) for the element concerned.

The annual bonus programme for Branded Consumer Goods consists of five elements:
- Financial quantitative targets (80% weighting):
  - Organic growth[7] "own level" (40% weighting for business area management teams, 25% for company management staff)
  - Organic growth "level above" (0% weighting for business area management teams, 20% for company management staff)
  - Contribution margin[8] achievement "own level" (20% weighting for both business area management teams and company management staff)
  - EBIT (adj.) achievement "own level" (20% weighting for business area management teams, 15% for company management staff)
- A flexible element (20% weighting), of which a minimum of half must be individual targets and up to half may be other financial targets than those specified above. Financial targets, if any, are set by the manager and approved by the manager's manager. Such financial targets may differ from one business area or company to another, but must be the same for all employees within a business area or company.

  With regard to individual targets, 2–4 targets must be defined for each participant. The individual targets must be designed so as to reflect the each participant's possibilities of contributing to Orkla's development and growth. The targets can be either business targets (specifying effect and outcome), or behavior-related targets (how to act in accordance with Orkla's leadership principles and/or values), or a combination of the two. Orkla's Board of Directors approves these targets for the President and CEO, and the relevant manager approves the targets for the other participants.

The annual bonus programme for the companies in Consumer & Financial Investments consists of the following elements:
- Financial quantitative targets (80% weighting):
  - Organic growth "own level" (40% weighting)
  - Contribution margin achievement "own level" (20% weighting)
  - EBIT (adj.) achievement "own level" (20% weighting)
- A flexible element (20% weighting), to be handled in the same way as described above for Branded Consumer Goods

For the business area's management team, the bonus will be calculated based on a weighting of bonus achievement in the underlying companies, combined with a flexible element equivalent to that of the company management staff.

[7]Organic growth – definition under "Alternative Performance Measures (APM)"; see page 227.
[8]Contribution margin ratio – definert as contribution margin (see footnote 5; see page 156) as a percentage of operating revenues.

Note 11 cont.

The annual bonus programme for Group Functions (including the President and CEO) consists of the following elements:

- Financial quantitative targets (50% weighting):
  - Organic growth for Branded Consumer Goods (25% weighting)
  - EBIT (adj.) achievement for Branded Consumer Goods (25% weighting)
- An element tied to the return on the Orkla share (25% weighting):
  - To be calculated by adding a basic amount equivalent to 5% of the employee's annual salary to the return on the Orkla share for the year, computed on the basis of the average share price in the fourth quarter measured against the average share price in the fourth quarter of the previous year, plus any dividend paid out. The return on the Orkla share is multiplied by a factor of 1 for Group Executive Board members and a factor of 0.5 for other Group Function staff. The bonus payout for this element as a percentage of annual salary will thus be 5% plus the return (positive or negative) multiplied by the aforementioned factor. This bonus element may not exceed 25% of the executive's annual salary. This bonus element will be submitted to the General Meeting for approval.
- Individual targets (25% weighting):
  - Individual targets (25% weighting), to be handled in the same way as described above for Branded Consumer Goods.

The concluding discretionary assessment of the total bonus earned by the individual employee's manager, as described above for 2019, will be maintained in the 2020 bonus programmes for Branded Consumer Goods, Consumer & Financial Investments and Group Functions.

b) Long-term incentive (LTI) programme
Orkla has an LTI programme that is cash-based as well as being tied to share price performance.

The purpose of the programme is to:

- Reward long-term value creation and "One Orkla" behaviour
- Establish a long-term community of interests with shareholders
- Help to retain necessary expertise (management/key personnel)
- Maintain competitive overall compensation conditions for management/key personnel

Participants in the LTI programme are nominated on a yearly basis and awards are made for one year at a time subject to the approval of the President and CEO. In 2019, 93 persons were awarded an LTI bonus. Participants in the Group's LTI programme will normally also be covered by Orkla's annual bonus programme.

Bonus awards will be determined on the basis of assessments of individual performances in relation to predefined long-term criteria set in 2018 and revised in 2019. The aim is for the award to be equivalent to 30% of the employee's annual salary for a "good performance", according to the predefined criteria. The award may not exceed 50% of the employee's annual salary, nor may the aggregate value of an award under the annual bonus programme and the LTI bonus awarded in a year exceed one year's salary. As before, the amount awarded is adjusted in accordance with the Orkla share price performance until the bonus is paid out. The closing price on the day after the Annual General Meeting is applied. Under the LTI programme, the employee may request, at the earliest, that one third of an LTI award be paid out after 24 months, one third after 36 months and one third after 48 months. After a maximum of 60 months, the LTI award will be paid out in its entirety.

The Board of Directors proposes to replace the present cash-based LTI programme with a programme based on share options, effective as from the option award date in 2021. The reason for this proposal is a desire to strengthen the commonality of interests between shareholders and senior executives as the current programme is not sufficiently linked to total shareholder return.

Participants will be nominated to participate in the share option programme in 2020 subject to the approval of the President and CEO, and the number of nominees will be approximately the same as in 2019, i.e. around 90 central management staff and key personnel. It is also proposed that the group be expanded by 10 – 15 younger talents. Nomination will not be automatic, so being nominated one year does not necessarily mean that the person will be nominated in subsequent years.

Options will be awarded partly on the basis of position (estimated option value equivalent to 15% of basic salary), partly on the basis of a discretionary assessment of performance in relation to predefined long-term targets (estimated option value equivalent to a maximum of 15% of basic salary), and a discretionary assessment of achievement of sustainability-related targets (estimated option value equivalent to a maximum of 5% of basic salary). Sustainability-related targets will be set and evaluated by the Board of Directors. On this basis, the outcome for participants will be an option value in the range 15 – to 35% of salary depending on performance. The option value will be calculated according to the Black-Scholes model.

Predefined long-term targets shall ideally be linked to:
- Profitable organic growth
- Innovation and increased market shares
- Sustainability as a growth factor
- Structural growth in priority categories and geographies
- Establishment of a cost-effective organisation and realisation of synergies
- Development of human resources and collaborative relationships

Options will be awarded once a year, based on the share price on the day after the Annual General Meeting. The Board of Directors will recommend candidates for awards in the Group Executive Board, while awards to other employees must be approved by the President and CEO. 20% of the options awarded for the year may be exercised after one year, another 20% after two years, and the remaining 60% after three years. In the case of the Group Executive Board, however, no options may be exercised until three years after they were awarded. The last date on which they may be exercised is five years after the award date, after which the options expire. The redemption price will be set at the market price at the award date with an increase of 3% per year in the vesting period. The redemption price will be adjusted for dividends. In the event of the employee's resignation, all options that have not been exercised will expire.

Based on an average estimate where the value of the option is equal to 30% of the participants' annual salary, approximately 5,000,000 share options will be required for the awards in 2021. In addition, it is proposed that this number be increased by around 10 % in order to include young talents as mentioned above. Consequently, it is proposed that the Board of Directors and the President and CEO be given a total limit of 5,500,000 options and that the General Meeting approves this limit. The number of options is equivalent to around 0.55 % of shares outstanding.

The gain on one year's awarded options may not exceed six times the value of awarded options at the award date, calculated in accordance with the Black-Scholes model. If a participant is awarded options with an estimated option value equivalent to 30% of his or her basic salary, the gain in this case may not exceed 180% of the basic salary.

The Group Executive Board must use 25% of their gross gain from the exercise of options to purchase Orkla shares, and purchased shares will be subject to a lock-in period of three years. Other participants are expected to use a percentage of their gross gain to purchase Orkla shares.

(iii) Other compensation elements

Discounted shares for employees:

For several years the Group has implemented a programme whereby employees may buy a limited number of shares at a discount on the market price. For 2019, employees were offered the opportunity to purchase shares for three different amounts: NOK 28,000, NOK 15,000 and NOK 8,000 (amounts after discount). In 2019 the discount was 25% on the market price. The lock-in period for shares purchased is two years. The costs of the employee share purchase programme in 2019 totalled NOK 18 million.

The Board of Directors recommends to the General Meeting that the employee share purchase programme be maintained for 2020, but that the purchase options be adjusted to NOK 30,000, NOK 15,000 and NOK 10,000 (amount before discount). The discount will be maintained at 25%, but the lock-in period will be increased from two to three years.

Share-based incentive programmes

Ⓟ ACCOUNTING POLICIES

The sale of shares to employees at less than market price is accounted for by recognising the difference between the market value of the shares and the purchase price as a payroll expense.

Orkla has a Long-Term Incentive (LTI) programme that is cash-based as well as being tied to the share price performance (see separate description in this note). Accounting for the award will reflect the vesting period and expensing of the new programme will begin after awards are made.

NOTE 12 PENSIONS

The Group has both defined contribution and defined benefit pension plans. In a defined contribution pension plan, the company is only responsible for paying regular amounts to the employee's pension plan, while the employee will personally bear the risk for the future increase or reduction in the value of his or her own pension assets. In a defined benefit pension plan, the company will have full responsibility for and bear the risk attached to paying a future pension to the employee based on his or her final pay on retirement. The majority of Orkla's pension plans are defined contribution plans.

Ⓟ ACCOUNTING POLICIES

In a **defined contribution pension** plan, the company is responsible for making an agreed contribution to the employee's pension assets. The future pension will be determined by the amount of the contributions and the return on the pension savings. Once the contributions have been paid, there are no further payment obligations attached to the defined contribution pension, and there is no liability to report in the statement of financial position. The pension costs related to defined contribution plans will be equal to the contributions to employees' pension savings in the reporting period.

A **defined benefit pension** plan is based on a promise by the company to the employees that they will receive a certain level of pension upon retirement, normally defined as a percentage of final pay. The company is responsible for the amount of the future pension benefit and the financial value of this obligation must be reported in the income statement and statement of financial position.

The accrued obligation is calculated on a straight-line accruals basis, and is measured as the present value of the estimated future pension payments that are vested on the statement of financial position date. The capitalised net liability is the sum of the accrued pension obligation minus the fair value of associated pension fund assets.

Changes in the liability for defined benefit plans due to changes in pension plans are reported in their entirety in the income statement in the case of changes that give rise to an immediate paid-up policy entitlement. Other variances from estimates are recognised in equity through other comprehensive income in the period in which they arise. The discount effect of the pension obligation and expected return on pension assets are presented net under "Other financial costs" in the income statement.

Defined contribution plans

Most of the employees in the Orkla Group are covered by pension plans classified as defined contribution plans. Defined contribution plans also comprise pension plans that are common to several companies and where the pension premium is determined independently of the demographic profile in the individual companies (multi-employer plans).

Orkla has contribution rates for the companies in Norway that are aligned with the regulation-based limits for contribution rates for private company pension plans. See Note 5 to the financial statements for Orkla ASA.

Defined benefit plans

The Group has some pension plans that are classified as funded defined benefit plans and some defined benefit plans that are financed from operations. A large part of the Group's defined benefit plans are in Sweden and Norway. These countries account for around 65% and 33%, respectively, of the Group's net carried pension liabilities.

Sweden

The pension plans in Sweden are "net plans" that do not link the Group's obligations to changes in Swedish social security. The plans are largely determined by collective agreements. They are not funded, but provisions are made in the companies' statement of financial position. To secure accrued pension rights, companies must take out a credit insurance in the PRI Pensionsgaranti insurance company which records and calculates the companies' pension obligations. According to the collective agreements, all employees born in 1979 or later must be covered by a defined contribution plan, which means that the number of defined benefit plans will gradually be reduced.

The Group also has some pension plans, primarily related to executive management, financed through endowment insurances. The gross amount of these plans is reported in the financial statements.

Account has been taken of payroll tax on the pension obligations in Sweden.

Norway

Net pension obligations in Norway mainly consist of unfunded pension plans for former key personnel, early retirement schemes for the Group Executive Board, and carried liabilities related to contribution-based plans for employees who earn more than twelve times the Norwegian basic amount (12G).

Note 12 cont. ➔

The pension plan for employees in Norway who earn more than 12G is a contribution-based plan, but is treated as a defined benefit plan in accordance with IFRS. The actual deposits and interest accrued in the plan are reported as at 31 December.

The AFP contractual pension scheme is a multi-employer defined benefit plan, but is recognised as a defined contribution plan, in line with guidelines issued by the Ministry of Finance. Companies that participate in the AFP scheme are jointly responsible for two-thirds of the payable pension. The majority of Orkla companies in Norway participate in the AFP scheme. In 2019, the AFP premium was 2.5% of total payments of wages between 1 and 7.1 times the average basic amount.

Assumptions relating to defined benefit plans
The discount rate in Norway is fixed on the basis of Norwegian covered bonds (OMF). The Norwegian Accounting Standards Board considers the OMF market to be a sufficiently deep market to be used for computing the discount rate. Orkla has chosen a discount rate based on the average life of the pensions in each company and in each pension plan. In cases where the life exceeds 15 years, the OMF yield curve has been extrapolated on the basis of the swap rate.

The discount rate is adjusted to the interest rate level in each country. In Norway, the discount rate varies between 2.2% and 2.3%, depending on the life of the pension.

The discount rate in Sweden is based on Swedish covered bonds and was reduced to 1.30% for 2019, from 2.30% in 2018. In light of the lower interest rate, the estimate for expected inflation was also reduced slightly, from 1.8% to 1.7%, and expected wage adjustment was reduced from 2.5% to 2.4%. The combined effect of the two changes will be slightly higher obligations with a recognised effect in other comprehensive income (OCI).

Parameters such as wage growth, increase in the basic amount (G) and inflation are determined in accordance with recommendations in the various countries.

The mortality estimate is based on mortality tables for the various countries that are as up-to-date as possible. In Norway the K2013 life table is used and in Sweden the DUS14. The actuarial gains and losses are recognised in comprehensive income and are essentially related to changes in economic assumptions.

Pension plan assets
Virtually all the Group's pension plans with pension plan assets are now in the UK. Pension plan assets are mainly invested in bonds and shares. The estimated return will vary depending on the composition of the various classes of assets. A breakdown of pension plan assets is presented in a separate table in this note. Contributions of pension plan assets in 2020 are expected to total NOK 3.2 million.

Ⓔ ESTIMATE UNCERTAINTY

Defined benefit plans are calculated on the basis of a set of selected financial and actuarial assumptions. Changes in parameters such as discount rates, future wage adjustment, etc. could have substantial impacts on the estimated pension obligation. Similarly, changes in the selected assumptions for the return on pension assets could affect the amount of the pension assets. The Group will not be materially affected by a reasonable expected change in key assumptions. Changes in these parameters will mainly be reported in comprehensive income. Orkla has determined parameters in line with recommendations in the individual countries.

	Norway		Sweden	
	2019	2018	2019	2018
Discount rate	2.2–2.3%	2.0–2.5%	1.30%	2.30%
Future wage adjustment	2.25%	2.25%	2.40%	2.50%
G-multiplier[1]	2.25%	2.25%	2.40%	2.50%
Adjustment of benefits	0%	0%	1.70%	1.80%
Personnel turnover	0–5%	0–5%	3.00%	3.00%
Expected average remaining vesting period (years)	5.9	6.8	12.6	13.3

[1]As at 31 December 2019, 1G was NOK 99,858.

Breakdown of net pension costs

Amounts in NOK million	2019	2018
Contribution plans	(398)	(370)
Current service cost (incl. national insurance contributions)	(69)	(57)
Curtailments and settlements pension plans	(10)[1]	-
Pension costs defined as payroll expenses	(477)	(427)
Interest on pension obligations	(99)	(31)[2]
Expected return on pension plan assets	13	14
Pension costs defined as financial costs	(86)	(17)
Net pension costs	(563)	(444)

[1]Primarily concerns the conversion of the pension plan in LG Harris and is presented as "Other expenses".
[2]Low interest expense in 2018 is partly due to a negative return on the plan for employees with salaries over 12G.

Note 12 cont.

Breakdown of net pension obligations as at 31 December

Amounts in NOK million	2019	2018
Present value of funded pension obligations	(437)	(436)
Pension plan assets (fair value)	437	436
Net funded pension liabilities	-	-
Present value of unfunded pension obligations	(2 326)	(1 989)
Capitalised net pension liabilities	(2 326)	(1 989)
Capitalised pension liabilities	(2 358)	(2 019)
Capitalised plan assets	32	30

Breakdown of gross pension obligations during the year

Amounts in NOK million	2019	2018
Pension obligations 1 January	(2 425)	(2 412)
Current service cost (incl. national insurance contributions)	(69)	(57)
Interest on pension obligations	(99)	(31)
Actuarial gains and losses reported in statement of comprehensive income	(319)	(73)
Acquisition/sale of companies	(4)	-
Curtailments and settlements pension plans[1]	(7)	3
Benefits paid during the year	146	113
Currency translation effects	14	32
Pension obligations 31 December	(2 763)	(2 425)

[1]Primarily concerns expenses related to the conversion of the pension plan in LG Harris.

Change in pension assets during the year

Amounts in NOK million	2019	2018
Pension plan assets (fair value) 1 January	436	456
Expected return on pension plan assets	13	14
Actuarial gains and losses reported in statement of comprehensive income	50	(14)
Acquisition/sale of companies	-	-
Curtailments and settlements pension plans[1]	(3)	-
Contributions and benefits paid during the year	(46)	(23)
Currency translation effects	19	-
Effect of asset ceiling	(32)	3
Pension plan assets (fair value) 31 December	437	436

[1]Primarily concerns expenses related to the conversion of the pension plan in LG Harris.

Breakdown of pension assets (fair value) as at 31 December

	2019	2018
Cash, cash equivalents and money market investments	4%	56%
Bonds	85%	9%
Loans	0%	0%
Shares	11%	35%
Property	0%	0%
Total pension plan assets	100%	100%

Overview of net pension obligations and actuarial gains and losses in the last four years

Amounts in NOK million	2019	2018	2017	2016
Pension obligations	(2 763)	(2 425)	(2 412)	(2 534)
Pension plan assets	437	436	456	791
Net pension liabilities/Obligations	(2 326)	(1 989)	(1 956)	(1 743)
Actuarial gains and losses in pension obligations	(319)	(73)	(67)	(91)
Actuarial gains and losses in pension plan assets	50	(14)	25	22

NOTE 13 OTHER OPERATING EXPENSES

The Orkla Group has chosen to present its income statement based on the nature of the item of income or expense. Operating expenses have been broken down into the following main items: "Cost of materials", "Payroll expenses", "Depreciation/Amortisation" and "Other operating expenses". A breakdown of the most important items in "Other operating expenses" is presented below.

Amounts in NOK million	2019	2018
External freight costs	(1 008)	(901)
Energy costs (production and heating)	(734)	(726)
Advertising	(1 629)	(1 516)
Repair and maintenance costs	(502)	(507)
Consultants, legal advisors, temporary staff etc.	(598)	(519)
Operating expenses vehicles	(156)	(143)
Rental/leasing costs[1]	(56)	(487)
Other	(2 203)	(1 965)
Total other operating expenses	(6 886)	(6 764)

[1]The decrease in leasing costs is related to the implementation of IFRS 16.

Expenses under the item "Other" include costs related to IT, insurance, travel, courses and conferences.

Ⓟ ACCOUNTING POLICIES

Other operating expenses are recognised as and when they are incurred and are types of costs that are not classified on the lines for cost of materials, payroll expenses or depreciation and write-downs.

Ⓢ SUSTAINABILITY

Orkla's goal is to achieve a 20% reduction in energy consumption for the 2014–2020 period and a 30% reduction up to 2025. To transfer best practices for improving energy efficiency, Orkla prepared a central energy initiative in 2015 as part of its Improved Resource and Energy Efficiency programme. As a result of the programme, a growing number of efficiency improvement projects are being implemented in all the business areas. Adjusted for acquisitions and increased turnover, energy consumption has been reduced by 14% since 2014.

NOTE 14 OTHER INCOME AND EXPENSES

"Other income" and "Other expenses" will largely consist of items that only to a limited degree are reliable explanations of ongoing earnings. The main purpose of these lines is to present such items separately to ensure that the changes in and comparability of the lines presented in EBIT (adj.) are more relevant to the company.

Other income and expenses

Amounts in NOK million		2019	2018
Other income			
Gain on sale		346	54
Income related to transition from joint venture to subsidiary		33	0
Total other income		379	54
Other expenses			
M&A and integration costs		(130)	(129)
Final settlement employment relationships etc.		(80)	(114)
Write-downs property, plant and equipment and intangible assets		(477)	(55)
Other restructuring costs and other items		(253)	(238)
Total other expenses		(940)	(536)
Total other income and expenses		(561)	(482)
Of this:	Write-downs property, plant and equipment	(21)	(50)
	Write-downs intangible assets	(456)	(5)
	Write-downs inventory (Harris)	-	(34)

Five largest items in other income and expenses:	2019	2018
Gain on sale of Treschows gate 16	294	-
Acquisition costs (M&A)	(94)	(64)
House Care UK: Write-down goodwill 2019 / Restructuring 2018	(238)	(57)
Write-down of trademarks	(181)	-
Restructuring project at Orkla HQ	(49)	-

Note 14 cont.

Ⓟ ACCOUNTING POLICIES

"Other income" and "Other expenses" are presented after Group profit or loss (EBIT adj.), broken down by segment, and include items such as M&A, restructuring and integration costs, any major gains on or write-downs of both tangible and intangible assets, and other items that only to a limited degree are reliable explanations of ongoing profitability.

M&A costs are costs relating to the acquisition of companies that cannot be capitalised together with the shares. This applies to both completed and uncompleted acquisitions. Accrued expenses arising from the sale of companies are also presented on this line, until the sale is finally completed. At that time, the selling costs will be included in the profit or loss calculation and will be presented together with the latter.

Other income
In 2019, Orkla sold the property at Treschows gate 16 to the City of Oslo. The property is regulated for use as a school, and the agreement was approved by the Oslo City Council on 25 September, 2019. The transaction generated a gain of NOK 294 million for Orkla. Gains were also taken to income in connection with the sale of both the Glyngøre brand and a former industrial property in Kristiansund.

The Group purchased the remaining 50% of the shares in the joint venture Anza Verimex. As a result of Anza Verimex's transition from a joint venture to a subsidiary, all the company's assets have been recognised at fair value. This has resulted in the recognition of NOK 33 million in revenues; see Notes 5 and 6.

Write-downs
The performance of the UK business in House Care has been weak since the business was acquired in September 2016. In 2018, a project was initiated to restore profitability to at least the level at which Orkla purchased the business. However, the market situation is still very challenging, and in the third quarter of 2019 the risk related to the company's required profit growth was considered to be too high to justify the book values. Consequently, Orkla wrote down the goodwill related to the business by NOK 238 million. The goal of the restructuring project remains unchanged.

Write-downs of brands totalling NOK 181 million were also taken in the third quarter. The write-downs are primarily in Orkla Health, the largest of which concern Gerimax and Colon C. The performance of these brands has not been satisfactory in the last few years. Orkla Foods' Swedish mince brand Krögarklass was also written down.

Production equipment was written down by NOK 21 million in Orkla Confectionery & Snacks in connection with a planned factory relocation. A write-down was also taken in connection with a common ERP project currently in progress in Orkla Food Ingredients.

Other items
A project has been started to ensure that the Group is optimally organised to increase organic growth and reduce complexity by strengthening the business areas and tailoring the Group's support functions to meet specific needs. This is intended to result in significant cost savings at Orkla Headquarters. In 2019, a total of NOK 49 million was expensed in connection with this project.

A number of restructuring and coordination projects are currently being carried out. The biggest projects in 2019 were the consolidation of out-of home and grocery operations in Orkla Foods Norge, the merger of Hame and Vitana, coordination projects in Orkla Food Ingredients, and preliminary projects related to the construction of a pizza factory at Stranda and a chocolate and biscuits factory in Latvia. Furthermore, a restructuring programme was initiated in Orkla Care.

Orkla has been engaged in litigation with the Norwegian agricultural authorities concerning historical classification of goods in the price rebate and export duty refund schemes. The matter was appealed to the Ministry of Agriculture. A decision was made that to some extent upheld Orkla's appeal. As a result of this matter, NOK 12 million was charged against income.

Transaction costs were incurred in connection with the purchase of companies, the biggest acquisition in 2019 being Kotipizza; see Note 5. Orkla also sold the Russian nut company, Chaka, and accumulated negative translation differences and transaction costs related to the sale of the company were expensed.

Ⓢ SUSTAINABILITY

In connection with its efforts to develop a long-term, competitive manufacturing footprint, Orkla closed two factories in Finland and Denmark in 2019 and moved production to other facilities. The companies Vitana and Hamé were merged to form the new company Orkla Foods Česko a Slovensko, and some small businesses were also merged. The purpose of these changes is to strengthen the Group's long-term competitiveness by making more effective use of capacity, improving operational efficiency and increasing the effect of investments in production equipment. Employees who lost their jobs have been helped to find new employment or training programmes.

NOTE 15 INTEREST AND OTHER FINANCIAL ITEMS

Financial income and financial costs mainly consist of interest income and interest costs related to the Group's total funding. They also include other financial items unrelated to operating activities.

ACCOUNTING POLICIES

Interest income and interest costs on loans and receivables are calculated using the effective interest method. Interest related to leases is reported as interest costs, while commitment fees and costs related to borrowings are reported as "Other financial costs". The financial element of pension costs is included in "Other financial costs" and disclosed in Note 12. Borrowing costs related to real estate under construction are recognised in the statement of financial position together with the asset. Foreign currency gains or losses arising from operating assets and liabilities, and the hedging of such, are reported as operating revenues or operating costs. Other foreign currency gains or losses are reported net as financial income and financial costs. The foreign currency gains or losses related to net investments in foreign entities are disclosed in Note 31.

Interest income and interest costs

Amounts in NOK million	2019	2018
Interest income	18	24
Interest costs	(151)	(158)
Capitalised interest costs	2	5
Change in fair value interest rate derivatives	(26)	(30)
Interest costs excl. leases	(175)	(183)
Interest costs, leases (see Note 21)	(35)	-
Total interest costs	(210)	(183)
Net interest	(192)	(159)

Financial income and financial costs

Amounts in NOK million	2019	2018
Gains, losses and write-downs shares and financial assets	(9)	-
Dividends received	21	3
Net foreign currency gains	2	-
Other financial income	1	4
Total other financial income	15	7
Net foreign currency losses	-	(3)
Interest pensions incl. hedge[1]	(54)	(17)
Other financial costs	(24)	(29)
Total other financial costs	(78)	(49)
Total other financial items	(63)	(42)

Reconciliation against cash flow

Interest, net	(192)	(159)
Other financial items, net	(63)	(42)
Total interest and other financial items (A)	(255)	(201)
Items that appear on other lines in the cash flow statement:		
Gains, losses and write-downs shares and financial assets	9	-
Dividends received	(21)	(3)
Total items that appear on other lines in the cash flow statement (B)	(12)	(3)
Items without cash flow effect:		
Change in accrued interest etc.	-	18
Interest pensions excl. hedge	86	17
Change in fair value recognised as interest income/interest costs	13	15
Change in fair value recognised as financial income/financial costs	(6)	9
Total items without cash flow effect; see cash flow statement (C)	93	59
Paid financial items in cash flow statement; see Note 38 (A+B+C)	(174)	(145)

[1]Includes hedging of the pension plan for employees with salaries over 12G.

NOTE 16 TAXES

Taxes refer to the authorities' taxation of the profits of the different companies in the Group and in different countries. Taxes also include withholding taxes, economic rent tax and tax on distributions. Value added tax, social security contributions, property tax, special taxes, customs duties and similar indirect taxes are not included in "taxes". Taxes are computed on the basis of accounting profit/loss and broken down into current taxes and change in deferred tax liability. Deferred tax liability is the result of temporary differences between financial accounting and tax accounting.

Ⓟ ACCOUNTING POLICIES

Current tax liabilities and assets are measured at the amount that is expected to be paid to or recovered from the tax authorities. The tax rates and tax rules used to calculate the amounts are those that have been adopted or substantively adopted by the end of the reporting period in the countries in which the Group operates and generates taxable income.

Deferred tax liabilities and assets are computed for all temporary differences between the the carrying amount of an asset or liability in the consolidated financial statements and their respective tax bases and tax losses carried forward. For the calculation of deferred tax assets and liabilities, the nominal tax rates expected to be applied when the asset is realised or the liability is paid will be used.

Deferred tax assets relating to tax deficits and other tax-reducing temporary differences are recognised to the extent that it is probable that they can be applied against future taxable income.

Deferred tax liabilities related to withholding tax and other tax on dividends are recognised in connection with retained profits in associates and foreign subsidiaries when a dividend is expected to be paid in the foreseeable future.

Deferred tax liabilities for temporary differences associated with investments in subsidiaries and associates are recognised when it is probable that the temporary difference will reverse in the foreseeable future. Deferred tax liabilities or deferred tax assets are not recognised for the initial recognition of goodwill.

Deferred tax liabilities and deferred tax assets are only reported net to the extent that netting is permitted under the local tax rules, and the Group intends to make use of the opportunities to consolidate its tax positions by means of Group contributions or other tax consolidation.

Tax expense

Amounts in NOK million	2019	2018
Profit/loss before taxes	4 931	4 358
Current tax expense	(976)	(996)
Change in deferred taxes	(57)	(8)
Total tax expense	(1 033)	(1 004)
Tax as % of "Profit/loss before taxes"	20.9%	23.0%
Tax as % of "Profit/loss before taxes" adjusted for associates	24.2%	24.5%

Orkla's effective tax expense adjusted for associates decreased by 0.3 percentage points from 24.5% in 2018 to 24.2% in 2019. However, the apparently lower tax rate in 2019 is actually a higher tax rate when the reversal of a deferred tax liability in the Baltics is excluded. The increased tax rate is primarily due to high, non-deductible expenses in 2019, compared with 2018, of which a substantial part is the write-down of goodwill in Harris.

Reconciliation of the Group's tax rate

In the following table, reported taxes are reconciled with the tax expense based on the Norwegian tax rate of 22% (23% in 2018). The main tax components are specified.

Amounts in NOK million	2019	2018
Norwegian tax rate on profit before taxes	(1 085)	(1 002)
Associates and joint ventures	145	61
Deferred tax on undistributed earnings in associates	(5)	4
Foreign operations with tax rates other than Norwegian tax rate	46	49
Changes in tax laws	5	10
Write-downs of shares, gains/losses and dividends within the tax exemption method	(1)	0
Non-deductible costs / tax free income	(24)	(16)
Non-deductible transaction expenses	(14)	(11)
Recognised deferred tax assets this year, previously unrecognised	15	14
Unrecognised deferred tax assets	(24)	(26)
Correction previous years' taxes	6	25
Write-downs of Group Goodwill (Harris)	(45)	-
Reversal deferred tax on dividend from the Baltics	74	-
Other taxes payable (economic rent tax and withholding tax)	(126)	(112)
The Group's total tax expense	(1 033)	(1 004)

Note 16 cont.

Orkla's tax bases in Norway, Sweden and Denmark are substantial. The ordinary tax rate for companies domiciled in Norway and Sweden was reduced from 23% and 22% in 2018 to 22% and 21.4%, respectively, with effect from 2019. Denmark has a ordinary tax rate of 22%.

Orkla's operations in countries with tax rates other than 22% make a net contribution towards reducing total tax expense. In 2019, the effect of this contribution was a reduction of NOK 46 million in total tax expense, of which the Baltic, Finnish and Swedish subsidiaries accounted for NOK 20 million, NOK 10 million and NOK 7 million, respectively.

Profit from associates is recognised on an after-tax basis and thus does not impact the Group's tax expense. However, a provision has been made for tax on undistributed earnings in associates, totalling NOK 28 million, of which NOK 5 million was recognised in the income statement in 2019.

The change in unrecognised deferred tax assets totalling NOK 24 million is ascribable to tax deficits in Poland, Spain and France. Recognition of previous years' unrecognised deferred tax assets totalling NOK 15 million mainly relates to Orkla Food Ingredients companies in Denmark, Romania, the Czech Republic and Finland, as well as a Swedish company in the Investments area and a Confectionery & Snacks company in Lithuania.

The Group operates in the power industry which is subject to a special tax regime in Norway. In 2019, the economic rent tax rate accounted for 2.4 percentage points of the effective tax rate adjusted for associates, of 24.2%.

Based on an assessment of the Group's overall tax exposure, provisions were recognised in the statement of financial position in line with expected risk in deferred tax liabilities.

SUSTAINABILITY

Through its presence in many countries, Orkla contributes to society by paying a variety of direct and indirect taxes, including company tax. Orkla's corporate tax strategy sets out important tax principles to which all the companies in the Group must adhere. These principles are based on the desire for transparency, compliance with regulatory frameworks and good risk management. Orkla companies shall pay tax in accordance with the laws and regulations in the countries in which they operate.

The table below presents the company tax payable in the income statement for Orkla's main geographical areas:

Amounts in NOK million	2019	2018
Norway	361	488
Sweden	219	233
Denmark	124	83
Finland and Iceland	98	61
Rest of world	174	131
Total company tax payable	976	996

Note 16 cont.

Deferred tax liabilities

Deferred tax liabilities consist of the Group's tax liabilities that are payable in the future. The table below lists deferred tax assets and liabilities relating to the temporary differences between the carrying amount of an asset or liability and its tax base.

Deferred tax on temporary differences

Amounts in NOK million	2019	2018
Hedging reserve in equity	(31)	(48)
Intangible assets	1 119	1 135
Property, plant and equipment	328	311
Net pension liabilities	(325)	(257)
Gain and loss tax deferral	365	311
Leases	(43)	-
Other non-current items	218	277
Total non-current items	1 631	1 729
Provisions	(52)	(70)
Other current items	49	(75)
Total current items	(3)	(145)
Tax losses carried forward	(139)	(138)
Net deferred tax liabilities	1 489	1 446
Deferred tax hydropower tax regime[1]	(21)	(21)
Deferred tax assets, not recognised	124	108
Net deferred tax liabilities	1 592	1 533
Change in deferred tax	(59)	31
Net deferred tax asset on implementation of IFRS 16 Leases	(37)	-
Net deferred tax continuing operations	(96)	31
Change in deferred tax hedging reserve taken to comprehensive income	17	20
Change in deferred tax actuarial gains and losses pensions taken to comprehensive income	(64)	(26)
Acquisition/sale of companies, reclassification etc.	86	(18)
Hedging of net investments in foreign operations	0	(15)
Change in deferred tax income statement	(57)	(8)

[1]Deferred tax liabilities and deferred tax assets related to hydropower taxes have been recognised gross for each power plant.

Net deferred tax presented in the statement of financial position

Amounts in NOK million	2019	2018
Deferred tax liabilities	1 619	1 566
Deferred tax assets	27	33
Net deferred tax	1 592	1 533

Losses carried forward by expiry date

Tax losses carried forward totalling NOK 625 million constitute a deferred tax asset of NOK 139 million, of which only NOK 34 million has been recognised. Unrecognised tax losses carried forward amount to NOK 480 million. A total of NOK 278 million of these have no expiry date, NOK 69 million expire from 2026 onwards, NOK 79 million expire in the period 2023–2025 and NOK 54 million expire in the period 2020–2022.

Amounts in NOK million	2019	2018
2019	-	38
2020	26	39
2021	25	26
2022	9	12
2023	72	57
2024	13	7
2025	0	0
2026 or later	68	34
Without expiry date	412	430
Total tax losses carried forward	625	643

Deferred tax assets are only capitalised to the extent that it is probable that there will be sufficient future taxable profit for the tax asset to be used, either because the entity recently reported a profit or because assets with excess value have been identified. If it is unlikely that future profits will be sufficient to absorb the tax-reducing temporary differences, deferred tax assets are not recognised. The businesses Orkla Care, Hamé and Harris have tax-reducing temporary differences in Spain, Poland, Eastern Europe and the UK that have not been recognised.

The Norwegian, Swedish and Finnish tax groups have utilised all available tax losses carried forward and were liable to tax in 2019.

Note 16 cont.

01 02 03 04 05

A net reversal of NOK 74 million has been made for a deferred tax liability on untaxed undistributed earnings in Estonia and Latvia related to an investment in a biscuits factory in Latvia.

Deductible temporary differences with corresponding deferred tax assets

Amounts in NOK million	Deductible temporary differences	Recognised deferred tax assets	Unrecognised deferred tax assets	Total deferred tax assets
Tax losses carried forward by country				
Spain	185	3	43	46
UK	87	7	8	15
Poland	66	0	13	13
Switzerland	57	0	14	14
Finland	41	4	4	8
Sweden	38	8	0	8
Eastern Europe	31	1	5	6
Netherlands	30	0	7	7
Denmark	29	3	3	6
Others	61	8	8	16
Total	625	34	105	139
Other deductible temporary differences	1 594	331	19	350
Total deductible temporary differences	2 219	365	124	489
Netted deferred tax	(1 571)	(338)	0	(338)
Net deductible temporary differences	648	27	124	151

NOTE 17 EARNINGS PER SHARE

Earnings per share are one of several indicators that can be used in financial analyses to assess a company's performance. This key figure shows the profit or loss for the year after non-controlling interests per share. Earnings per share (adj.) show the profit or loss for the year after non-controlling interests per share adjusted for "Other income" and "Other expenses" after estimated tax.

ACCOUNTING POLICIES

Earnings per share are calculated by dividing the profit or loss for the year after non-controlling interests by the average number of shares outstanding during the reporting period.

Earnings per share (adj.) show the profit or loss for the year after non-controlling interests per share adjusted for "Other income" and "Other expenses" after estimated tax. Items included in other income and expenses are disclosed in Note 14. If other items of a special nature arise below the company's operating profit, adjustments will also be made for them.

Amounts in NOK million	2019	2018
Profit/loss attributable to owners of the parent	3 838	3 272
Adjustments in EPS (adj.) attributable to owners of the parent		
Other income and expenses after tax	508	384
Gain on sale joint venture, see Note 6	(35)	0
Reversal of deferred tax on dividends Estonia/Latvia	(74)	0
Adjusted profit/loss attributable to owners of the parent	4 237	3 656
Weighted average of number of shares outstanding	999 929 381	1 008 809 691
Earnings per share (NOK)	3.84	3.24
Earnings per share (adj.) (NOK)	4.24	3.62

Effective tax related to "Other income" and "Other expenses" in 2019 will be lower than the Group's tax rate due to the write-down of goodwill with no tax effect and high, non-deductible transaction costs. The effective tax rate for other income and expenses for 2019 is 9.5% (20% in 2018).

An adjustment was also made in 2019 for a gain of NOK 35 million on the sale of Oslo Business Park. The gain is reported on the line "Profit/loss from associates and joint ventures"; see Note 6. Moreover, an adjustment was made for the reversal of a net deferred tax liability related to planned dividends from the Baltics; see Note 16. There were no such items in 2018.

There are no share-based arrangements in the Group that have a dilutive effect.

NOTE 18 IMPAIRMENT ASSESSMENTS

The value of long-term capitalised assets will largely be based on discretionary assessment and estimates. It is important that the financial statement users are familiar with the assumptions that apply to the valuation of these assets and the way the Group assesses future earnings. There will be particular focus on assets that are not initially depreciated or amortised. In the Orkla Group's financial statements, this will largely concern goodwill and trademarks with an indefinite useful life.

Routine monitoring of non-current assets
The Orkla Group has material non-current assets in the form of both tangible (property, plant and equipment) and intangible assets. An explanation of the details of and changes in these assets is presented in Note 19 and Note 20. The Group also has other non-current assets that mainly consist of investments in companies recognised using the equity method. These are disclosed in Note 6 and are not covered in the description below.

The capitalised assets are routinely monitored and if there are indications that the value of an asset is no longer recoverable, an impairment test will immediately be carried out to determine whether the asset can still justify its carrying value. If new estimates conclude that the value is no longer recoverable, the asset is written down to the recoverable amount, i.e. the greater of the net sales value and the value in use (discounted cash flow).

Impairment testing
Prior to the presentation of financial statements for the third quarter, the Group carried out impairment tests for all intangible assets with an indefinite useful life and for all goodwill, in line with its adopted principles. As a result of these tests, goodwill and brands were written down, primarily in Orkla Care and Orkla Consumer Investments.

The UK business in House Care has delivered a weak performance since it was acquired in September 2016. In 2018, a project was initiated to bring profitability back to at least the level at which Orkla purchased the business. However, the market situation remains very challenging, and the risk related to the profit performance required in the company was assessed as too high to justify the carrying value. Consequently, goodwill related to the company was written down by NOK 238 million in the third quarter of 2019. The goal of the restructuring project remains unchanged. A discount rate of 7.3% before tax was applied in the impairment tests and the carrying value of the company is NOK 312 million.

Write-downs of brands totalling NOK 181 million were also taken in the third quarter. The write-downs are primarily in Orkla Health, the largest relating to Gerimax (NOK 90 million) and Colon C (NOK 45 million). These brands have not performed satisfactorily in the last few years, and the remaining carrying value is NOK 70 million for Gerimax and NOK 20 million for Colon C. Furthermore, Orkla Foods' Swedish mince brand Krögarklass was written down by NOK 30 million to zero. The entire value of a Spanish brand in Wound Care was also written down by NOK 16 million.

An updated assessment was also carried out of the value of the Sauda power plants, and the valuation justifies the Group's investment in Saudefaldene. The WACC applied reflects lower risk than for the other Group companies.

No other deficit values related to property, plant or equipment or intangible assets were identified in the Group.

Ⓟ ACCOUNTING POLICIES

Goodwill and intangible assets with an indefinite useful life are not amortised on a regular basis. These assets are therefore tested at least annually for impairment. At Orkla, impairment testing is carried out in the third quarter. If there are special indications of a reduction in value, impairment testing is carried out more frequently. Cash flows relating to the assets are identified and discounted. Future cash flow is based on specified assumptions (see separate table in this note) and the plans adopted by the unit. If the discounted value of future cash flows is lower than the capitalised value of the unit's capital employed, the assets are written down to the recoverable amount. If the discounted value is higher than the capital employed, this means that the value of the intangible asset or goodwill is recoverable. In cases where the discounted value exceeds the capital employed by less than 20%, a further sensitivity analysis is carried out to check the calculation. Capital employed is defined through the presentation of segments in Note 7. Where relevant, assumptions and estimates are reviewed and the robustness of the investment is measured in relation thereto. Alternatively, the sales value of the asset will be calculated to determine whether it justifies maintaining the carrying value.

Trademarks with an indefinite useful life are tested for impairment by discounting estimates zof the future sales value of the trademark and measuring them against the trademark's carrying value. This process is based on a model whereby the trademark's discounted value is calculated on the basis of a percentage rate that indicates the strength of the trademark. This strength was assumed at the time of acquisition and is basically maintained in the impairment testing.

Note 18 cont.

01
02
03
04
05

Cash-generating units

A cash-generating unit (CGU) is the lowest level at which independent cash flows can be measured. The highest level of a CGU will be a reported segment. None of the reported segments as at 31 December 2019 constituted a separate CGU.

Orkla Foods and Orkla Confectionery & Snacks have a CGU in each country and are thus tested on a country basis. Orkla Care, on the other hand, consists of four branded companies that have operations in several countries. In both Orkla Foods and Orkla Care there are companies that have been part of the Group for a long time, and these companies therefore have low or no capitalised intangible assets. Large acquisitions like the purchase of Rieber & Søn Norge in 2013 and Cederroth in 2015 have on the whole been fully integrated into Orkla's existing operations and the excess value associated with the acquisitions is therefore justified by the new aggregated units.

Orkla Food Ingredients consists of many different bakery and ice cream ingredient units, which mainly constitute separate CGUs. These are tested individually and a total of 19 tests are carried out.

Orkla Consumer Investments consists of Orkla House Care, Lilleborg, Pierre Robert, Kotipizza and Gorm's. All these units constitute separate CGUs except Orkla House Care. For the time being, the UK business in House Care is an independent unit and is tested on an individual basis. In the long term, the business is expected to be incorporated into an aggregated Orkla House Care. The UK business in House Care was written down in 2019 (see the previous page).

The segments are disclosed in Note 7 and an overview of book goodwill and brands in the largest CGUs in each business area is presented in a separate table in this note.

Trademarks

In the case of trademarks, a new organisational structure will normally not change assumptions underlying the measurement of the strength of the various trademarks. The trademarks continue to exist in the new organisation. The value of a trademark will be dynamic and new products launched under the trademark in question will help to maintain its value.

Assumptions

The Branded Consumer Goods business is basically relatively stable in the face of market fluctuations. Future cash flows are estimated on the basis of a number of assumptions. This applies both to factors such as assumptions concerning economic trends and factors such as assumptions concerning the estimated useful life of important trademarks. Cash flow estimates are sensitive to changes in raw material prices and thereby other purchase prices and the associated ability to maintain margin assumptions and market shares. Future cash flows are estimated on the basis of the budget for next year and the following four forecast years. As from year six a terminal value is calculated. The main factors on which the impairment tests are based are summarised by segment in a separate table in this note. The CGUs operate in different markets, and the table is intended to provide an overview of the primary drivers.

Discount rate

The discount rate applied is based on the Group's cost of capital, which is estimated to be 7.5% before tax based on a Norwegian tax rate (7.2% in 2018), based on a weighted average of required rates of return for the Group's equity and debt (WACC). The required rate of return on the Group's equity is estimated by using the capital asset pricing model (CAPM). The required rate of return on debt is estimated on the basis of a long-term risk-free interest rate to which is added a credit margin derived from Orkla's marginal long-term borrowing rate. External information sources are used to calculate the cost of equity and the cost of debt. The discount rate is adjusted for country risk, the level of inflation and operational risk, depending on the particular value being calculated.

Sensitivity

The largest trademark and goodwill items are related to businesses that are developing well. A comparison of the book value of capital employed in Branded Consumer Goods with an average sum-of-the-parts (SOTP) value based on analysts' valuation of the corresponding area shows substantial value surplus. The value surplus varies from one business area to another, but all four Branded Consumer Goods business areas show that the SOTP value is clearly higher than the respective carrying values.

Greatest uncertainty is attached to the companies recently acquired. In these cases, plans and assumed growth rates are based on trends in markets that are relatively new for the Group. Based on the assumptions and expectations applied in both the acquisition cases and further plans, however, most of these businesses justify their capitalised value. The performances of Health and Sport Nutrition Group (HSNG) and Pierre Robert Group Finland (PRG Finland) have been weaker than expected since the companies were acquired. Based on expected cash flows, the companies justify their book value, but their future performance will be monitored closely in relation to their anticipated profit performance.

Except for in the companies mentioned above, even a 2% change in either WACC or growth in the terminal value will not, all else being equal, result in impairment of the value of material trademarks and goodwill items.

The goodwill and trademark items are shown in tables on the following pages.

Note 18 cont.

Key assumptions for estimating future performance

	Orkla Foods (OF)					Orkla Confectionery & Snacks (OC&S)				
		Goodwill		Trademarks			Goodwill		Trademarks	
Amounts in NOK million	Units	2019	2018	2019	2018	Units	2019	2018	2019	2018
Units in segment	OF Norway	3 345	3 345	1 260	1 260	OC&S Norway	534	534	205	205
	OF Sweden	1 490	1 500	64	87	OC&S Sweden	818	840	372	382
	OF Denmark	414	99	58	59	OC&S Denmark	583	589	402	405
	OF Finland og OF Baltics	159	161	45	45	OC&S Finland	584	589	721	727
	MTR Foods	302	305	112	114	OC&S Baltics	469	473	263	266
	OF Central Europe	597	596	491	489					
	OF Others	211	211	-	-					
	Total	**6 518**	**6 217**	**2 030**	**2 054**	**Total**	**2 988**	**3 025**	**1 963**	**1 985**
		2019		2018			2019		2018	
	Total capital employed 31 Dec.	14 142		13 709		Total capital employed 31 Dec.	6 803		6 752	
	EBIT (adj.)	2 276		2 048		EBIT (adj.)	1 094		1 006	
Factors that affect the discount rate	Operates largely in the Nordic and Baltic markets as well as Austria, Czech Republic, Slovakia, Russia, Hungary and India; low industry risk; budgets in local currency.					Operates largely in the Nordic and Baltic markets, low industry risk; budget in NOK, SEK, DKK, EUR.				
Raw material price estimates are based on the market situation at time of calculation	Key raw materials: meat and eggs, vegetables, dairy products, fish, spices and other additives, fruits and berries, glass and metal packaging.					Key raw materials: sugar, potatoes, nuts, cocoa, flour, vegetable oil, spices, milk powder and packaging				
Production sites	Production is carried out in the Nordics, Baltics, Austria, Czech Republic, Slovakia, Russia and India.					Production is largely carried out in the Nordics and Baltics.				
Gross profit is based on past performance, adjusted for future expectations	Gross profit is affected by innovations, productivity, retail chain price negotiations and raw material prices which overall are expected to remain stable or rise slightly.					Gross profit is affected by innovations, productivity, retail chain price negotiations and raw material prices which overall are expected to remain stable or rise slightly.				
Customisation and ability to develop products in collaboration with customers	Orkla Foods follows consumer trends and works continuously to seek growth and development in existing and new segments.					OC&S follows consumer trends – growth is expected in existing segments.				
Economic conditions and market outlook	Markets and turnover are expected to remain normal – Orkla Foods is generally little affected by market trends.					Markets and turnover are expected to remain normal – OC&S is generally little affected by market trends.				
Terminal value	Growth rate 0.5–5%.					Growth rate 0.5%.				

Note 18 cont.

Key assumptions for estimating future performance

Amounts in NOK million	Orkla Care					Orkla Food Ingredients (OFI)				
		Goodwill		Trademarks			Goodwill		Trademarks	
	Units	2019	2018	2019	2018	Units	2019	2018	2019	2018
Units in segment	Orkla Home & Personal Care	1 397	1 420	333	382	OFI Sales & Distribution	546	347	-	-
	Orkla Health	1 346	1 360	537	632	Odense Group	95	93	-	-
	Orkla Wound Care	130	134	80	98	Credin Group	211	199	-	-
	HSNG	275	274	92	95	Idun Group	737	614	-	-
						Dragsbæk Group	200	204	5	4
						Sonneveld Group	247	145	-	-
	Total	**3 148**	**3 188**	**1 042**	**1 207**	**Total**	**2 036**	**1 602**	**5**	**4**
		2019		2018			2019		2018	
	Total capital employed 31 Dec.	5 657		5 825		Total capital employed 31 Dec.	5 528		4 373	
	EBIT (adj.)	855		841		EBIT (adj.)	626		533	
Factors that affect the discount rate	Operates largely in the Nordic markets and the Baltics, Poland and Spain; low industry risk; budgets in local currency.					Operates in several countries; moderate industry risk; budgets in local currency.				
Raw material price estimates are based on the market situation at time of calculation	Key raw materials: crude oil, fish oil, milk protein, vitamins, plastic packaging, plastic components, cardboard and paper-based packaging and tensides.					Key raw materials: vegetable oil, butter, molasses, sugar and flour.				
Production sites	Own production mainly in the Nordics, Poland and Malaysia for the part of Jordan included in Orkla Home & Personal Care (OHPC). Orkla Health has own production in Norway and Denmark. Wound care products are produced in Spain. Orkla Health, OHPC and HSNG also purchase goods for resale from Europe.					Own production mainly in Scandinavia. Other production in the Netherlands and at certain production units in Central and Eastern Europe.				
Gross profit is based on past performance, adjusted for future expectations	Gross profit is affected by innovations, productivity, retail chain price negotiations and raw material prices that overall are expected to remain stable or rise slightly.					Gross profit is affected by companies' competitive strength in delivery of products and services. This strength is supported by ability to develop good cost- in-use products. OFI seeks to offset changes in raw material costs in customer markets.				
Customisation and ability to develop products in collaboration with customers	Orkla Care follows consumer trends – growth is expected in existing segments.					OFI follows consumer trends and collaborates closely with its customers, who are manufacturers and suppliers. This collaboration will be further strengthened.				
Economic conditions and market outlook	Markets and turnover are expected to remain normal – Orkla Care is generally little affected by market trends.					Markets and turnover are expected to remain normal in the markets in which OFI operates.				
Terminal value	Growth rate 0.5–2%.					Growth rate 0.5%.				

Note 18 cont.

Key assumptions for estimating future performance

	Orkla Consumer Investments				
		Goodwill		Trademarks	
Amounts in NOK million	Units	2019	2018	2019	2018
Units in segment	Pierre Robert Group[1]	98	98	38	37
	Lilleborg	18	18	-	-
	Orkla House Care	501	472	154	151
	Kotipizza	1 172	-	421	-
	Gorm's	116	116	-	-
	Total	**1 905**	**704**	**613**	**188**
		2019		2018	
	Total capital employed 31 Dec.	3 373		1 625	
	EBIT (adj.)	297		246	
Factors that affect the discount rate	Operates largely in the Nordic markets and the UK; low industry risk; budgets in local currency.				
Raw material price estimates are based on the market situation at time of calculation	Key raw materials: plastic packaging, plastic components, cardboard and paper-based packaging, wool and cotton, pizza crusts and pizza toppings.				
Production sites	Own production mainly in the Nordics, UK and China for Orkla House Care. Pierre Robert Group mainly buys its production from Italy and Asia. Lilleborg primarily buys goods for resale from Europe, in addition to own production in Norway. Kotipizza has own production in Finland and purchases ready-made crusts and raw materials (pizza toppings) and packaging. Gorm's has own production in Denmark.				
Gross profit is based on past performance, adjusted for future expectations	Gross profit is affected by innovations, productivity, retail chain negotiations and raw material prices that overall are expected to remain stable or rise slightly. For the restaurant operations, contribution margin is primarily driven by sales from restaurants, and innovation and operational efficiency.				
Customisation and ability to develop products in collaboration with customers	Orkla Consumer Investments follows consumer trends – growth is expected in existing segments.				
Economic conditions and market outlook	Markets and turnover are expected to remain normal – Orkla Consumer Investments is generally relatively little affected by market trends.				
Terminal value	Growth rate 0.5–2%.				

[1]Carried goodwill and trademarks are mainly related to Pierre Robert Group in Finland.

NOTE 19 INTANGIBLE ASSETS

Intangible assets and goodwill are non-physical assets that have largely been capitalised in connection with the acquisition of a company. Intangible assets classified as non-amortisable are chiefly trademarks, have an indefinite useful life and it is impossible on the balance sheet date to foresee when the asset will cease to have value. Goodwill is not regularly amortised either. Intangible assets and goodwill will be subject to considerable estimate uncertainty.

Ⓟ ACCOUNTING POLICIES

Research and development (R&D) expenditure is the expenses incurred by the Group in conducting research and development, studies of existing or new products, production processes, etc. in order to secure future earnings. Expenditure on research is always expensed directly, while expenditure on development may be recognised in the statement of financial position. However, there is considerable uncertainty throughout the decision-making process, and the fact that only a small percentage of all development projects culminate in commercial products means that no projects end in capitalisation. At the same time, the expenses that qualify for recognition in the statement of financial position are relatively small.

Expenditure on internally generated or customised IT systems is capitalised and presented as intangible assets.

Expenditure related to internally generated trademarks, etc. (marketing) is expensed directly and will never be capitalised. This is because the future economic benefits to the company cannot be identified and shown to be probable with any degree of certainty at the time the trademark is launched.

Intangible assets taken over by the company through acquisitions are capitalised. Long-established trademarks that have a sound development at the time of acquisition have an indefinite useful life and are not amortised. An indefinite useful life means that it is impossible on the statement of financial position date to estimate the period during which assets will be available for use. Other identified trademarks will be amortised over their anticipated useful life, which is normally 5–10 years. Other intangible assets will be amortised over their useful life. Thus only trademarks that are purchased directly or indirectly through the acquisition of companies are capitalised in the consolidated financial statements, not internally generated trademarks.

Goodwill is the residual value consisting of the difference between the purchase price and the capitalised value of an acquired company. The concept of goodwill comprises payment for synergy gains, assets related to employees, other intangible assets that do not qualify for capitalisation as a separate item, future superprofit and the fact that deferred tax cannot be discounted. Capitalised goodwill derives solely from acquisitions; see Note 18.

Ⓔ ESTIMATE UNCERTAINTY

Considerable estimate uncertainty attaches to the value of intangible assets. These have no direct "cost price", which is essentially determined by the Group's own valuations, and are mainly capitalised in connection with the Group's acquisition of a new business. Goodwill is to be seen as a residual value in the same acquisition. The sum of all excess value including goodwill associated with acquisitions is thus basically to be regarded as the market value (fair value) of the total net assets, and the different types of assets (liabilities) are broken down on the basis of that value; see Note 18.

Ⓢ SUSTAINABILITY

Orkla expensed NOK 300 million for research and development in 2019 (NOK 279 million in 2018). This covers internal and external costs related to product development, and includes measures to reduce salt, sugar and saturated fat in foods, and develop healthy products and packaging with reduced environmental impacts.

A project is being carried out that will run for several years and aims at establishing a common ERP platform for Branded Consumer Goods except Orkla Food Ingredients. As at 31 December 2019, NOK 660 million had been capitalised in connection with this ERP system. Orkla Food Ingredients is also in the process of establishing a common ERP system in its own business area and has capitalised NOK 60 million. The ERP investments are mainly capitalised under "Assets under construction"; see Note 20.

Note 19 cont. ➔

01
02
03
04
05

Intangible assets

Amounts in NOK million	Trademarks, not amortisable	Trademarks, amortisable	Other intangible assets	IT	Goodwill	Total
Book value 1 January 2018	5 312	14	96	309	14 150	19 881
Investments	-	-	-	40	-	40
Reclassifications[1]	-	-	-	128	-	128
Companies acquired[2]	130	-	2	(9)	603	726
Sold companies	-	-	-	-	(9)	(9)
Depreciation/amortisation	-	(5)	(5)	(103)	-	(113)
Translation differences	(4)	-	-	(1)	(71)	(76)
Book value 31 December 2018	5 438	9	93	364	14 673	20 577
Investments	-	-	-	83	2	85
Reclassifications[1]	1	-	1	77	-	79
Companies acquired[2]	441	-	30	3	2 198	2 672
Depreciation/amortisation	-	(1)	(12)	(108)	-	(121)
Write-downs	(181)	-	-	(4)	(238)	(423)
Translation differences	(46)	1	5	-	(102)	(142)
Book value 31 December 2019	5 653	9	117	415	16 533	22 727
Initial cost 1 January 2019	5 537	89	879	1 123	16 913	24 541
Accumulated amortisation and write-downs	(99)	(80)	(786)	(759)	(2 240)	(3 964)
Book value 1 January 2019	5 438	9	93	364	14 673	20 577
Initial cost 31 December 2019	5 805	81	943	1 148	19 135	27 112
Accumulated amortisation and write-downs	(152)	(72)	(826)	(733)	(2 602)	(4 385)
Book value 31 December 2019	5 653	9	117	415	16 533	22 727
Amortisation	-	10–20%	10–20%	10–33%	-	-

[1]Net reclassifications relate to figures transferred from Note 20.
[2]See Note 5 for information about intangible assets in acquired companies.

NOTE 20 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are various types of assets that are necessary for the Group's operating activities. Unless there are significant changes in operating parameters, these assets will largely necessitate corresponding reinvestment over time. They consist of items such as land, buildings, plants, machinery, fixtures and fittings, IT equipment and means of transport owned by the Orkla Group. Annual ordinary depreciation is an indication of the extent of the need for corresponding reinvestment.

Ⓟ ACCOUNTING POLICIES

Property, plant and equipment are tangible items intended for production, delivery of goods or administrative purposes and have a lasting useful life. They are recognised in the statement of financial position at cost minus any accumulated depreciation and write-downs. Routine maintenance of assets is expensed under operating expenses while major periodical maintenance and expenditure on replacements or improvements are added to the cost price of the assets. Property, plant and equipment with an indefinite useful life (land, etc.) are not depreciated, while other property, plant and equipment are depreciated on a straight line basis over their useful life. Residual value is taken into account (especially in connection with properties), and the depreciation plan is reviewed annually. If there is any indication that the value of an asset may be impaired, the asset will be written down to the recoverable amount if the recoverable amount is lower than the carrying value.

When carrying out a purchase price allocation in connection with an acquisition, excess or deficit values are allocated to the assets concerned, so that these are capitalised at the Group's acquisition cost. Financing expenses related to the production of the Group's own property, plant and equipment are recognised in the statement of financial position; see Note 15.

Ⓔ ESTIMATE UNCERTAINTY

The valuation and estimated useful life of property, plant and equipment are based on future information and will always involve a degree of uncertainty. Especially in a situation where the Group is planning major changes in its manufacturing structure and number of production sites, there will be extra focus on assessments made of different production facilities. The various production sites are routinely assessed based on a going concern approach, but in a situation where a change in organisational structure could mean that some plants will be closed or reorganised, these assessments will have to be changed on an ongoing basis and could lead to the identification of both net book value surpluses and net book value deficits.

See Note 35 for disclosures of pledged assets and mortgages related to the Group's property, plant and equipment.

Orkla is currently implementing an investment programme for pizza production at Stranda. The investment programme, which will run for five years, includes investments in both new innovations and improved production efficiency. Approximately NOK 500 million was capitalised for this project as at 31 December 2019. Project costs related to the different stages are recognised as "Other expenses".

Note 20 cont. ➔

Property, plant and equipment

Amounts in NOK million	Land, buildings and other property	Machinery and plants	Assets under construction	Fixtures, fittings, vehicles, IT equipment etc.	Total
Book value 1 January 2018	5 811	4 222	1 102	548	11 683
Investments	181	332	1 658	120	2 291
Disposals/scrapping	(9)	(67)	(1)	(3)	(80)
Reclassifications	15	-	(128)	-	(113)[1]
Companies acquired	82	61	9	18	170
Sold companies	-	-	-	-	0
Transferred assets under construction	94	431	(538)	13	0
Write-downs	(19)	(37)	(3)	(3)	(62)
Depreciation	(226)	(682)	-	(186)	(1 094)
Translation differences	(10)	(26)	4	(3)	(35)
Book value 31 December 2018	5 919	4 234	2 103	504	12 760
Investments	293	404	1 585	160	2 442
Disposals/scrapping	(19)	(16)	-	(3)	(38)
Companies acquired	118	55	2	15	190
Sold companies	(27)	(5)	-	-	(32)
Transferred assets under construction/reclassifications	997	531	(1 702)	82	(92)[2]
Write-downs	(1)	(24)	(34)	(1)	(60)
Depreciation	(269)	(703)	-	(173)	(1 145)
Translation differences	(20)	(41)	(4)	(5)	(70)
Book value 31 December 2019	6 991	4 435	1 950	579	13 955
Initial cost 1 January 2019	9 844	15 155	2 103	2 345	29 447
Accumulated depreciation and write-downs	(3 925)	(10 921)	-	(1 841)	(16 687)
Book value 1 January 2019	5 919	4 234	2 103	504	12 760
Initial cost 31 December 2019	10 695	16 008	1 984	2 416	31 103
Accumulated depreciation and write-downs	(3 704)	(11 573)	(34)	(1 837)	(17 148)
Book value 31 December 2019	6 991	4 435	1 950	579	13 955
Linear depreciation	2–4%	5–15%	-	15–25% IT-equipment: 16–33%	

[1]NOK 15 million has been transferred from Inventories in Note 23 and NOK 128 million has been transferred to Intangible assets in Note 19.
[2]NOK 13 million related to previously capitalised leases under IAS 17 has been transferred to Leases in Note 21 and NOK 79 million has been transferred to Intangible assets in Note 19.

NOTE 21 LEASES

The Group has agreements relating to the lease of property and other fixed assets. These are future liabilities for the Group. Under the new IFRS 16 implemented on 1 January 2019, all non-immaterial lease liabilities must be capitalised as interest-bearing liabilities. In parallel, the right-of-use assets will be capitalised together with property, plant and equipment and depreciated. Short-term leases and leases of low value assets will be expensed like other operating expenses.

ACCOUNTING POLICIES

Upon entering into a contract, an assessment will be made of whether an agreement contains a lease arrangement entitling the Group to control the use of an identified asset. If the lease is identified as such, assets and associated liabilities are recognised at the start of the lease, i.e. at the date on which the underlying asset is made available to the Group. Short-term leases of 12 months or less and leases of low value assets are not capitalised. For these leases, lease payments are recognised in the income statement directly.

Upon entering into a contract, the lease liabilities are measured at the present value of all future lease payments. Lease payments include fixed payments and any payments varying according to an index or an interest rate, but not variable lease payments depending on the use of the asset. Lease payments also include residual value guarantees, purchase options and any termination expenses. The lease liability is reduced by ongoing instalments. The discount rate is the implicit interest rate in the lease, provided this is available. If this cannot be obtained, the lessee's marginal borrowing interest rate shall be used as the basis. Lease liabilities are classified like other interest-bearing liabilities in the statement of financial position. The interest effect of the discounting is presented as interest expense.

Right-of-use assets are capitalised at the equivalent of the estimated lease liability upon entry into the lease contract. Right-of-use assets are depreciated on a straight-line basis over the lease period and assessed to determine whether a write-down is necessary if there is any indication of a value impairment. The assets are included in non-current assets in the statement of financial position.

Implementation of IFRS 16

The Group has implemented IFRS 16 Leases since 1 January 2019. Orkla has chosen to apply the modified retrospective method when implementing IFRS 16, which gave rise to an equity effect upon implementation. Comparative figures have not been restated, but a new balance as at 1 January 2019 is presented in the statement of financial position.

As at 1 January 2019, Orkla had capitalised right-of-use assets totalling NOK 1,283 million and liabilities of NOK 1,447 million relating to leases. The effect on total retained earnings amounts to NOK 112 million after a reduction in deferred tax of NOK 37 million and a reduction in non-controlling interests of NOK 15 million. Most of the equity effect is related to the Sauda lease (see below). The implementation effect reduced the equity ratio as at 1 January 2019 by 1.8 percentage point, from 64.9% to 63.1%.

Reconciliation of lease liabilities under IAS 17 against lease liabilities under IFRS 16

Amounts in NOK million	1.1.2019
Operating lease commitments 31 December 2018	1 340
Financial lease commitments 31 December 2018	30
Recognition lease agreements Sauda[1]	268
Renewal options reasonably certain to be exercised	7
Short-term leases not recognised in the balance sheet	(30)
Low value leases not recognised in the balance sheet	(18)
Discounting using the incremental/marginal borrowing rate	(150)
Lease liabilities recognised at initial application	**1 447**
The weighted average incremental/marginal borrowing rate applied	3.3%
Right-of-use assets recognised at initial application	1 283
Amount recognised in retained earnings at initial application	112

[1]Not reported as lease under IAS 17.

Note 21 cont.

01 02 03 04 05

Orkla's leases
The companies in the Orkla Group largely own their own means of production and production premises. The Group's leases mainly concern the lease of restaurants (Kotipizza), office and warehouse premises and vehicles such as cars and forklifts. The leases are capitalised under "Non-current assets" in the statement of financial position.

Additionally, Orkla's leases with Statkraft, whereby AS Saudefaldene has use of all power stations until 2030, are deemed to fall within the scope of IFRS 16. The leases account for around 14% of the recognised right-of-use assets in the Group as at 31 December 2019. Orkla has a right to terminate the leases with Statkraft at any time subject to three to four years' notice, and renewal of the leases is considered annually. Between three and four years' rent will be capitalised at all times. These leases are presented in the table as "Machinery and plants".

No material impairment needs have been identified in relation to any of the leases in connection with implementation of IFRS 16.

Key considerations
Several of the Group's leases include options for renewal of the lease. This applies in particular to leases for office and warehouse premises. Only options that are reasonably certain to be exercised are recognised in the lease liability. Lease options for long-term contracts, mainly over 5 years, are not taken into account as there are constant changes in the Group, and it is therefore difficult to predict the likelihood of future renewals.

Leases that fall within the definition "low value assets" are not capitalised. This primarily applies to office equipment leases. Lease expenses related to short-term leases where the non-cancellable lease period is less than 12 months are also recognised directly in the income statement, provided that the company does not expect to use the asset after this period.

The Orkla Group has chosen to make use of the possibility offered in the standard of not applying IFRS 16 for intangible assets. In the case of Saudefaldene, this applies to waterfall rights that represent a right to use the power of the water in the Saudavassdraget river system. The liability arising from this right of use has not been recognised and thus has not been capitalised.

A review of various leases has been carried out, and the agreements have been assessed with regard to the distinction between them and service agreements. This applies, for instance, to agreements with carriers (transport agreements). The majority of the Group's transport agreements are of such a nature that no specific asset can be identified, or are of a short-term nature that does not fall within the standard's definition of a lease.

Several of the Group's leases include other services and components, such as shared costs, fuel and taxes. Non-lease components are treated separately from the lease and recognised as an operating expense in the consolidated financial statements.

Discount rate
When a lease's implicit interest rate is not available, the lessee's marginal borrowing rate is used as a basis. For most Orkla subsidiaries, this will be the internal borrowing rate in Orkla ASA. Orkla's internal borrowing rate is fixed at the floating market interest rate with a risk premium (company and country risk). The weighted discount rate for Orkla's lease liabilities is 2.3%.

Effects on profit or loss
Under IFRS 16, capitalised leases must be depreciated over the lease period and presented with the Group's other depreciation expense. For 2019, this results in a limited annual increase in the Group's operating profit of approx. NOK 20 million, due to an increase of NOK 472 million in annual depreciation and a reduction in other operating expenses of approx. NOK 492 million. The interest rate effect is NOK 35 million. The actual effects on profit or loss differ slightly from estimates made in earlier periods and are particularly affected by new leases entered into in 2019. In particular, Orkla's purchase of Kotipizza Group Oyj in 2019 increased the number of the Group's leases. Kotipizza leases premises in connection with its restaurant operations. See also Note 5.

E ESTIMATE UNCERTAINTY

Recognition of leases is based on a present value calculation, in which assumptions concerning discount interest rates, lease payments, lease term and use of options are assessed and taken into account. Changes in one or more of these assumptions will impact on the estimated effects of the leases for the Group. The assessment of whether an agreement is to be regarded as a lease or service agreement will also have significant consequences for the accounting treatment of the leases.

Note 21 cont.

Capitalised right-of-use assets

Amounts in NOK million	Offices and restaurants	Production sites and other property	Machinery and plants	Vehicles etc.	Total
Book value 1 January 2019	432	466	180	205	1 283
Investments	138	43	174	95	450[1]
Companies acquired	186	-	1	8	195
Sold companies	-	-	-	-	-
Depreciation	(176)	(73)	(104)	(119)	(472)
Translation differences	(1)	(4)	(1)	(3)	(9)
Book value 31 December 2019	579	432	250	186	1 447
Initial cost 1 January 2019	1 030	725	233	501	2 489
Accumulated depreciation and write-downs	(598)	(259)	(53)	(296)	(1 206)
Book value 1 January 2019	432	466	180	205	1 283
Initial cost 31 December 2019	1 541	760	323	601	3 225
Accumulated depreciation and write-downs	(962)	(328)	(73)	(415)	(1 778)
Book value 31 December 2019	579	432	250	186	1 447

[1]NOK 13 million was transferred from property, plant and equipment, Note 20. This was previously capitalised as financial leases under IAS 17.

Undiscounted lease liabilities and maturity of cash outflows

Amounts in NOK million					
Less than 1 year	192	81	104	99	476
1-2 years	149	72	103	52	376
2-3 years	109	59	101	23	292
3-4 years	80	54	99	9	242
4-5 years	51	51	4	5	111
More than 5 years	69	181	2	4	256
Total undiscounted lease liabilities at 31 December 2019	650	498	413	192	1 753

Note 21 cont.

Movement of the lease liabilities

Amounts in NOK million	2019
At initial application 1 January 2019	1 447
New lease liabilities	450
Lease liabilities acquired companies	210
Lease payments in 2019	(492)
Interest expense on lease liabilities	35
Index adjustments	8
Translation differences	(2)
Total lease liabilities at 31 December 2019	**1 656**
Current lease liabilities	361
Non-current lease liabilities	1 295
Net cash flow from lease liabilities	492

Other lease expenses recognised in income statement

Amounts in NOK million	2019
Lease payments - short-term and low value leases	(51)
Variable lease payments	(5)
Total lease expenses (other operating expenses)	(56)

Rental agreements
The Group also rents out real estate under operating leases. Rental revenues in 2019 amounted to NOK 96 million. Total future rental revenues amount to NOK 201 million, broken down into NOK 107 million in 2020 and NOK 94 million after 2021.

NOTE 22 OTHER ASSETS (NON-CURRENT)

Other assets (non-current) consist of financial items of a long-term nature. Shares are presented at fair value in the statement of financial position, with changes in value reported as other items in comprehensive income. Other assets also include net pension assets from companies that have more pension assets than liabilities. Other items are derivatives and receivables with a maturity of more than one year.

Ⓟ ACCOUNTING POLICIES

Other assets are classified as non-current when they are not part of a normal operating cycle and are not held for trading purposes or the entity has an unconditional right to defer payment for at least 12 months. Other receivables are current.

Shares and financial investments are investments of a financial nature and are recognised at fair value with both changes in value and gains/losses recognised as other items in the comprehensive income statement. Dividends received are reported in ordinary profit or loss when they are not to be regarded as a form of repayment of capital by the company. Any dividend is recognised in the income statement when it has been approved by the company paying out the dividend, which mainly coincides with the date of payment. Purchases and sales of shares are recognised on the trade date. This applies both to shares classified as non-current shares in this note and to current shares in Note 24.

Derivatives are described in Note 31. Pension assets are described in Note 12.

Amounts in NOK million	Measurement level	2019	2018
Share investment Kotipizza (see Note 5)	1	-	157
Share investments	3	102	81
Interest-bearing derivatives	2	19	79
Receivables interest-bearing	3	244	130
Receivables non interest-bearing	3	11	11
Total financial assets		376	458
Pension plan assets		32	30
Total other assets (non-current)		408	488

Receivables are recognised at fair value in accordance with Level 3 valuation, and derivatives according to Level 2 valuation; see the measurement hierarchy in Note 31.

NOTE 23 INVENTORIES AND DEVELOPMENT PROPERTY

Inventories are the Group's stocks of all types of goods intended for sale. These consist of raw materials ready for production, finished goods and purchased goods for resale. Packaging to be used for sold goods is included. Any profit from intra-Group sales has been eliminated. During the period in which buildings built by the Group (Orkla Eiendom) for sale are under development, the cost price of the projects will be reflected on the line for inventory of development property until the buildings are sold.

Inventories

Amounts in NOK million	2019	2018
Raw materials	1 994	1 860
Work in progress	334	448
Finished goods and merchandise	3 540	3 567
Total inventories	5 868	5 875

Inventories relating to Branded Consumer Goods:		
Orkla Foods	2 504	2 485
Orkla Confectionery & Snacks	643	662
Orkla Care	999	1 076
Orkla Food Ingredients	1 219	1 148
Orkla Consumer Investments	500	495
Branded Consumer Goods	5 865	5 866

Ⓟ ACCOUNTING POLICIES

Inventories are valued at the lower of acquisition cost and net realisable value for the entire Orkla Group. Purchased goods are valued at cost according to the FIFO principle, while internally manufactured finished goods and work in progress are valued at production cost. Deductions have been made for obsolescence. The net realisable value is the estimated selling price minus selling costs. Property under development is valued at the total costs incurred.

An assessment of net realisable value was carried out after deducting selling costs. This resulted in a total write-down of inventories as at 31 December 2019 of NOK 102 million (NOK 80 million in 2018). Inventories valued at net realisable value total NOK 58 million (NOK 45 million in 2018).

Development property

Development properties amounted to NOK 90 million (NOK 132 million in 2018). The properties are mainly housing projects under development/construction and primarily consist of the projects at Sandakerveien 56 in Oslo and a development project in Larvik.

Ⓔ ESTIMATE UNCERTAINTY

Inventories consist of a great many individual lines of goods in the form of both raw materials and finished goods. The goods are counted and valued at the Group's acquisition cost, and account is taken of obsolescence. The Group has a large number of units in stock at all times, but there is not deemed to be any material form of uncertainty regarding either the quantity or quality of the Group's inventories.

01
02
03
04
05

NOTE 24 RECEIVABLES AND FINANCIAL ASSETS (CURRENT)

Accounts receivable and other trade receivables are directly linked to the operating cycle. Other receivables (current) can be both interest-bearing and non-interest-bearing. Financial assets are securities with a short-term ownership horizon.

Accounts receivable and other trade receivables

Amounts in NOK million	2019	2018
Accounts receivable (A - B)	5 941	5 826
Other trade receivables	137	164
Total trade receivables	6 078	5 990

Breakdown of accounts receivable by due date:

Amounts in NOK million	2019	2018
Accounts receivable not due	5 113	4 991
Overdue receivables 1–30 days	590	599
Overdue receivables 31–60 days	108	117
Overdue receivables 61–90 days	48	43
Overdue receivables over 90 days	197	179
Accounts receivable carrying amount 31 December (A)	6 056	5 929

Change in provisions for bad debts:

Amounts in NOK million	2019	2018
Provisions for bad debts 1 January	103	86
Bad debts recognised as expense	16	17
Provisions in acquired companies	16	9
Provisions in sold companies	-	-
Final bad debts	(19)	(12)
Translation effects	(1)	3
Provisions for bad debts 31 December (B)	115	103

Ⓟ ACCOUNTING POLICIES

Provisions are made for anticipated losses on receivables based on relevant information available at the time of reporting, including historical, current and future information in accordance with an expected loss model. The provision will have to be based on objective criteria. If an invoice is not paid, this will be a clear indication of an increased risk of default.

Accounts receivable are in principle recognised and presented at the original invoice amount and valued at amortised cost using the effective interest rate method. The interest rate element is disregarded if it is immaterial, which is the case for the vast majority of the Group's accounts receivable.

The principle for assessment of financial investments is described in Note 22. Derivatives are described in Note 31.

Ⓔ ESTIMATE UNCERTAINTY

The credit risk related to accounts receivable is assessed as relatively low. Provisions have been made for bad debts, which cover uncertain receivables to a reasonable extent. See also the breakdown of accounts receivable by due date in this note and the disclosure of credit risk in Note 30.

Note 26 cont.

Receivables and financial assets (current)

Amounts in NOK million	2019	2018
Non-interest-bearing derivatives	7	23
Interest-bearing derivatives	95	-
Interest-bearing receivables	8	6
Other current receivables	277	267
Financial investments	1	13
Total financial receivables and investments	388	309
Advance payment to suppliers/earned income	513	461
Tax receivables	67	57
Total current receivables and financial investments	968	827

Derivatives are recognised at fair value in accordance with Level 2 valuation and financial assets according to Level 3 valuation; see the measurement hierarchy in Note 31.

NOTE 25 CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents consist of liquid assets necessary for transactions and some current placements. Orkla ASA also has unutilised, long-term, committed credit facilities that may be drawn upon at short notice; see Note 28. Changes in liquid assets in the cash flow statement do not necessarily provide an accurate picture of the Group's financial standing as excess liquidity is routinely used to repay interest-bearing debt.

Ⓟ ACCOUNTING POLICIES

Cash and cash equivalents consist of cash, bank deposits and current deposits that have a maturity of three months or less, and an immaterial risk of a change in value. Restricted deposits are assets that only to a limited degree are available to the rest of the Group.

Cash and cash equivalents are held for the purpose of meeting short-term fluctuations in liquidity rather than for investment purposes. For Orkla, the level of the Group's net interest-bearing liabilities is a more important management parameter than the level of cash and cash equivalents

Amounts in NOK million	2019	2018
Cash at bank and in hand[1]	1 423	1 723
Current deposits	70	83
Restricted deposits	176	172
Total cash and cash equivalents	1 669	1 978

[1]Of "Cash at bank and in hand" a total of NOK 321 million (NOK 196 million in 2018) is in Orkla companies with minority shareholders and in Orkla Insurance Company. These assets are only available to a limited extent to the rest of the Group.

NOTE 26 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Provisions consist of pension obligations and other provisions for liabilities. A provision may be reported separately from other liabilities, such as accounts payable, because there is uncertainty as to the settlement date or the amount of the future expenses.

Ⓟ ACCOUNTING POLICIES

Provisions are recognised in the financial statements for matters such as disputes, potential lossmaking contracts and adopted restructuring measures. The provisions will not cover possible future operating losses. In the case of restructuring provisions, there must be a detailed plan that identifies which parts of the business are to be restructured, and a valid expectation must have been created among those concerned that the restructuring will be carried out. In addition, it must be possible to provide a reliable estimate of the amount of the liability. It is a condition that the restructuring materially changes the size of the business or the way in which it is operated. The provision is calculated on the basis of the best estimate of anticipated expenses. If the effect is material, anticipated future cash flows will be discounted, using a current pre-tax interest rate that reflects the risks specific to the provision.

Contingent liabilities and contingent assets are a possible obligation or a possible asset whose existence is uncertain and will be confirmed by the occurrence or non-occurrence of a future special event, such as the outcome of legal proceedings or the final settlement of an insurance claim. Contingent liabilities are recognised in the financial statements based on estimated outcome, if there is a more than 50% probability that the liability has arisen. If the probability is lower, the matter is disclosed in notes to the financial statements if material and unless the probability of disbursement is very small. An asset will only be recognised in the statement of financial position if it is highly probable (95%) that the Group will receive the asset. The disclosure requirement applies to other contingent assets; see Note 37 for further information.

Derivatives are described in Note 31. Pension obligations are described in Note 12.

Ⓔ ESTIMATE UNCERTAINTY

It is in the nature of a provision that it involves some degree of uncertainty. A provision is made and calculated based on assumptions at the time the provision is made and will be routinely updated as and when new information becomes available.

Provisions and other non-current liabilities

Amounts in NOK million	2019	2018
Pension liabilities	2 358	2 019
Derivatives	128	242
Provisions for obligations and other non-current liabilities	695	799
Total provisions and other non-current liabilities	3 181	3 060

Provisions with a maturity of less than 12 months are presented as “Other liabilities” (current).

Breakdown of provisions for obligations and other non-current liabilities:

Amounts in NOK million	2019	2018
Branded Consumer Goods	275	169
Other business	420	630
Total provisions for obligations and other non-current liabilities	695	799

Provisions for obligations and other non-current liabilities in Branded Consumer Goods mainly concern commitments to acquisitions of additional shares in companies, restructuring and minor personnel-related provisions. Provisions and other non-current liabilities in 2019 increased due to liabilities incurred in connection with the purchase of additional shares in Kotipizza and Easyfood. Restructuring provisions also increased.

As regards “Other business”, provisions for obligations and other non-current liabilities concern estimated liabilities related to guarantees and indemnities issued by Orkla to Norsk Hydro in connection with the sale of Sapa, as well as compensation to property owners and demolition costs related to Saudefaldene, and provisions related to discontinued operations. Furthermore, Orkla has insured some of its exposures through a captive insurance company, Orkla Insurance Company DAC. Orkla has made provisions for these exposures. The reduction related to “Other business” in 2019 chiefly concerns the payment of NOK 203 million as part of the indemnities issued to Norsk Hydro. A provision of NOK 297 million remains for this indemnity; see also the description in Note 4.

NOTE 27 CURRENT LIABILITIES

Accounts payable and other trade payables are liabilities linked directly to the operating cycle. Other liabilities (current) are other payables, such as unpaid government charges and taxes, unpaid wages and holiday pay and other accruals.

Ⓟ ACCOUNTING POLICIES

A non-interest-bearing liability is classified as current when it is part of a normal operating cycle, is held for trading purposes and falls due within 12 months. Other liabilities are non-current.

Accounts payable and other trade payables

Amounts in NOK million	2019	2018
Accounts payable	3 918	3 328
Other trade payables[1]	1 673	1 579
Total trade payables	5 591	4 907

[1]Includes discount provisions of NOK 1,516 million in 2019 (NOK 1,376 million in 2018); see Note 4.

Ⓔ ESTIMATE UNCERTAINTY

All types of accruals/provisions will involve a certain estimate uncertainty. Estimate uncertainty associated with discounts, etc. is disclosed in Note 4.

Other liabilities (current)

Amounts in NOK million	2019	2018
Non-interest-bearing derivatives	8	15
Non-interest-bearing current liabilities	180	204
Total financial liabilities non-interest-bearing	188	219
Value added tax, employee taxes	868	806
Accrued wages and holiday pay	1 048	1 105
Other accrued costs	887	850
Total other liabilities (current)	2 991	2 980

NOTE 28 CAPITAL MANAGEMENT AND FUNDING

The level of a company's capital and the way it is managed are important factors in evaluating the company's risk profile and its capacity to withstand unfavourable events.

Capital management

Orkla's capital management is designed to ensure that the Group has sufficient financial flexibility, short-term and long-term. One main objective is to maintain a financial structure that, through solidity and cash flow, ensures strong, long-term creditworthiness, as well as a competitive return for shareholders through a combination of dividends and an increase in the share price.

When allocating capital for acquisitions and other investments, a rate of required return on capital is applied, adjusted for project-specific risk. Capital usage and allocation are subject to formalised authorisation limits, and decision processes at applicable levels. External borrowing is centralised at the parent company level, and capital needs in subsidiaries are mainly covered by internal loans, or equity. The capital structure of subsidiaries is adapted to commercial as well as legal and tax considerations. The short-term liquidity of Group companies is managed at Group level through cash pools. Internal loans to partly owned subsidiaries are provided subject to a separate evaluation, or external funding is established.

Orkla has no official credit rating, but actively monitors quantitative and qualitative measures which affect the creditworthiness of the Group. The target is to ensure that interest bearing liabilities do not exceed 2.5 x EBITDA over time. Orkla has targeted a reduction in working capital, in percent of turnover, of 3 percentage points during a three-year period, and through 2019 the working capital was reduced by 1.1 percentage point. There were no other changes in Orkla's approach and objectives regarding capital management during 2019.

Ⓢ SUSTAINABILITY

Focus on responsible business operations and effective management of sustainability-related risk is an integral part of the Group's investment assessments. Orkla's sustainability goals necessitate investments in product development and process improvements, and in some cases the desire to acquire a new business. Sustainability-related investments are assessed on the basis of Orkla's criteria for return on investment and risk management.

Note 28 cont.

01
02
03
04
05

The Group's interest-bearing liabilities and equity consist of:

Amounts in NOK million	2019	2018
Non-current interest-bearing liabilities	(6 488)	(4 775)
Current interest-bearing liabilities	(442)	(455)
Non-current interest-bearing receivables	263	209
Current interest-bearing receivables	103	6
Cash and cash equivalents	1 669	1 978
Net interest-bearing liabilities, excl. leases	(4 895)	(3 037)
Lease liabilities	(1 656)	-
Net interest-bearing liabilities	(6 551)	(3 037)
Group equity[1]	34 912	34 080
Net gearing (net interest-bearing liabilities/equity)	0.19	0.09

[1]The Group's equity also includes the value of cash flow hedges taken to comprehensive income.

Orkla's net interest-bearing liabilities increased by NOK 2.1 billion through 2019, affected by acquisitions totalling NOK 3.1 billion, in addition to ordinary cash flows and dividend payment. When implementing IFRS 16 from 1 January 2019, reported net interest-bearing liabilities increased by approximately NOK 1.4 billion as a consequence of lease agreements and corresponding liabilities being recognised in the statement of financial position.

As an industrial Group, Orkla is not subject to any external capital requirements. The subsidiary Orkla Insurance Company DAC (Ireland) is subject to solvency requirements under applicable laws and regulations in Ireland. These requirements were met in 2019.

Funding

The primary objective of Orkla's treasury policy is to ensure that the Group has sufficient financial flexibility in the short and long term to achieve its strategic and operational objectives.

Orkla's policy with regard to its funding activity is to maintain unutilised, long-term, committed credit facilities which together with available liquid deposits are sufficient to cover loans that fall due and known capital needs over the next 12 months, as well as a strategic reserve. This means that Orkla's credit facilities are normally refinanced one year before maturity and that short-term interest-bearing debt is at all times covered by unutilised long-term credit facilities. Commercial paper and money markets are used as a source of liquidity when conditions in these markets are competitive, as an alternative to drawing on committed long-term credit facilities. As at 31 December 2019 these credit facilities were undrawn (also undrawn as at 31 December 2018).

Orkla's main funding sources are bilateral loans from Orkla's relationship banks and loans in the Norwegian bond market. The Group Treasury also continuously evaluates other funding sources. The term to maturity for new loans and credit facilities is normally 5–10 years.

During 2019 new long-term loan agreements of NOK 4.1 billion were entered into, and an existing bond was increased by NOK 300 million. A long-term loan of NOK 0.4 billion was repaid.

Orkla has no loan agreements with financial covenants for the Group or for Orkla ASA. The loan agreements include some limitations on disposals of businesses, creation of security interest on assets, borrowing at subsidiary level, and cross default clauses. Bonds issued in the Norwegian bond market are listed on the Oslo Stock Exchange.

NOTE 29 INTEREST-BEARING LIABILITIES

The composition and the level of interest-bearing liabilities plus unutilised credit facilities are managed as part of the Group's funding activity. Changes in net interest-bearing liabilities result from the cash flow of the Group.

ACCOUNTING POLICIES

Loans and receivables are carried at amortised cost. Thus, changes in fair value resulting from changes in market interest rates during the interest rate period are not reported in the income statement, except for loans which are hedged objects in fair value hedges of interest rate risk; see Note 31. Bonds issued by Orkla, held on own books, are carried at amortised cost and recognised as reduced debt.

Interest-bearing liabilities	Book value		Fair value[1]			Notional		
Amounts in NOK million	31.12.2019	31.12.2018	31.12.2019	31.12.2018	Currency	in ccy[2]	Coupon[3]	Term
Non-current interest-bearing liabilities								
Bonds								
ORK80 (10694680)	927	941	951	953	NOK	1 000	Fixed 4.35%	2013/2024
ORK82 (11731730)	723	722	729	722	NOK	1 500	Nibor +0.69%	2015/2022
ORK83 (11774383)	675	675	684	673	NOK	1 000	Nibor +0.85%	2016/2023
ORK84 (11774391)	547	260	559	257	NOK	1 000	Fixed 2.35%	2016/2026
Other bonds	88	60	88	60				
Total bonds	2 960	2 658	3 011	2 665				
Bank loans	3 445	2 020	3 445	2 020				
Other loans	68	97	68	97				
Lease liabilities	1 295	-	1 295	-				
Interest-bearing derivatives	15	-	15	-				
Total non-current interest-bearing liabilities	7 783	4 775	7 834	4 782				
Current interest-bearing liabilities								
Bank loans, overdrafts	436	335	436	335				
Other loans	6	16	6	16				
Lease liabilities	361	-	361	-				
Interest-bearing derivatives	-	104	-	104				
Total current interest-bearing liabilities	803	455	803	455				
Total interest-bearing liabilities	8 586	5 230	8 637	5 237				

[1]The fair value of exchange-traded bonds is calculated on the basis of official tax values, whereas book values are used for other loans.
[2]Of the notional amount the Group holds some of its own bonds, which have been deducted in the recognised liabilities.
[3]The nominal interest rate is not an expression of the Group's actual interest cost, as various interest rate swaps have been entered into.
Note 30 discloses further details of interest rate level, interest rate risk and a breakdown of the liabilities portfolio by currency.

Note 29 cont.

Maturity profile interest-bearing liabilities and unutilised credit facilities

	Interest-bearing liabilities		Unutilised credit facilities	
Amounts in NOK million	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Maturity <1 year	911	455	-	-
Maturity 1–3 years	1 464	480	2 039	1 067
Maturity 3–5 years	4 291	2 596	3 768	2 500
Maturity 5–7 years	1 920	1 699	-	-
	8 586	5 230	5 807	3 567

The Group's unutilised credit facilities are multi-currency loan agreements with floating interest rates and flexible amounts and tenors for drawdown. The facility credit limits are denominated in NOK, EUR and SEK.

As at 31 December 2019 the average remaining time to maturity of the Group's combined interest-bearing liabilities (excluding lease-liabilities) and unutilised credit facilities was 3.7 years, compared with 4.0 years as at 31 December 2018.

The Group also holds cash pools and bank accounts with short-term credit lines. Unutilised credit lines on these accounts are not included in the table.

NOTE 30 FINANCIAL RISK

This note discloses the Group's financial risks within each business area, and the management of these risks. Market risk related to financial instruments (currency risk, interest rate risk, and price risk for input factors and sold products), liquidity risk and credit risk is described specifically. In addition to loans and receivables, the financial instruments consist of derivatives used for hedging market risk. Derivatives and hedging relationships are described in more detail in Note 31.

(I) ORGANISATION OF FINANCIAL RISK MANAGEMENT

Orkla operates internationally and is exposed to financial risks such as currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. Orkla uses derivatives and other financial instruments in order to reduce these risks in accordance with the Group's treasury policy. The responsibility for managing financial risk in Orkla is divided between business areas, which manage risk related to business processes, and Group level, which manages risk related to centralised activities such as funding, interest rate risk management and currency risk management.

Centralised risk management

Orkla has a centralised Group Treasury. Its most important tasks are to ensure the Group's financial flexibility in the short and long term, and to monitor and manage financial risk in cooperation with individual operational entities. The guidelines for the Group Treasury are laid down in the Group's treasury policy. The Group Executive Board monitors financial risk by means of regular reporting and meetings of the Orkla Treasury Committee. The Group Treasury acts as an internal bank for the Group and is responsible for, and executes, all major external funding and hedging transactions related to currency and interest rate hedging. Each year the Board of Directors grants authorisation for establishing loans and entering into master agreements for financial instruments. Debt and treasury positions are managed in a non-speculative manner, so that all transactions in financial instruments are matched to an underlying business requirement.

Financial risks within each business area

The most important risk factors within each business area of the Group, and the management thereof, are described below. In this context, financial risk is defined as risk related to financial instruments. These may be either instruments hedging underlying risks, or viewed as a source of risk in themselves. Market risk that is not hedged with financial instruments is also discussed in this section.

Note 30 cont.

Branded Consumer Goods
Entities within this area are primarily located in the Nordic and Baltic countries, and Central/Eastern Europe. Production and sales mainly take place in local markets. A significant part of the input factors and some finished goods are imported.

The two primary sources of financial risk within this business area are price risk on agricultural products and ingredients in food production, and currency risk on imported goods. Price risk on raw materials is normally dealt with in commercial contracts. The most significant currency risk results from purchasing in EUR by the Norwegian and the Swedish entities. Contracts and committed transactions are hedged with currency forward contracts against the entities' own functional currency. Currency risk related to expected, non-contractual cash flows is hedged to a limited extent.

Hydro Power
Hydro Power is a significant producer of hydroelectric power (see Note 34). A substantial part of the production is sold under long-term contracts, whereas the remainder is sold in the spot market. Where contractual commitments exceed available power from own production, this is covered through purchases in the power market.

(II) CATEGORIES OF FINANCIAL RISK FOR THE GROUP

Currency risk
As NOK is the presentation currency for the Group, Orkla is exposed to currency translation risk on net investments in foreign entities. Orkla maintains, as far as possible, a distribution of its interest-bearing liabilities across currencies which corresponds to the relative enterprise value distribution across the foreign subsidiaries' home currencies. This ensures approximately the same hedging level in all currencies, where interest-bearing liabilities hedge the currency risk in enterprise value. The currency distribution of interest-bearing liabilities is shown in Table 2b.

In the statement of financial position, translation risk on net investments in foreign entities is reduced by the net interest-bearing liabilities in the same currency. These liabilities consist of hedges of internal loans from Orkla ASA to subsidiaries in their home currency, plus hedges of net investments according to IFRS 9. Orkla primarily uses loans and currency forward contracts to hedge internal loans and net investments in foreign subsidiaries.

At the operational level, transaction risk is hedged against each entity's functional currency as described in (I) "Organisation of financial risk management". Orkla applies hedge accounting for most hedges of future transactions, mainly cash flow hedges. The volume of hedges was significantly reduced during 2019. The different types of hedges are described in more detail in Note 31.

The Group's aggregated outstanding currency hedges of future transactions as at 31 December 2019 are shown in Table 1.

TABLE 1
Outstanding foreign exchange contracts[1] linked to hedging of future revenues and costs

Hedged amount in million currency

Purchase currency	Amount in currency	Sale currency	Amount in currency	Maturity
EUR	8	NOK	76	2020
EUR	8	DKK	60	2020
EUR	5	GBP	5	2020
EUR	3	SEK	27	2020
USD	4	DKK	28	2020

[1]In currency pairs where the net total of hedges is over NOK 20 million.

Interest rate risk
Orkla's interest rate risk is mainly related to the Group's debt portfolio. This risk is managed at Group level. The Group's policy is that interest costs should mainly follow the general trend in the money market. Further, steps are taken to mitigate the effects of short-term fluctuations in money market rates. Material decisions regarding interest rate hedging are made by the Orkla Treasury Committee.

The interest risk profile of the debt portfolio is determined by the selection of interest periods for the Group's loans and the use of currency and interest rate derivatives. As at 31 December 2019, 51% (61% as at 31 December 2018) of the Group's interest-bearing liabilities (excluding lease liabilities) was at fixed interest rates for periods exceeding one year, and the average time to the next interest rate adjustment was 3.0 years (3.3 years as at 31 December 2018). The interest rate exposure on interest-bearing liabilities broken down by currency and financial instruments is shown in Table 2a and 2b.

Note 30 cont.

TABLE 2a

Interest-bearing liabilities by instrument and interest risk profile

	2019							2018						
	Next interest rate adjustment													
Amounts in NOK million	31.12.2019	0–3 months	3–6 months	6–12 months	1–3 years	3–5 years	>5 years	31.12.2018	0–3 months	3–6 months	6–12 months	1–3 years	3–5 years	>5 years
Bonds	2 960	1 486	-	-	-	927	547	2 658	1 458	-	-	-	-	1 200
Bank loans	3 457	3 445	12	-	-	-	-	2 031	2 026	-	-	-	5	-
Overdrafts	424	424	-	-	-	-	-	324	324	-	-	-	-	-
Other loans	74	5	69	-	-	-	-	113	16	97	-	-	-	-
Interest rate swaps (fair value hedge)	0	1 205	250	-	-	(885)	(570)	0	905	250	-	-	-	(1 155)
Interest rate swaps (cash flow hedge)	0	(2 424)	(425)	-	-	1 716	1 133	0	(2 045)	(982)	-	-	557	2 470
Interest rate derivatives (other)	15	(732)	50	-	215	482	-	0	(150)	-	-	150	-	-
Currency derivatives	0	7	(7)	-	-	-	-	104	93	10	1	-	-	-
Lease liabilities	1 656	372	98	-	633	328	225							
Interest-bearing liabilities	8 586	3 788	47	0	848	2 568	1 335	5 230	2 627	(625)	1	150	562	2 515

TABLE 2b

Interest-bearing liabilities by instrument and currency

	2019							2018						
Amounts in NOK million	31.12.2019	NOK	SEK	EUR	USD	DKK	Other	31.12.2018	NOK	SEK	EUR	USD	DKK	Other
Bonds	2 960	2 873	-	-	-	26	61	2 658	2 598	-	-	-	29	31
Bank loans	3 457	1 001	949	1 484	-	13	10	2 031	-	970	1 044	-	5	12
Overdrafts	424	(27)	(14)	285	59	50	71	324	20	(25)	278	-	35	16
Other loans	74	68	-	-	-	2	4	113	72	2	3	-	4	32
Currency derivatives	0	(5 002)	1 090	942	(131)	1 946	1 155	104	(3 703)	550	399	(27)	1 846	1 039
Interest rate derivatives	15	-	-	15	-	-	-	-	-	-	-	-	-	-
Lease liabilities	1 656	733	187	486	-	90	160							
Interest-bearing liabilities	8 586	(354)	2 212	3 212	(72)	2 127	1 461	5 230	(1 013)	1 497	1 724	(27)	1 919	1 130
Interest level borrowing rate	1.7%	1.8%	3.0%	1.4%	3.0%	0.1%	2.9%	3.3%	-0.1%	3.8%	4.2%	3.1%	0.3%	3.5%

For currency derivatives the asset and liability components are shown separately per currency, also including those that are recognised assets.

Note 30 cont.

01

02

03

04

05

01 02 03 04 05

Liquidity risk
Liquidity risk is the risk that Orkla is not able to meet its payment obligations. The management of liquidity risk has high priority as a means of meeting the objective of financial flexibility.

Orkla's policy for funding activities, described in Note 28, implies that short-term interest-bearing liabilities and known capital expenditures are funded by undrawn long-term credit facilities at least one year prior to maturity. The cash flow from operations, which among other factors is affected by changes in working capital, is managed operationally by the business areas, and is largely stable with the largest net inflow during the fourth quarter. Orkla monitors liquidity flows, short- and long-term, primarily through reporting. Interest-bearing liabilities are managed together with interest-bearing assets at Group level.

Due to the measures mentioned, the Group has limited liquidity risk. In order to further reduce refinancing risk, Orkla seeks to ensure that the maturities of loans and credit facilities are well distributed.

Table 3 shows the maturity profile for the Group's contractual financial liabilities, including liabilities which are not recognised in the financial position. The amounts represent undiscounted future cash flows, and may therefore deviate from recognised figures. Derivatives are presented as split between those with gross settlement (currency derivatives), and those with net settlement (interest rate derivatives). The table also includes derivatives recognised as assets on the balance sheet date, as derivatives may include both positive and negative cash flows, and the fair value fluctuates over time. Forward interest rate curves are applied to estimate future interest payments. Similarly, forward prices are used to determine the future settlement amounts for currency derivatives.

TABLE 3
Maturity profile financial liabilities

	31.12.2019						31.12.2018					
Amounts in NOK million	Book value	Contractual cash flow	<1 year	1–3 years	3–5 years	>5 years	Book value	Contractual cash flow	<1 year	1–3 years	3–5 years	>5 years
Interest-bearing loans	6 915	6 811	441	807	3 913	1 650	5 125	5 081	351	474	2 590	1 666
Lease liabilities	1 656	1 753	476	668	353	256	-	-	-	-	-	-
Interest payments	60	703	168	284	187	64	55	580	118	217	174	71
Accounts payable and other current financial liabilities	5 711	5 711	5 711	-	-	-	5 056	5 056	5 056	-	-	-
Subscribed, uncalled partnership capital	-	-	-	-	-	-	-	10	10	-	-	-
Net settled derivatives[1]	113	-	-	-	-	-	173	-	-	-	-	-
Inflow	-	(337)	(56)	(112)	(108)	(61)	-	(409)	(129)	(101)	(115)	(64)
Outflow	-	480	122	190	136	32	-	589	186	191	149	63
Gross settled derivatives[1]	(83)	-	-	-	-	-	86	-	-	-	-	-
Inflow	-	(6 814)	(6 814)	-	-	-	-	(5 026)	(5 026)	-	-	-
Outflow	-	6 709	6 709	-	-	-	-	5 097	5 097	-	-	-
Total	14 372	15 016	6 757	1 837	4 481	1 941	10 495	10 978	5 663	781	2 798	1 736

[1]Including derivatives recognised as assets (negative figures in brackets).

The financial liabilities are serviced by cash flows from operations, liquid assets and interest-bearing receivables, and, when necessary, drawdowns on unutilised credit facilities. Unutilised committed credit facilities, the maturity profile of which is shown in Note 29, totalled NOK 5.8 billion at 31 December 2019 (NOK 3.6 billion at 31 December 2018).

Note 30 cont.

Credit risk

The management of credit risk related to accounts receivable and other operating receivables is handled as part of the business risk, and is continuously monitored by the operating entities. The Nordic grocery trade markets are characterised by relatively few, but large, participants, resulting in a certain concentration of the credit risk exposure towards individual counterparties. Receivables on each of the four largest customers account for 6-9% of total accounts receivable. When selling in countries with high political risk, trade finance products are used to a certain extent to reduce the credit risk. The current credit risk level is considered acceptable. Provisions have been made for losses on accounts receivable, and the recognised amount represents the fair value as of the statement of financial position date. The provisions and the age distribution of accounts receivable that are overdue are shown in Note 24.

Orkla's credit risk related to financial instruments is managed by Group Treasury. Risk arises from financial hedging transactions, money market deposits, and bank accounts. Firstly, Orkla seeks to minimise the liquid assets deposited outside the Group. Secondly, relationship banks that provide long-term funding are the targeted counterparties for bank accounts and financial hedging transactions according to policy. Further, limits and requirements related to the banks' credit ratings apply to deposits of excess liquidity. The exposure is continuously monitored by Group Treasury, and is considered to be low. Orkla ASA has International Swap Dealers Association (ISDA) agreements with its counterparties for derivative interest rate and currency transactions, which provide for netting of settlement risk.

Maximum credit risk

The maximum credit risk exposure for the Group related to financial instruments corresponds to total gross receivables. In the hypothetical, unlikely event that no receivables are recovered, this amounts to:

Amounts in NOK million	2019	2018
Cash and cash equivalents	1 669	1 978
Accounts receivable and other trade receivables	6 078	5 990
Other current receivables	285	273
Non-current receivables	255	141
Derivatives	121	102
Total	8 408	8 484

Commodity price risk

The Group is exposed to price risks in respect of a number of raw materials, in particular agricultural products. However, the prices of sold products are also affected by raw material prices, and it is generally Orkla's policy to reduce the price risk through commercial contracts. Commodity price risk is described for the individual business areas in section (I) "Organisation of financial risk management".

Sensitivity analysis

The financial instruments of the Group are exposed to different types of market risk which can affect the income statement or equity. Financial instruments, in particular derivatives, are applied as a means of hedging both financial and operational exposure.

In Table 4, Orkla presents a partial analysis of the sensitivity of financial instruments, where the isolated effect of each type of risk on the income statement and equity is estimated. This is done on the basis of a selected hypothetical change in market prices/rates on the statement of financial position as at 31 December 2019. In accordance with IFRS, the analysis covers only financial instruments and is not meant to give a complete overview of the Group's market risk, for instance:

- For currency hedges of contracts entered into, changes in the fair value of the hedging instrument will affect the income statement, while changes in the fair value of the underlying hedged contract offset by the hedging instrument will not be shown as it is not a financial instrument.
- If one of the parameters changes, the analysis will not take account of any correlation with other parameters.
- Financial instruments denominated in the entities' functional currencies do not constitute any currency risk and are therefore not included in this analysis. Nor is the currency exposure on translation of such financial instruments to the Group's presentation currency included.

Generally, the effect on the income statement and equity of financial instruments in Table 4 is expected to offset the effects of the hedged items where financial instruments are part of a hedging relationship.

Note 30 cont.

TABLE 4
Sensitivity financial instruments

Amounts in NOK million	31.12.2019: Accounting effect on Income statement of: Increase	Decrease	Comprehensive income of: Increase	Decrease	31.12.2018: Accounting effect on Income statement of: Increase	Decrease	Comprehensive income of: Increase	Decrease
Financial instruments in hedging relationships								
Interest rate risk: 100 basis points parallel shift in interest curves all currencies	7	(8)	168	(182)	3	(3)	156	(167)
Currency risk: 10% change in FX-rate USD/NOK	1	(1)	(6)	6	3	(3)	9	(9)
Currency risk: 10% change in FX-rate EUR/NOK	15	(15)	(260)	260	4	(4)	(80)	80
Currency risk: 10% change in FX-rate SEK/NOK	(3)	3	(48)	48	-	-	21	(21)
Currency risk: 10% change in FX-rate DKK/NOK	(8)	8	17	(17)	-	-	34	(34)
Share price risk: 10% change in share price	28	(28)	6	(6)	14	(14)	-	-

Accounting effects of changes in market risk are classified to income statement and comprehensive income in the table according to where the effect of the changes in fair value is recognised initially. Effects recognised in the income statement will also affect equity beyond the figures presented in the table.

NOTE 31 DERIVATIVES AND HEDGING RELATIONSHIPS

Derivatives are used in risk management to hedge currency and interest rate risk exposure. The value of the derivatives fluctuates in line with the prices of the underlying hedging objects, and the note shows the fair value of open derivative contracts as of the statement of financial position date. The derivatives in the table are classified by type of accounting hedge, the purpose of the derivatives, assets or liabilities according to how they are classified in the statement of financial position.

Ⓟ ACCOUNTING POLICIES

Derivatives are valued at fair value at the statement of financial position date and reported as receivables or liabilities. Gains and losses due to realisation or changes in fair value are reported in the income statement in cases where the derivative is not part of a hedging relationship that meets the criteria for hedge accounting. Embedded derivatives in contracts are identified and valued separately. Orkla currently has no embedded derivatives. Purchases and sales of derivatives are recognised at trade date. Derivatives are classified in the statement of financial position as "non-interest-bearing" receivables or liabilities as the main rule. Classification as "interest-bearing" is used where the hedged object itself is classified as an interest-bearing item, as well as for net investment hedges.

Hedging. The Group uses the following criteria when classifying a derivative or another financial instrument as a hedging instrument:
(1) the hedge is in line with the risk management objectives and strategy, and the instrument is expected to be highly effective in offsetting changes in the fair value or cash flow of an identified object,
(2) an economic relationship between the hedging instrument and the hedging object exists, sources of hedging inefficiency can be determined, and credit risk is not expected to dominate fair value changes in the hedging relationship,
(3) satisfactory documentation is established before entering into the hedging instrument, proving among other things that the hedging relationship is effective,
(4) in the case of a cash flow hedge, that the future transaction is considered to be highly probable, and
(5) the hedging relationship is evaluated regularly and is still expected to be effective.

Fair value hedges	Cash flow hedges	Net investment hedges
Changes in the fair value of derivatives designated as hedging instruments are immediately recognised in the income statement. Changes in the fair value of the hedged item are recognised in the income statement in the same way. Hedge accounting is discontinued if: (a) the hedging instrument has matured, or is terminated, exercised or sold, (b) the hedge no longer meets the above mentioned criteria for hedging, or (c) the Group for other reasons decides not to continue the fair value hedge. In the case of a discontinued hedging relationship, the changes in the fair value of the hedged item recognised in the statement of financial position will be amortised over the remaining life of the item, using the effective interest rate method, in the same way as for the hedging instrument.	The effective part of changes in the fair value of a hedging instrument is recognised in the comprehensive income and reclassified to the income statement when the hedged transaction is carried out, and presented on the same line as the hedged transaction. The ineffective part of the hedging instrument is immediately recognised in the income statement. When a hedging instrument has matured, or is sold, terminated or exercised, or the Group discontinues the hedging relationship, even though the hedged transaction is still expected to occur, the accumulated gains or losses at this point will remain in the Group's hedging reserve, and will be recognised in the income statement when the transaction occurs. If the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses related to the hedging instrument will be recognised in the income statement immediately.	Foreign currency gains or losses on hedging instruments that can be allocated to the effective part of the hedging relationship are reported in comprehensive income, while foreign currency gains or losses in the ineffective part of the hedge are reported in the income statement. The accumulated foreign currency gains or losses are recognised in the income statement when the hedged net investment is disposed of.

Measurement of financial instruments. The Group uses the following hierarchy when determining and disclosing the fair value of financial instruments:

Level 1: Quoted, unadjusted prices in active markets for identical assets and liabilities
Level 2: Other techniques for which all inputs with significant effect on the recorded fair value, are observable, either directly or indirectly
Level 3: Other techniques based on inputs with significant effect on the recorded fair value that are not based on observable market data

Note 31 forts. ➔

01 02 03 04 05

As far as possible, the Group seeks to apply the IFRS rules for hedge accounting. The table below shows the fair value of all outstanding derivative financial instruments grouped according to treatment in the financial statements and hedged risk.

Derivatives in the statement of financial and hedging purpose

Amounts in NOK million			2019	2018	Nominal value[3] 2019	Nominal value[3] 2018	Purpose of hedging	Hedge accounting	Classification
Assets	Non-current	i.b.[1]	19	46	1 455	1 155	Interest rate swaps fixed to floating, against fair value changes in the hedged loans	Fair value hedge	Fair value through profit and loss
Assets	Non-current	i.b.	-	33	-	2 106	Interest rate swaps fixed to floating, closed out hedges of repaid loans	-	Fair value through profit and loss
Assets	Current	i.b.	34	-	1 383	266	Currency forwards hedging net investments in foreign subsidiaries	Net investment hedge	Fair value through comprehensive income
Assets	Current	i.b.	61	-	4 406	-	Currency forwards hedging loans/deposits	-	Fair value through profit and loss
Assets	Current	n.i.b.[2]	6	-	193	-	Total return swap hedging share exposure in pension obligations/LTI	-	Fair value through profit and loss
Assets	Current	n.i.b.	1	23	224	764	Currency forwards hedging future transactions	Cash flow hedge	Fair value through comprehensive income
Liabilities	Non-current	n.i.b.	(128)	(242)	4 790	4 727	Interest rate swaps floating to fixed, hedging future interest payments	Cash flow hedge	Fair value through comprehensive income
Liabilities	Non-current	i.b.	(15)	-	582	-	Interest rate swaps floating to fixed, hedging future interest payments	-	Fair value through profit and loss
Liabilities	Current	i.b.	-	(93)	-	4 110	Currency forwards hedging loans/deposits	-	Fair value through profit and loss
Liabilities	Current	i.b.	-	(11)	-	266	Currency forwards hedging net investments in foreign subsidiaries	Net investment hedge	Fair value through comprehensive income
Liabilities	Current	n.i.b.	(3)	(8)	150	150	Interest rate swaps floating to fixed, hedging future interest payments	-	Fair value through profit and loss
Liabilities	Current	n.i.b.	(3)	(7)	154	147	Total return swap hedging share exposure in pension obligations/LTI	-	Fair value through profit and loss
Liabilities	Current	n.i.b.	(2)	-	-	-	Currency forwards hedging future transactions	Cash flow hedge	Fair value through comprehensive income
Total derivatives			**(30)**	**(259)**					

[1] i.b. = Interest-bearing asset/liability
[2] n.i.b. = Non-interest-bearing asset/liability
[3] The nominal value is calculated as the sum of the absolute value of individual transactions.

Note 31 cont.

Calculation of fair value:

- Currency forwards and currency swaps are measured at fair value using the observed forward exchange rate for contracts with a corresponding term to maturity at the statement of financial position date.
- Interest rate swaps are measured at fair value using the present value of future cash flows calculated from observed market interest rates and exchange rates at the balance sheet date including accrued interest.
- Total return swaps are measured at fair value based on observed prices for the underlying shares/mutual funds at the statement of financial position date.

All derivatives are carried at fair value in the statement of financial position, and considered to be at level 2 in the hierarchy for measurement of financial instruments.

The derivative financial instruments are designated in hedging relationships as follows:

Cash flow hedges

- Orkla maintains interest rate swaps for hedging of future interest payments on liabilities that qualify for hedge accounting. These are swaps where Orkla pays a fixed interest rate and receives a floating rate.
- In hedges of currency risk on highly probable future cash flows, currency forward contracts are designated as hedging instruments.

During 2019 NOK 2 million was recognised in the income statement from interest rate swaps which were previously classified as cash flow hedges, but no longer qualify for hedge accounting. (2018: NOK -14 million in hedging ineffectiveness was recognised). All expected cash flows hedged in 2019 still qualify for hedge accounting.

Changes in the equity hedging reserve

Amounts in NOK million	2019	2018
Opening balance hedging reserve before tax	(206)	(296)
Reclassified to profit/loss – operating revenues	(1)	0
Reclassified to profit/loss – operating costs	(21)	(18)
Reclassified to profit/loss – net financial items	106	131
Fair value change during the year	(9)	(23)
Closing balance hedging reserve before tax	(131)	(206)
Deferred tax hedging reserve	31	48
Closing balance hedging reserve after tax	(100)	(158)

The change in the equity hedging reserve before tax in 2019 was NOK 75 million (NOK 90 million in 2018), and after tax, recognised in other comprehensive income, was NOK 58 million in 2019 (NOK 70 million in 2018).

A negative hedging reserve means a negative recognition in the income statement in the future.

Accumulated hedging gains/losses from cash flow hedges recognised in the equity hedging reserve as at 31 December 2019 are expected to be recycled to the income statement as follows (before tax):

2020:	NOK -72 million
After 2020:	NOK -59 million

Hedges of net investments in foreign entities

When hedging the currency risk on foreign net investments, loans or currency derivatives are applied. In 2019 NOK 0.3 million was recorded in other comprehensive income after tax from net investment hedges (2018: NOK -50 million). The corresponding figures before tax are NOK 0.4 million (2018: NOK -65 million).

In 2019, NOK 3 million was recorded in the income statement related to net investment hedges of divested investments in 2019 (NOK 0 million in 2018).

Fair value hedges

- Interest rate derivatives designated as hedges of fixed interest rate loans (fixed-to-floating interest rate swaps) are accounted for as fair value hedges. In 2019, NOK 26 million was recognised as costs in the income statement related to fair value changes in the interest rate swaps, and NOK 26 million was recognised as income related to fair value changes in the hedged loans.

Derivatives not included in IFRS hedging relationships

There are also derivatives not included in hedging relationships according to IFRS for the following reasons:

- Derivatives are not designated as formal hedging relationships when changes in the fair value of hedging instruments and hedged objects are naturally offset in the income statement, for example currency risk on loans and other monetary items, and a Total Return Swap for hedging of pension liabilities linked to the price development in the stock market.
- Meeting strict IFRS hedge accounting criteria is not always possible or practical. Some of the currency hedges, and interest rate swaps where the hedge has been closed out, fall into this category.

NOTE 32 SHARE CAPITAL

A company's share capital and the distribution of the number of shares outstanding determine who controls a company and the way formal ownership is held by shareholder groups. In a Norwegian group context, it is the share capital of the parent company that is relevant and it is Orkla ASA's equity that serves as the basis of calculation and the limit for distribution of dividends from the Group.

The 20 largest shareholders as at 31 December 2019[1]

	Shareholders		Number of shares	% of capital[2]
1	Canica AS		194 150 000	19.39%
2	Folketrygdfondet		77 017 718	7.69%
3	State Street Bank and Trust Company	Nominee	70 700 288	7.06%
4	Tvist 5 AS		50 050 000	5.00%
5	JPMorgan Chase Bank, N.A., London	Nominee	35 528 297	3.55%
6	State Street Bank and Trust Company	Nominee	15 337 324	1.53%
7	Clearstream Banking S.A.	Nominee	14 979 326	1.50%
8	The Bank of New York Mellon	Nominee	13 418 504	1.34%
9	JPMorgan Chase Bank, N.A., London	Nominee	12 782 999	1.28%
10	Société Générale	Nominee	9 797 834	0.98%
11	State Street Bank and Trust Company	Nominee	9 788 889	0.98%
12	The Bank of New York Mellon	Nominee	9 307 964	0.93%
13	Invesco Funds		9 190 687	0.92%
14	State Street Bank and Trust Company	Nominee	8 904 727	0.89%
15	KLP AksjeNorge Indeks		7 823 344	0.78%
16	The Bank of New York Mellon	Nominee	7 267 035	0.73%
17	The Northern Trust Comp, London	Nominee	6 999 889	0.70%
18	Prudential Assurance Company Limited		6 865 385	0.69%
19	Euroclear Bank S.A./N.V.	Nominee	6 368 926	0.64%
20	State Street Bank and Trust Company	Nominee	6 269 380	0.63%
	Total shares		**572 548 516**	**57.17%**

[1]The list of shareholders is based on the Norwegian central securities depository Verdipapirsentralen ASA (VPS)'s register of members at year end. For a list of grouped shareholders and nominee shareholders; see "Share information" on page 230.
[2]Of total shares issued.

Development share capital

Date/year	Number of shares	Nominal value (NOK)	Type of change	Amounts (NOK million)	Share capital (NOK million)
31.12.2009	1 028 930 970	1.25			1 286.2
31.12.2010	1 028 930 970	1.25			1 286.2
31.12.2011	1 028 930 970	1.25			1 286.2
2012	1 018 930 970	1.25	amortisation	(12.5)	1 273.7
31.12.2012	1 018 930 970	1.25			1 273.7
31.12.2013	1 018 930 970	1.25			1 273.7
31.12.2014	1 018 930 970	1.25			1 273.7
31.12.2015	1 018 930 970	1.25			1 273.7
31.12.2016	1 018 930 970	1.25			1 273.7
31.12.2017	1 018 930 970	1.25			1 273.7
31.12.2018	1 018 930 970	1.25			1 273.7
2019	1 001 430 970	1.25	amortisation	(21.9)	1 251.8
31.12.2019	1 001 430 970	1.25			1 251.8

Note 32 cont.

Treasury shares as at 31 December 2019

	Nominal value (NOK)	Number of shares	Fair value (NOK million)
Shares owned by Orkla ASA	1 406 478	1 125 182	100

ACCOUNTING POLICIES

Treasury shares have been deducted from Group equity at cost. The nominal value of the shares has been deducted from paid-in equity.

Changes in the number of treasury shares

	2019	2018
Total as at 1 January	19 410 259	176 933
External purchases of treasury shares	-	20 000 000
Redemption of options in treasury shares	(17 500 000)	-
Orkla employee share purchase programme	(785 077)	(766 674)
Total as at 31 December	1 125 182	19 410 259

As at 31 December 2019, there were no options outstanding.

See the "Corporate governance" section on page 44 regarding the authorisations granted by the General Meeting concerning share capital.

Dividend

The Board of Directors proposes that an ordinary dividend of NOK 2.60 per share be paid, totalling NOK 2,601 million for the 2019 financial year.

Under Norwegian law, the equity in Orkla ASA will, where relevant, constitute a legal limitation on the distribution of dividends by the Orkla Group. Dividends may be distributed insofar as the company has adequate equity and liquidity.

NOTE 33 NON-CONTROLLING INTERESTS

Non-controlling interests consist of external ownership interests in subsidiaries and their subsidiaries. The majority of the Group's businesses are wholly-owned.

Amounts in NOK million	2019	2018
Non-controlling interests' share of:		
Depreciation and write-downs	42	28
Operating profit	86	110
Profit/loss before taxes	82	106
Taxes	(22)	(24)

Changes in non-controlling interests:		
Non-controlling interests 1 January	451	430
Implementation effect IFRS 16, 1 January[1]	(15)	-
Non-controlling interests' share of profit/loss	60	82
Increase due to acquisitions and capital increases in companies with non-controlling interests	46	-
Increase non-controlling interest due to sale to non-controlling interest	-	2
Decrease due to further acquisitions of non-controlling interests	(31)	(21)
Dividends to non-controlling interests	(49)	(42)
Translation differences	(2)	-
Non-controlling interests 31 December	460	451

[1]The implementation effect of IFRS 16 is chiefly related to the capitalised lease in Saudefaldene; see Note 21.

Breakdown of non-controlling interests' share of profit/loss:		
Orkla Food Ingredients	56	63
Hydro Power	4	20
Orkla Financial Investments	0	(1)
Total non-controlling interests' share of profit/loss	60	82

Amounts in NOK million	2019	2018
Breakdown of non-controlling interests:		
Orkla Food Ingredients	279	245
Hydro Power	179	204
Orkla Financial Investments	2	2
Total non-controlling interests	460	451

Ⓟ ACCOUNTING POLICIES

If the Group has control, but owns less than 100% of the subsidiaries and their subsidiaries, the non-controlling interests' share of profit or loss after tax, their share of comprehensive income and their share of equity are presented on separate lines in the consolidated financial statements. All internal transactions are eliminated in the same way as for the other Group companies. If there are non-controlling interests in acquired companies, the non-controlling interests will receive their share of allocated assets and liabilities, except for goodwill which is only calculated on the Group's share. Transactions with non-controlling interests that do not entail loss of control will be recognised in equity.

Orkla Food Ingredients has several companies with non-controlling interests, the most material of which are related to the Dragsbæk group in Denmark. The group has been family-owned and the former owner still has a substantial equity interest in the parent company. Orkla Food Ingredients also has external ownership interests in Kanakis Group (Greece) and NIC (Netherlands).

The non-controlling interests in Hydro Power consist of a 15% interest in Saudefaldene AS, which is owned by Sunnhordaland Kraftlag.

Companies with non-controlling interests are consolidated on a 100% basis in the income statement, statement of financial position and statement of cash flows. On the other hand, the non-controlling interests' share of the Group's annual profit or loss and equity are reported on separate lines.

NOTE 34 POWER AND POWER CONTRACTS

The Group both owns and leases power plants, all located in Norway. The table below shows power plants, annual production, ownership status and key financial terms and conditions.

Plant, type, location/contract	Actual median annual production/contract volume	Ownership, status and remaining utilisation period/contract duration	Key financial terms and conditions
Power plants			
Saudefaldene[2]	1 872 GWh		AS Saudefaldene[1] has an annual concession power commitment of 134 GWh. In addition, the company has an annual delivery commitment to Eramet of 436 GWh which, following the termination of the contract with Eramet, is to be sold to Statkraft on the same terms. An agreement has been entered into with Elkem AS for the delivery of 501 GWh/year until 31 December 2030 to satisfy the condition regarding use of power in Elkem's industrial operations. The terms are equivalent to the terms in the leasing agreement with Statkraft.
Storlivatn power plant		Operation started 1970	
Svartkulp power plant		Operation started November 2001	
Dalvatn power plant		Operation started December 2006	
Sønnå Høy power plant		Operation started August 2008	
Sønnå Lav power plant		Operation started October 2008	
Storli mini power plant		Operation started February 2009	
Kleiva small power plant		Operation started November 2009	
Hydropower reservoir, Rogaland		Under lease agreements with Statkraft, AS Saudefaldene[1] has the use of all plants until 2030.	On hand-over to Statkraft the plants must be in good working condition. Statkraft SF shall pay AS Saudefaldene[1] the residual value for tax as at 1 January 2031 of the expansions carried out by AS Saudefaldene[1].
Borregaard power plant[2] Hydropower run-of-river, Sarpsfossen in Glomma, Sarpsborg	281 GWh	100% ownership, infinite licence period.	
Sarp power plant[2] Hydropower run-of-river, Sarpsfossen in Glomma, Sarpsborg	241 GWh	50% ownership, infinite licence period. The other ownership interest owned by E-CO Energi AS (45%) and Svartisen Holding (5%).	E-CO Energi AS has operational responsibility.
Trælandsfos power-plant[2] Hydropower run-of-river, Kvinesdal, Agder	31 GWh	100% ownership, infinite licence period.	
Mossefossen power-plant[2] Hydropower run-of-river, Moss, Viken	14 GWh	100% ownership, partly infinite licence period.	
Power contracts			
SiraKvina replacement power Agder	35 GWh	Infinite	Replacement for lost production in Trælandsfos.

[1]Orkla owns 85% of AS Saudefaldene.
[2]Actual median annual production (2011–2019) at current capacities.

NOTE 35 PLEDGES AND GUARANTEES

Pledges and guarantees show the book value of Group assets which are accessible to pledgees in the event of a bankruptcy or a winding-up. Claims that have priority by law (taxes and charges, wages etc.) must also be taken into account. The table shows that the book value of pledged assets is considerably higher than outstanding liabilities secured by pledges.

Guarantee commitments cover a variety of guarantees such as rent guarantees and guarantees for other payments, but do not cover product or service liability in connection with ordinary sales.

Amounts in NOK million	2019	2018
Liabilities secured by pledges	101	57
Pledged assets		
Machinery, vehicles etc.	0	9
Buildings and plants	192	108
Inventory	0	2
Accounts receivables	2	33
Total book value	194	152

"Liabilities secured by pledges" and "Pledged assets" are mainly security for loans in partly-owned companies.

Guarantees

Amounts in NOK million	2019	2018
Subscribed, uncalled limited partnership capital	20	10
Other guarantee commitments	50	166
Total guarantee commitments	70	176

Ⓟ ACCOUNTING POLICIES

The Group's most important loan agreements are based on a negative pledge, and the Group can therefore only to a limited extent pledge its assets to secure its liabilities.

NOTE 36 RELATED PARTIES

Related parties are in a position to enter into transactions with the company that would not be undertaken between unrelated parties. A company's profit or loss and financial position could in principle be affected by a related party relationship even if no transactions with related parties have actually taken place. The mere existence of the relationship may be sufficient to affect the way the company's other transactions are perceived.

Orkla ASA is a parent company and has direct and indirect control of around 240 companies in various parts of the world. Directly-owned subsidiaries are presented in Note 10 to Orkla ASA's financial statements, while other important companies are presented in the Group Directory (last pages of the Annual Report). Orkla ASA's internal relationship with these companies is shown on separate lines in the company's financial statements (see the financial statements for Orkla ASA).

Orkla has ownership interests in associates and joint ventures, which are presented using the equity method. Orkla has outstanding balances totalling NOK 6 million with associates in Orkla Eiendom. There have been no special material transactions between associates and the Group.

Internal trading within the Group is carried out in accordance with special arm's length agreements, and joint expenses in Orkla ASA are distributed among the Group companies in accordance with distribution formulas, depending on the various types of expense. For further information on intra-Group transactions, see Note 7.

Chairman of the Board of Directors Stein Erik Hagen and related parties own 250,100,000 shares in Orkla (equivalent to 24.97% of shares issued) through the Canica system. Canica AS has an agreement with Orkla ASA to lease office premises in Karenslyst allé 6 from 1 October 2017 to 31 December 2020. The Orkla Group also makes sales to companies in the Canica system. These sales are agreed on market conditions and total around NOK 15 million.

Apart from what is disclosed in this note, there were no material transactions with related parties. Information regarding the remuneration of the executive management is disclosed in Note 5 to the financial statements for Orkla ASA.

Ⓟ ACCOUNTING POLICIES

Two parties are deemed to be related if one party can influence the decisions of the other. Related party relationships are a normal feature of commerce and business. All transactions with related parties must be carried out on market terms and conditions.

01
02
03
04
05

NOTE 37 CONTINGENT LIABILITIES AND OTHER MATTERS

This note discloses matters which under the accounting rules have not been taken into account in the income statement or statement of financial position. For instance, there may be matters relating to time-limited agreements that could have an impact on future earnings. There may be unresolved legal disputes that could have significant effects if the judgment is not as expected. The information below is intended to shed light on such matters and, in combination with the financial statements and other notes, to provide a correct overall picture of the Group's total earnings and financial position.

Agreement with Unilever. The existing production and supply agreement between Orkla ASA (OHPC/Lilleborg AS) and Unilever, relating to certain products in OHPC's product portfolio under brands such as Sun, OMO and Jif, will not be renewed. The agreement will terminate with effect from 1 July 2021. Orkla owns these brands in Norway and will establish new means of production and supply for the products currently covered by the production and supply agreement with Unilever.

Distribution agreement with PepsiCo. Orkla has a distribution agreement with PepsiCo regarding the sale of Tropicana, Naked, Quaker, Lays & Doritos products through Orkla Foods Sverige, Orkla Foods Norge, Orkla Foods Danmark, Orkla Soumi, Orkla Confectionery & Snacks Sverige and Orkla Confectionery & Snacks Norge. The agreement was originally entered into in 2015 for the juice category and was subsequently expanded to cover snacks and cereals in 2016.

Distribution agreement with Panzani. A distribution agreement between Orkla Foods Česko a Slovensko in the Czech Republic and the company Panzani has been terminated with effect from 1 March 2020. Under the agreement, Orkla distributed a portfolio of Panzani products, mainly dried pasta and sauces, to grocery retail customers in the Czech Republic, Slovakia and Hungary. Sales related to the agreement totaled NOK 111 million in 2019.

Norwegian Competition Authority case. In 2019, the Norwegian Competition Authority opened an investigation of Orkla-owned Lilleborg AS based on suspicions of a possible breach of the Competition Act, and the company is assisting the competition authorities by facilitating an efficient investigation.

The Non-Annex 1 raw material price compensation agreement (RÅK). Through the EEA Agreement, Norway has regulated trade in processed agricultural products. The agreement ensures free movement of goods, but customs duties and compensation are used to even out any differences between the raw material prices paid by Norwegian manufacturers who use Norwegian raw materials and the prices paid by foreign manufacturers who use raw materials from the EU. Around 86% of Orkla's sales of food products in Norway are exposed to competition from imports, most of which are processed agricultural products (non-Annex 1 products).

Denofa do Brasil. A subsidiary of one of Orkla's foreign subsidiaries, Denofa do Brasil Ltda, is involved in several lawsuits, two of which are material. One concerns the denial of exemption from VAT on exports of soybeans to Norway in the years up to 2004. The tax authorities maintain that the company has not substantiated that all the soybean shipments actually were exported to Norway. The second lawsuit concerns a claim from the estate of a local bank, Banco Santos, that declared bankruptcy. The claim is based on Denofa do Brasil's lending of securities related to claims on soybean crops in 2004, in which Denofa do Brasil was swindled. The company has lost both cases in the lower courts. Orkla's legal advisers in Brazil consider the decisions to be erroneous. The Banco Santos case has been appealed to the Supreme Court, and a request has been submitted to have the VAT claim invalidated. The appeal to the Supreme Court has been allowed in the Banco Santos case, while a decision on invalidation of the VAT claim is being considered by the first legal instance. Denofa do Brasil has only limited funds to pay the claims if one of the opposite parties should nonetheless win. Orkla is not prepared to inject new capital into Denofa do Brasil to cover potential claims if the company should lose one of the cases.

Contracts. The Group has contracts at all times for the purchase of goods and services and distribution agreements, such as purchasing agreements for potatoes, vegetables and fish. These contracts are regarded as part of the Group's ordinary operating activities and are therefore not specified or indicated in any other way. The contracts are deemed to be strictly commercial contracts with no embedded derivatives.

Government grants. Government grants are recognised when it is reasonably certain that they will be received. The grants are presented either as income or as a cost reduction in which case they are matched with the costs for which they are meant to compensate. Government grants relating to assets are recognised as a reduction in the asset's acquisition cost. The grant reduces the asset's depreciation. Orkla received only an entirely insignificant amount in government grants.

Dragsbæk. Under Orkla's shareholder agreement with its partner in Dragsbæk, Orkla has an obligation to purchase the remaining shares at the partner's request. Orkla acquired 50% of the company for approx. NOK 45 million in 1989 and has subsequently purchased an additional 17%. The potential purchase of the remaining shares will be priced on the basis of the original price adjusted for inflation and earnings in the past three years. The adjustment for earnings is limited to +/-25%.

NOTE 38 THE ORKLA-FORMAT CASH FLOW STATEMENT

The Orkla-format cash flow statement is presented in the text of quarterly reports and is used as a reference in the segment information (Note 7). A condensed version is also presented in the Report of the Board of Directors. At Group level, the bottom line of the Orkla-format cash flow statement is net interest-bearing liabilities, an important key figure for the Group, and the statement is used directly in business area management.

The full cash flow statement shows the Group's overall financial capacity, generated by operations, to cover the Group's financial items, taxes and items more subject to Group control such as dividends and treasury share transactions. Cash flow from operations is broken down into "Cash flow from operations Branded Consumer Goods incl. HQ" and "Cash flow from operations Industrial & Financial Investments", the latter aggregated on one line.

The last part of the cash flow statement shows the expansion measures that have been carried out in the form of direct expansion investments and the acquisition and disposal of companies. Direct expansion investments are defined as investments in new geographical markets or new categories or investments that represent substantial increases in capacity; see Alternative Performance Measures (APM) on page 227. The cash flow statement is based on an average monthly exchange rate, while the change in net interest-bearing liabilities is an absolute figure measured at the closing rate. The difference is explained by the currency translation effect related to net interest-bearing liabilities.

Cash flow Orkla-format

Amounts in NOK million	2019	2018
Cash flow from Branded Consumer Goods incl. HQ		
EBIT (adj.)	4 786	4 390
Amortisation, depreciation and impairment charges	1 581	1 156
Changes in net working capital	812	(189)
Net replacement expenditures	(1 931)	(1 400)
Cash flow from operations (adj.)	5 248	3 957
Cash flow effect of "Other income", "Other expenses" and pensions	(450)	(496)
Cash flow from operations, Branded Consumer Goods incl. HQ	4 798	3 461
Cash flow from operations, Industrial & Financial Investments	135	27
Financial items, net	(174)	(145)
Taxes paid	(1 129)	(904)
Dividends received	204	186
Other payments	(197)	(42)
Cash flow before capital transactions	3 637	2 583
Dividends paid	(2 648)	(2 685)
Net sale/purchase of treasury shares	59	(1 378)
Cash flow before expansion	1 048	(1 480)
Expansion investments	(631)	(531)
Sale of companies (enterprise value)	582	47
Purchase of companies (enterprise value)	(3 063)	(1 080)
Net cash flow	(2 064)	(3 044)
Currency effects of net interest-bearing liabilities	(3)	21
Change in net interest-bearing liabilities	2 067	3 023
Interest-bearing liabilities IFRS 16, 1 January 2019	1 447	-
Net interest-bearing liabilities	6 551	3 037

Note 38 cont.

Reconciliation of change in interest-bearing items 2019

Amounts in NOK million	Interest-bearing assets	Interest-bearing liabilities	Net interest-bearing liabilities
Balance 1 January 2019	2 193	(5 230)	(3 037)
Implementation effect IFRS 16, 1 January 2019	-	(1 447)	(1 447)
Balance 31 December 2019	2 035	(8 586)	(6 551)
Change net interest-bearing liabilities from cash flow Orkla-format	158	1 909	2 067
Of this change cash and cash equivalents	(309)	-	(309)
Change net interest-bearing liabilities excluding cash and cash equivalents	(151)	1 909	1 758
Interest-bearing items from acquired and sold companies	0	(55)	(55)
Interest-bearing liabilities new leases	-	(450)	(450)
Currency effects interest-bearing items	-	(4)	(4)
Currency effects cash and cash equivalents	0	-	0
Net cash flow from/(used in) financing acitivites	(151)	1 400	1 249

Reconciliation of change in interest-bearing items 2018

Amounts in NOK million	Interest-bearing assets	Interest-bearing liabilities	Net interest-bearing liabilities
Balance 1 January 2018	5 165	(5 179)	(14)
Balance 31 December 2018	2 193	(5 230)	(3 037)
Change net interest-bearing liabilities from cash flow Orkla-format	2 972	51	3 023
Of this change cash and cash equivalents	(2 856)	-	(2 856)
Change net interest-bearing liabilities excluding cash and cash equivalents	116	51	167
Interest-bearing items from acquired and sold companies	0	(108)	(108)
Currency effects interest-bearing items	-	21	21
Currency effects cash and cash equivalents	4	-	4
Net cash flow from/(used in) financing acitivites	120	(36)	84

NOTE 39 EVENTS AFTER THE BALANCE SHEET DATE

Material events after the balance sheet date that occur before the Board of Directors has approved the financial statements may make it necessary to change the annual financial statements or to disclose the matter in the notes to the financial statements. If new information emerges regarding a matter that existed on the balance sheet date, and the matter is material, the financial statements must be changed.

Outbreak of coronavirus

There is currently an outbreak of a respiratory infection in large parts of the world, caused by a previously unknown coronavirus. The outbreak started in Hubei province, China, in December 2019, and was identified by the Chinese health authorities in January 2020. The disease has spread from China to many parts of the world, including Europe and Norway.

For the time being, Orkla is essentially operating as normal. The consequences going forward depend on the further evolution of the virus outbreak. The spread of infection may impact on employees, production, sourcing and demand. Orkla's businesses have implemented infection prevention measures, and plans have been made for dealing with the situation if employees should be confirmed to have coronavirus infection. Orkla has suspended all travel to areas with sustained spread of infection and has requested that its employees generally reduce all air travel.

So far, there have been no major production interruptions at Orkla's facilities. Orkla factories have emergency preparedness plans for maintaining critical operating processes in the event of the absence of a large number of employees due to sickness or quarantine. As far as sourcing is concerned, consequences have been limited so far, except for delays and limited availability of certain products from China. A prolongation and/or escalation of the crisis could affect both availability and purchasing prices in the time to come.

Orkla has experienced increased demand for certain products with a long shelf life in categories that account for a small percentage of Orkla's portfolio. The business implications of the coronavirus outbreak have been limited for Orkla so far, but the consequences going forward will depend on the future development of the outbreak.

Other matters

No other events have taken place after the balance sheet date that would have had a material effect on the financial statements or any assessments carried out.

No material acquisitions or disposals of companies were carried out after the balance sheet date.

01 02 03 04 05