

Board of Directors' report 2019

In 2019, Orkla continued its efforts to develop its portfolio in geographies, categories and channels, and carried out cost initiatives across the value chain, in both supply chain and commercial functions. During the year, the Group also strengthened its position as a leading branded consumer goods company through the acquisition of several companies.

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All alternative performance measures (APM) are presented on page 227. Figures in parentheses are for the corresponding period of the previous year.

Operations in 2019

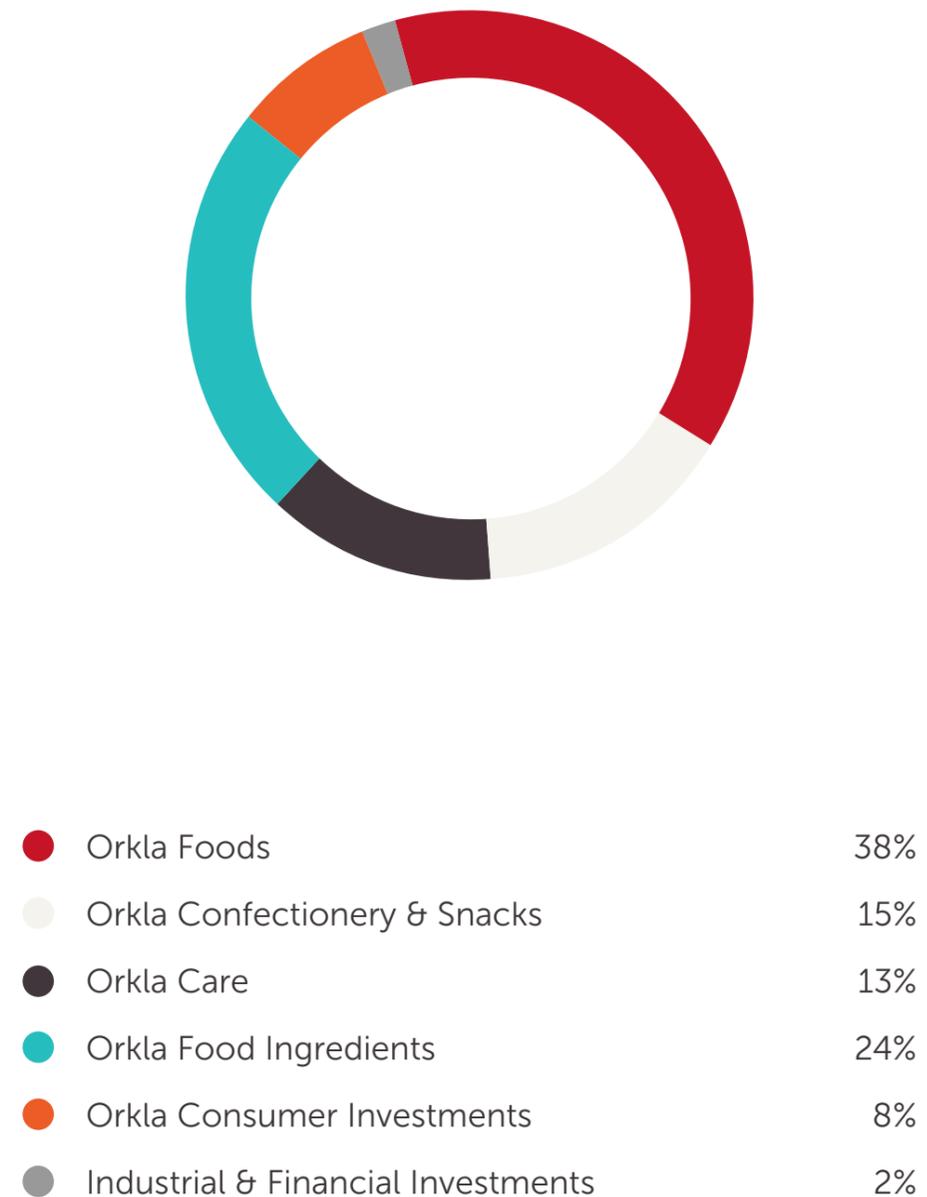
In 2019, Orkla continued its efforts to develop a business model in which local responsibility is balanced by increased realisation of synergies and economies of scale across companies and business areas. There was also focus on creating an efficient organisation with strong decision-making power. In the course of 2019, Orkla strengthened its position as a branded consumer goods company through several acquisitions. These transactions are described in the section "Description of structural changes".

Plant-based and eco-friendly products contributed to good growth in 2019, and will be an important platform for innovation going forward. Orkla has also continued its efforts to ensure good innovations under Orkla's existing, strong brands.

The Group increased turnover by 6.8 per cent in 2019 through organic growth in Branded Consumer Goods, contributions from acquired companies, and positive currency translation effects. Growth in Group EBIT (adj.) in 2019 was 6.5 per cent. The growth was driven by profit improvement for Branded Consumer Goods. Hydro Power experienced a decline due to less precipitation and lower production volume, as well as to slightly lower power prices during the year than in 2018.

Branded Consumer Goods achieved organic growth of 1.3 per

Operating revenues by business area



cent in 2019. There was good growth in several business areas, partly offset by a decline in Orkla Consumer Investments. Branded Consumer Goods incl. Headquarters had 9.0 per cent growth in EBIT (adj.), as a result of underlying growth, as well as contributions and synergy effects from acquisitions.

Strong innovations in response to trends and consumer needs are a critical success factor for Orkla. The Group's innovation work is carried out continuously across companies and countries, and sustainability elements are a natural part of this work. Another important area of innovation in Orkla is the leveraging of strong brands in other product categories. To contribute to good, cost-effective solutions to the problems posed by plastic pollution, and to reduce greenhouse gas emissions from packaging, Orkla also engages actively in promoting use of new packaging innovations.

Description of structural changes

Throughout 2019, the Group maintained its focus on structural growth aimed at building Orkla's position as a leading branded consumer goods company offering both products and services. The main objective has been to increase exposure to areas with higher underlying growth. The Group has also made acquisitions of companies from which Orkla can derive cost synergies.

Orkla Foods

In March 2019, Orkla acquired Lecora AB, a Swedish manufacturer of frozen and chilled vegan and vegetarian dishes. Lecora is also market-leading for schnitzel, in addition to

offering ready meals. A large portion of its product range is organic. Food service is the biggest customer group, but the company also makes some sales to the grocery trade.

In April 2019, Orkla's purchase of 90 per cent of the shares in Easyfood A/S, a Danish manufacturer of bake-off bakery goods for the out-of-home channel, was completed.

In March 2019, Orkla purchased 43.5 per cent 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.

Orkla sold the Glyngøre brand to Amanda Seafoods A/S in June 2019. The sale aimed to reduce portfolio complexity and concentrate the business on prioritised categories.

Orkla Confectionery & Snacks

Orkla purchased 20 per cent of the Icelandic company Núi Sírius HF, Iceland's leading manufacturer of chocolate and confectionery, in August 2019. Under the agreement, Orkla has an option to purchase the remaining shares after 2020.

Orkla Food Ingredients

In April 2019, Orkla purchased Zeelandia Sweden AB, a supplier of margarine, vegetable oils and bakery ingredients to the Swedish market. The company changed its name to Credin Sverige AB after the transaction.

In March 2019, Orkla acquired 80 per cent of the shares in

Stelios Kanakis Industrial and Commercial S.A. ("Kanakis"). Kanakis is market leader within sale and distribution of confectionery, bakery and ice cream ingredients in Greece.

Orkla purchased the Netherlands company Vamo producten voor de Bakkerij B.V. ("Vamo") in September 2019. Vamo produces specialised concentrates and ingredient mixes for sale to manufacturers of artisan and industrial bakery products.

Orkla acquired the Swedish sales and distribution company Bo Risberg Import AB ("Risberg") in June 2019. A considerable percentage of the company's sales are made to hotels, restaurants and catering businesses. Risberg is also an important supplier to the Swedish grocery trade and food industry.

In July 2019, Orkla purchased the British caramel manufacturer Confection by Design Ltd. ("Confection by Design"). Confection by Design offers fudge and toffee to ice cream manufacturers, bakeries and confectioners. Around two-thirds of its portfolio are distributed by Orkla's UK subsidiary Orchard Valley Foods.

Orkla Consumer Investments

In January 2019, Orkla acquired all the shares in Kotipizza Group Oyj ("Kotipizza Group"), owner of Finland's largest pizza restaurant chain. Kotipizza Group is a leading player in the growing Finnish restaurant market, and Finland is one of Orkla's home markets. The restaurants are mainly franchises. Orkla was already a leading frozen pizza player in the Norwegian, Swedish and Finnish grocery trade, and with the investments in Gorm's

and Kotipizza Group Orkla has strengthened its presence in the pizza category.

Orkla House Care took over the remaining 50 per cent of the shares in the joint venture Anza Verimex Holding B.V. in October 2019. Since 2018, Orkla House Care has owned 50 per cent of the company that is market leader for the sale and distribution of painting tools in the Netherlands and Belgium. The acquired companies consist 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.

Industrial & Financial Investments

In June 2019, Orkla entered into an agreement with the City of Oslo to sell the property at Treschows gate 16 at a purchase price of NOK 412 million. The agreement was approved by the Oslo City Council on 25 September 2019.

Through its wholly-owned subsidiary Capto Eiendom AS, Orkla sold its stake in the Oslo Business Park property to Stor-Oslo Eiendom AS in November 2019.

For more information on the acquisition and divestment of businesses; see Note 5.

The Group's results

Branded Consumer Goods

The increase of 7.4 per cent in operating revenues for Branded Consumer Goods was related to acquisitions, organic growth and positive currency translation effects. EBIT (adj.) growth for Branded Consumer Goods incl. Headquarters was 9.0 per cent, and was mainly a result of top-line growth, a favourable mix and structural growth. The change in reported operating profit (EBIT) for Branded Consumer Goods incl. Headquarters was 1.6 per cent where the difference from the growth in EBIT (adj.) was mainly due to the write-down of goodwill and trademarks in Orkla Care, and costs related to ongoing reorganisation processes and restructuring projects.

Branded Consumer Goods had organic growth of 1.3 per cent in 2019. Orkla Foods had broad-based improvement in most markets and Orkla Confectionery & Snacks could show good growth in all companies. Furthermore, the reversal of the sugar tax in Norway as of 1 January 2019 resulted in good growth for the categories concerned, due to a short-term change in customers' purchasing patterns. Orkla Food Ingredients had good growth in bakery ingredients and plant-based products. However, total growth was counteracted by Orkla Health's Norwegian and Swedish operations, a decline in sales for the Pierre Robert Group textile business, and Orkla Foods Danmark, the last as a result of production relocation and associated loss of low-margin sales.

The prices of the international raw materials to which Orkla is exposed increased, on average, in 2019, especially for meat and dairy products, according to the FAO Food Price Index¹. Nevertheless, the index cannot be seen in direct conjunction with the development in Orkla's sourcing costs, as the range of raw material categories sourced by Orkla is broader than that covered by the FAO index, and different prices apply to some extent due to European and Norwegian agricultural policy and associated import regulation. A weaker Norwegian and Swedish krone against the euro (-2.6 per cent and -3.2 per cent respectively) compared with 2018 also contributed to higher sourcing costs.

EBIT (adj.) margin for Branded Consumer Goods incl. Headquarters was 11.2 per cent (11.1 per cent). The increase in profit margin was mainly driven by increased focus on revenue management, and favourable mix effects. The margin improvement was partly offset by the dilutive effect of acquisitions. Underlying margin improvement in 2019 was 0.3 percentage points.

¹ The FAO Food Price Index measures the change in certain international raw material prices. The index consists of the average of five commodity group price indices and is published by the United Nations (UN)'s organisation for food safety and nutrition.

The Group

Condensed income statement

Amounts in NOK million	2019	2018
Operating revenues	43 615	40 837
EBIT (adj.)	5 088	4 777
Other income and expenses	(561)	(482)
Operating profit/loss	4 527	4 295
Profit/loss from associates and joint ventures	659	264
Interest and financial items, net	(255)	(201)
Profit/loss before tax	4 931	4 358
Taxes	(1 033)	(1 004)
Profit/loss for the year	3 898	3 354

The increase of 6.8 per cent in operating revenues was driven by organic growth and contributions from acquisitions in Branded Consumer Goods, in addition to positive currency translation effects. Growth in Group EBIT (adj.) in 2019 was 6.5 per cent. The growth was driven by profit improvement for Branded Consumer Goods, including contributions from acquisitions. Profit growth was negatively impacted by Industrial & Financial Investments, where the positive contribution from higher rental income for Orkla Eiendom was counteracted by lower production volume and power prices, compared with 2018, for Hydro Power.

The Group's "other income and expenses" consisted largely of write-downs of goodwill related to Harris in Orkla House Care and write-downs related to Orkla Health's Gerimax and

Colon C brands. Acquisition and integration expenses were also incurred, as well as expenses related to several improvement processes in the Group, particularly closures and changes in factory structure. Gains related in part to the sale of property and companies were significantly higher in 2019, year over year. The biggest gain was realised on the sale of Treschows gate 16. The sale of the Glyngøre brand and a factory property in Kristiansund also contributed positively. The change in reported operating profit (EBIT) for the Group was 5.4 per cent.

Profit from associates and joint ventures consists mainly of Orkla's 42.6 per cent interest in Jotun. The investment is presented using the equity method. Jotun delivered a record-high contribution in 2019 of NOK 625 million (NOK 258 million), driven by solid sales growth and higher gross margins.

Results from foreign entities are translated into Norwegian kroner, based on average monthly exchange rates. Due to currency fluctuations, the Group had positive currency translation effects in 2019 of NOK 523 million on operating revenues and NOK 61 million on EBIT (adj.).

Orkla is subject to ordinary corporate tax in the countries in which the Group operates. The tax rate (adjusted for profit from associates and joint ventures) for the 2019 financial year was 24.2 per cent (24.5 per cent). There were high non-deductible expenses including the write-down of goodwill in 2019, but this was counterbalanced by the reversal of a deferred tax liability in the Baltics. See Note 16 for further comments.

Earnings per share were NOK 3.84 (NOK 3.24). Adjusted for "other income and expenses" after estimated tax, earnings per share were NOK 4.24 (NOK 3.62).

Financial situation and capital structure

Cash flow

The comments below are based on the cash flow statement as presented in Orkla's format (see Note 38). Cash flow from operations from Branded Consumer Goods incl. Headquarters amounted to NOK 4,798 million (NOK 3,461 million). The increase, year over year, was mainly due to a positive development in working capital and increased operating profit. The improvement in working capital was chiefly driven by an improvement in accounts payable. Reduced inventory also contributed positively.

Net replacement investments totalled NOK 1,931 million (NOK 1,400 million). The increase was chiefly related to ongoing investments in new ERP systems. The implementation of IFRS 16 also increased replacement investments, in addition to depreciation and write-downs.

Cash flow from operations for Industrial & Financial Investments amounted to NOK 135 million (NOK 27 million).

Dividends received, financial items and other payments mainly consist of paid financial items, a disbursement related to the remaining liability in connection with the sale of Sapa (see Notes 4 and 26), and dividends received from Jotun.

Condensed cash flow Orkla-format

Amounts in NOK million	2019	2018
Cash flow from Branded Consumer Goods incl. Headquarters		
EBIT (adj.)	4 786	4 390
Amortisation, depreciation and write-downs	1 581	1 156
Change in net working capital	812	(189)
Net replacement investments	(1 931)	(1 400)
Cash flow from operations (adj.)	5 248	3 957
Cash flow effect "Other income", "Other expenses" and pensions	(450)	(496)
Cash flow from operations Branded Consumer Goods incl. Headquarters	4 798	3 461
Cash flow from operations Industrial & Financial Investments	135	27
Taxes paid	(1 129)	(904)
Dividends received, financial items and other payments	(167)	(1)
Cash flow before capital transactions	3 637	2 583
Dividends paid and sale/buyback of Orkla shares	(2 589)	(4 063)
Cash flow before expansion	1 048	(1 480)
Expansion investments	(631)	(531)
Sales of companies (enterprise value)	582	47
Purchases 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 1.1.2019	1 447	-
Net interest-bearing liabilities	6 551	3 037

An ordinary dividend of NOK 2.60 per share was paid out for the 2018 financial year. Dividends paid totalled NOK 2,648 million (NOK 2,685 million). Sales of treasury shares (to employees) had a cash flow effect of NOK 59 million. In 2018, the Group carried out a programme to buy back Orkla shares for cancellation, and net purchases of Orkla shares totalled NOK -1,378 million in 2018.

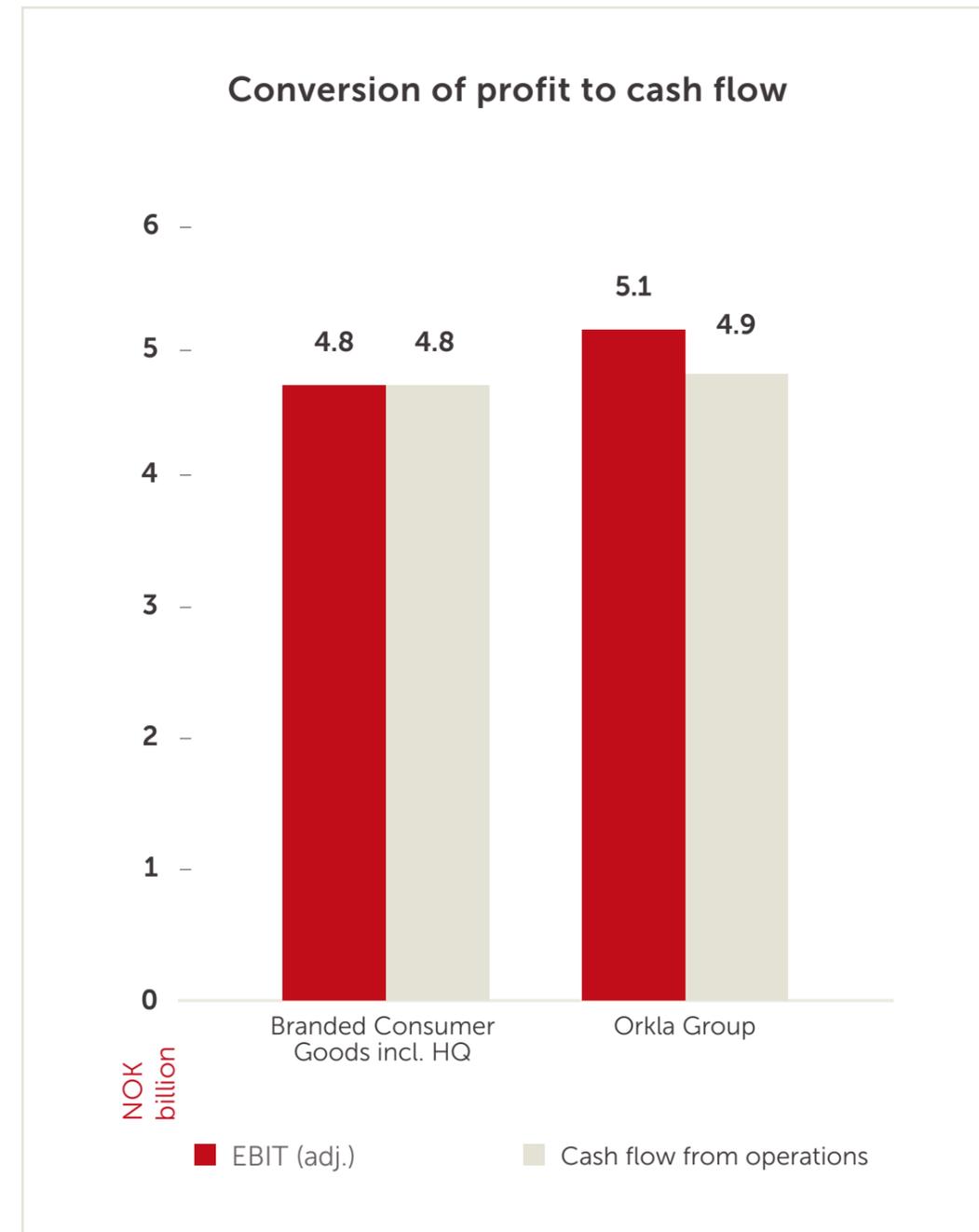
Expansion investments totalled NOK 631 million (NOK 531 million) in 2019. The increase was due to higher investments in Orkla Foods, particularly in connection with an ongoing investment programme for pizza production at Stranda, Norway.

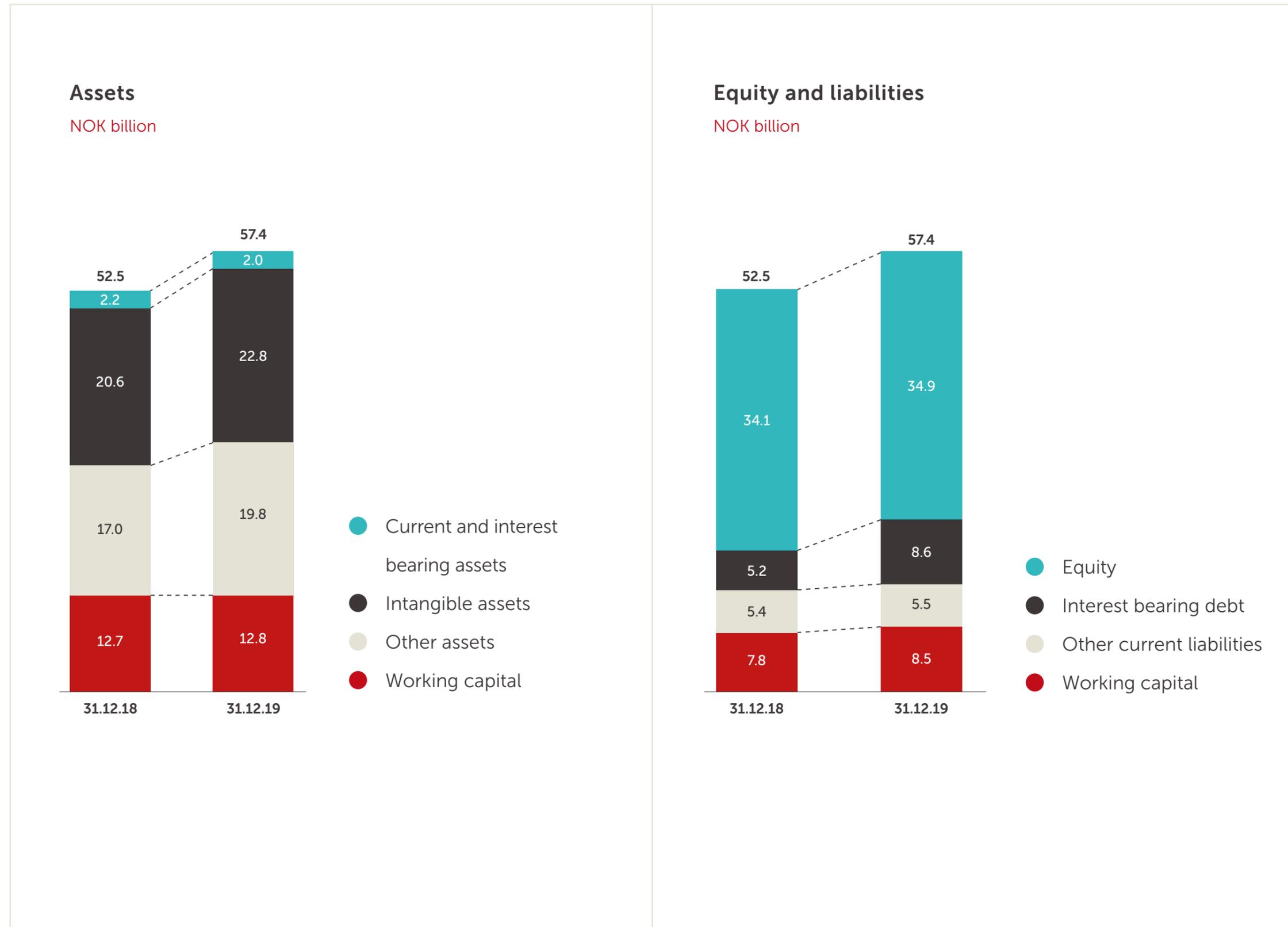
Sales of companies totalled NOK 582 million (NOK 47 million), where the increase was mainly related to the sales of Treschowsgate 16 and Oslo Business Park. Acquisitions of companies totalled NOK 3,063 million (NOK 1,080 million), the major share of which was related to the purchase of Kotipizza Group. Several other acquisitions were made in Branded Consumer Goods, the largest of which after Kotipizza Group was Easyfood in Orkla Foods.

Net cash flow for the Group amounted to NOK -2,064 million (NOK -3,044 million) in 2019. Net interest-bearing liabilities, before leases, amounted to NOK 4,895 million. Including lease effects related to IFRS 16, net interest-bearing liabilities totalled NOK 6,551 million (see Note 21 for further information on IFRS 16). The Group's liabilities are denominated in different currencies depending on its net investments in countries other than Norway, and liabilities will therefore fluctuate with currency rate changes.

Contracts and financial hedge instruments

Orkla generally has few long-term purchasing and sale contracts. In Hydro Power, AS Saudefaldene has some long-term power contracts. Further details regarding power contracts may be found in Note 34.





Capital structure

The consolidated statement of financial position totalled NOK 57.4 billion at year end, compared with NOK 52.5 billion in 2018 (NOK 53.8 billion taking account of the implementation of IFRS 16). Net interest-bearing liabilities increased from NOK 3.0 billion to NOK 6.6 billion, NOK 1.4 billion of which comes from the recognition of liabilities related to lease agreements as at 1 January 2019 (upon transition to IFRS 16). Orkla's financial position is robust, with substantial cash reserves, credit lines and the flexibility to support its business priorities. Group equity totalled NOK 34.9 billion at year end, with an equity ratio of 60.8 per cent (64.9 per cent). The equity ratio as at 1 January 2019, taking account of the restated balance upon implementation of IFRS 16, was 63.1 per cent.

The Orkla share

As at 31 December 2019, there were 1,000,305,788 shares outstanding, and Orkla owned 1,125,182 treasury shares. The number of shareholders was 36,450 at the end of 2019, compared with 38,313 at the end of 2018. The proportion of shares held by foreign investors increased by 2.5 percentage points to 54 per cent. The Orkla share price was NOK 88.96 at the end of the last trading day in 2019. At year-end 2018, the share price was NOK 68.04. Taking into account the dividend, the return on the Orkla share in 2019 was 35.8 per cent, while the return on the Oslo Stock Exchange Benchmark Index (OSEBX) was 16.5 per cent. Orkla shares were traded on the Oslo Stock Exchange for a total of NOK 31.4 billion. Further information on shares and shareholders may be found on page 230.

Risk management

The Board of Directors attaches importance to ensuring that risk is managed systematically in all parts of the Group, and considers this a prerequisite for long-term value creation for shareholders, employees and society at large. Orkla has adopted a structured approach to identifying risk factors and taking action to mitigate risk in its operations. In accordance with the Group's Risk Management instructions, risk assessments must be carried out routinely in all units, and presented to and discussed by the internal boards of directors as part of the budget process. When important decisions are to be made on matters such as acquisitions, disposals and major investments, the same requirement applies to risk assessment as in connection with routine risk management.

The units' risk assessments are consolidated to create an overall risk picture for Orkla, which also includes a longer-term, systematic risk assessment. Orkla's overall risk picture is reviewed by the Group Executive Board and discussed by the Board of Directors, in addition to being reviewed regularly by the Board's Audit Committee.

Within Branded Consumer Goods, Orkla has a diversified company and product portfolio, which reduces the risk of significant profit fluctuations.

The grocery market is undergoing changes, including increased competition from new sales channels. Orkla has a strategic ambition of growing in channels with higher growth than the traditional grocery sector. At the same time, Orkla's

main geographical markets are characterised by high customer concentration and to some extent a greater proportion of the retail trade's private labels. In the grocery market, close follow-up of customers, joint projects and collaboration across business areas are the foremost initiatives for maintaining volumes and margins.

In 2019, the Norwegian Competition Authority initiated investigations based on suspicion of differentiation in the prices offered by suppliers to the three Norwegian chain groups. Based on the result of these investigations new regulations may potentially be introduced.

There is risk related to changes in consumer behaviour and trends if Orkla fails to keep close track of changes and make the necessary adjustments to the new development. To reduce the risk, Orkla attaches importance to good consumer insight, experience sharing and consumer testing. Orkla works systematically to meet new trends with new innovations. Sustainability elements are increasingly important for consumers, particularly in the Nordic region and Western Europe. There is considerable growth in demand for plant-based food, locally-produced food and products that offer health benefits. Orkla has increased its focus on plant-based products

Inadequate food safety can potentially have major consequences for consumers. Orkla has a central food safety team who work continuously to ensure improvements and conduct audits at Orkla's factories, in addition to supplier audits.

Orkla is increasingly dependent on IT systems and the proper handling of information. At the same time, there is a growing risk of malicious data attacks. Such an attack could be detrimental to Orkla's operations in a number of areas, such as reputation, sales and production, and cause the loss of intangible assets. Important risk-mitigating measures include contingency plans, employee training and awareness-raising, and updating of older IT infrastructure.

Orkla also faces risk attached to fluctuations in currency rates and raw material prices. Many Orkla companies do a substantial share of their sourcing in local currencies, thereby reducing the overall impact of fluctuations against other currencies. The risk of cost increases and scarcity of raw materials and resources is countered through close monitoring of suppliers, more efficient use of resources, use of alternative raw materials and higher prices to customers.

There is an inherent risk of fire, occupational accidents or other serious incidents in Orkla's production environments. The production units make active efforts to prevent and avoid production interruptions. Group staff at central level also follow up on supply chain and insurance matters. Procedures and standards have been established that must be complied with, and employees receive training in the application of new standards.

There is risk related to ongoing climate change, which in the longer run could affect the availability of raw materials, and the quality and prices of several of Orkla's input factors.

Prices are expected to remain volatile in the coming years, but the consequences of extreme weather for Orkla are considered to be moderate in the short and medium term. The majority of Orkla's production and sourcing takes place in the Nordics, the Baltics and Eastern Europe, where water shortages and drought are less likely to occur than in areas with a warmer climate. The risk of Orkla's own production being affected by flooding or other consequences of extreme weather is considered to be low.

Comments on the profit performance of the individual business areas

Orkla is a leading supplier of branded consumer goods and concept solutions to the grocery, food service and bakery sectors with the Nordic and Baltic regions as its main markets. The Group also holds good positions in selected categories in Central Europe and India. The Branded Consumer Goods business consists of five business areas: Orkla Foods, Orkla Confectionery & Snacks, Orkla Care, Orkla Food Ingredients and Orkla Consumer Investments. Industrial & Financial Investments consists of the Hydro Power and Financial Investments segments. For a further description of the different business areas in Branded Consumer Goods, and Industrial & Financial Investments, see Note 7. Orkla's associates consist primarily of Jotun (42.6 per cent interest); see Note 6.

The financial statements of the holding company Orkla ASA cover all activities at Orkla Headquarters. These activities include the Group's top executive management and the following corporate and shared functions:

- Group Functions
 - Group HR
 - Compensation & Benefits
 - Corporate Communications & Corporate Affairs
 - Orkla Services
 - Internal Audit
 - Legal & Compliance
 - Environment, Health & Safety (EHS)
- Finance & IT
- Strategy and M&A
- Group Sales
- Orkla Marketing & Innovation
- Orkla Group Procurement

The departments largely carry out assignments and provide support for the Group's other companies and charge them for these services.

Branded Consumer Goods incl. Headquarters

Amounts in NOK million	Operating revenues		Organic growth (%)		EBIT (adj.)**		EBIT (adj.)-margin (%)**	
	2019	Δ (%)	2019	2019	Δ (%)	2019	Δ (bps)	
Orkla Foods	16 776	4.9	1.8	2 276	11.1	13.6	80	
Orkla Confectionery & Snacks	6 612	5.9	4.6	1 094	8.7	16.5	40	
Orkla Care	5 887	1.9	0.0	855	1.7	14.5	-10	
Orkla Food Ingredients	10 292	7.6	0.6	626	17.4	6.1	50	
Orkla Consumer Investments	3 385	41.5	-3.4	297	20.7	8.8	-150	
Orkla Headquarters				-362	-27.5			
Total Branded Consumer Goods*	42 632	7.4	1.3	4 786	9.0	11.2	10	

*Intercompany sales between business areas have been eliminated.

**Branded Consumer Goods incl. Headquarters.

Operating revenues, change as %	FX	Structure	Organic growth	Total
Branded Consumer Goods	1.2	4.9	1.3	7.4

Orkla Foods

Operating revenues for Orkla Foods grew by 4.9 per cent in 2019, positively impacted by both structural changes and currency translation effects. Organic growth was 1.8 per cent, driven by broad-based improvement in most markets. Much of the growth came from plant-based products which are a priority area in Orkla Foods. However, there was negative development in organic sales in Denmark due to production relocation and associated loss of low-margin sales. There was profit growth in all markets in 2019, driven mainly by higher sales and an improved mix, but also due to cost improvements. In 2019, increased prices to customers and more active portfolio management compensated for higher raw material costs and the negative effects of the weaker Swedish and Norwegian krone. The EBIT (adj.) margin was 13.6 per cent (12.8 per cent).

Orkla Confectionery & Snacks

Operating revenues for Orkla Confectionery & Snacks increased in 2019 by 5.9 per cent. Organic growth was 4.6 per cent. Sales development was particularly strong in Norway, partly due to the short-term change in customers' purchasing patterns due to changes in the sugar tax. Outside Norway, sales growth was good in Sweden, Denmark and Finland, while the Baltic countries experienced moderate growth. Positive market development, particularly for the snacks category, contributed to sales growth. There was profit growth in all markets except for Denmark. Implemented cost improvement projects compensated for higher raw material costs and negative currency effects, and the EBIT (adj.) margin was 16.5 per cent (16.1 per cent).

Orkla Care

Operating revenues for Orkla Care corresponded to 1.9 per cent growth in sales in 2019. Organic growth was flat. Organic growth in Orkla Home & Personal Care and Orkla Wound Care was offset by a decline for Orkla Health and HSNG. Orkla Home & Personal Care and Orkla Wound Care had good growth outside Norway. A broad decline for Orkla Health, primarily related to Norway and Sweden, was counteracted to some extent by strong growth in Poland compared with a weak 2018. HSNG had good growth in e-commerce sales but experienced a decline in sales to franchises. The EBIT (adj.) margin was 14.5 per cent (14.6 per cent), positively impacted by mix effects and revenue management initiatives, but these effects were offset by increased advertising spend and depreciation.

Orkla Food Ingredients

Operating revenues for Orkla Food Ingredients in 2019 increased by 7.6 per cent. The organic growth of 0.6 per cent was related to good sales of bakery ingredients in several markets and continued good growth for plant-based products under the Naturli' brand. The strategic termination of some low-profitability sales agreements counteracted the growth in sales to some extent. In addition, it was a weaker year for ice cream ingredients, especially in the UK and the Benelux countries, compared with very good sales in 2018. The increase in EBIT (adj.) was generated by a combination of structural growth, organic improvement related to bakery ingredients, and a slightly more profitable product mix. The EBIT (adj.) margin was 6.1 per cent (5.6 per cent).

Orkla Consumer Investments

Operating revenues for Orkla Consumer Investments in 2019 increased by 41.5 per cent, primarily due to the acquisition of Kotipizza Group which was consolidated as of February 2019. Organic growth was -3.4 per cent, driven by a decline for Pierre Robert Group. Restaurant sales in Kotipizza Group and Gorm's increased by 12 per cent (5 per cent on a comparable basis). The EBIT (adj.) margin was 8.8 per cent (10.3 per cent), negatively impacted by the decline in profit for Pierre Robert Group, and the dilutive effect of Kotipizza Group.

Orkla Headquarters

EBIT (adj.) from Headquarters amounted to NOK -362 million in 2019 (NOK -284 million). Higher costs than in the previous year were mainly due to increased bonus expenses as a result of the increase in the Orkla share's market value during the year, a change from the previous year in the accounting policy for expensing Orkla's long term incentive (LTI) programme for executive management, and expenses related to increased pension obligations. In 2019, a restructuring project was initiated at Orkla Headquarters with a view to simplifying the present structure in order to create a more efficient organisation with strong decision-making power.

Industrial & Financial Investments

Jotun (42.6 per cent interest)

Amounts in NOK million	2019	2018
Operating revenues (100%)	19 652	17 660
EBIT (100 %)	2 320	1 361
Contribution to profit	625	258

Jotun achieved record high sales and operating profit in 2019. There was revenue growth in all regions and segments, with particularly strong growth in Protective Coatings driven by increased activity in the offshore sector. The marked growth in operating profit is mainly due to solid sales growth, and better gross margins as a result of higher retail prices and slightly lower raw material costs. Active cost control and a weaker Norwegian krone also contributed to the good result in 2019.

Hydro Power

Amounts in NOK million	2019	2018
Volume (GWh)	2 156	2 320
Price (øre/kWh)	38.4	42.2
Operating revenues	826	1 025
EBIT (adj.)	292	390

The decline in profit was due to lower production volume and somewhat lower power prices during the year. At year end, the reservoir and snowpack levels in Sauda were slightly lower than normal. Both the reservoir and snowpack levels for Glomma were higher than normal.

Financial Investments

EBIT (adj.) for Financial Investments amounted to NOK 10 million in 2019 (NOK -3 million). The improvement in profit was due to lease revenues from Orkla's new headquarters.

Research and development (innovation)

Innovation is one of Orkla's primary tools for creating organic growth and therefore a key part of day-to-day operations. Orkla's innovation work is based on a cross-functional focus that spans from insight to idea and then to launch. Consumer, customer and market insights are combined with technological expertise to develop products and services that delight consumers and better meet their needs.

Orkla's strength lies in its local presence, which gives it in-depth insight into local consumer needs and how this knowledge can be translated into powerful innovations. At the same time, Orkla seeks to apply this consumer insight, brand understanding and product development capacity across the Group. In 2019, the Group increased focus on innovation across companies and countries. Examples include the further roll-out of Anamma from Sweden to Estonia, Norway and Lithuania, the Nordic launch of Jordan Green Clean children's toothbrushes, and Grumme cleaning products which were launched in Finland in 2019 under the Lumme brand.

At the core of all innovation work lies the actual user experience, ranging from taste and functional properties to how intuitive and simple a product is to use. Health and environmental aspects are also key drivers of innovation. Examples

of priority areas of innovation are "Taste & Indulgence", "Health & Well-being", "Sustainability & Environment", "Plant-based" and "Simpler Everyday Life". A good example of innovation in 2019 is Maxim's new range of Hero protein bars. Other good examples are the launch of Stratos Salty Caramel, Jenny Skavlan X Pierre Robert, Dr Greve pharma and Grandiosa Mandagspizza. An important area of innovation lies in utilising our strong brands in other product categories, with the launch of Naturlí' Chick Free chicken substitute as a good example of this focus. Innovation based on use of digital services will also be given higher priority going forward. A good example is Orkla Food Norges BareBraMat, which is a fully-integrated digital system for planning, purchasing and monitoring to ensure proper nutrition for children in kindergartens.

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

Competence

Learning is a fundamental part of Orkla's strategy and culture, and the Group's competitiveness and attractiveness as employer are strengthened through continuous human resource development. Orkla has a long tradition of investing in its employees' development, and learning takes place in several different ways – through personal experience acquired in day-to-day work, through interaction with other employees, coaching and networks, and through formal training such as

participation in courses and seminars. Orkla also carries out a systematic, annual evaluation of leadership and organisation. Development areas have been identified, and actions were initiated to remedy any gaps.

Orkla's global competence-building activities ensure and underpin instruction and training within Orkla's defined core competencies, digital expertise, leadership and culture. These global activities supplement and support local activities to develop expertise in each function. A variety of global training programmes are run by the Orkla Academies, and leadership programmes and the training portfolio are constantly expanded. There is continuous, active focus on developing instructive, high-quality and cost-effective educational methods, content and technology.

Corporate responsibility

Orkla's sustainability strategy

Business and industry have a responsibility for helping to solve the global challenges posed by climate change, raw material availability and consumer health, in addition to which these challenges give rise to commercial risk and opportunities. Orkla wishes to contribute to sustainable development by offering products that promote a healthy, sustainable lifestyle, reduce greenhouse gas emissions and foster sustainable business practices in every part of the value chain. Sustainability work is pivotal to Orkla's ability to create growth, trust and competitive operations. Orkla has adopted general sustainability targets up to 2025 that apply to the entire Group and cover the following main topics: nutrition

and wellness, safe products, sustainable sourcing, environmental engagement and care for people and society.

Directive on corporate responsibility

Orkla's directive on corporate responsibility describes the overarching principles defining how the Group companies are to address issues relating to human and workers' rights, the external environment, occupational health and safety (EHS), anti-corruption and other important areas of corporate responsibility. The directive has been approved by Orkla's Board of Directors and applies to the entire Group. Orkla's Responsible Employer and Human Rights Policy provides detailed guidelines for the way Orkla companies are to deal with the human and workers' rights issues considered most relevant for their day-to-day operations. Orkla companies prepare an annual assessment of risk of non-compliance with this policy and a plan for further efforts to safeguard human rights. Orkla's EHS policy and standard set out detailed principles and requirements for work related to the external environment and occupational health and safety, which is monitored through internal audits. The Orkla Code of Conduct describes the Group's standards and expectations in respect of individual managers, employees and Board members with regard to key human and workers' rights such as respect and tolerance, equality and non-discrimination, and environmental and anti-corruption standards.

Governance procedures for corporate responsibility

The CEO of each Orkla company is responsible for implementing the Group's directive on corporate responsibility

and drawing up action plans for sustainability work based on Orkla's sustainability targets up to 2025. This work must be integrated into the company's operations and be based on the precautionary principle and the principle of continuous improvement. The companies' prioritisation of resource use must be based on an assessment of both the business's and stakeholders' needs.

Orkla's governing documents are accessible to all the companies through the Group's web-based governance portal. To ensure that employees are familiar with Orkla's directive, internal training is provided by both the Group and the companies. In 2019, around 88,000 hours of organised training were provided in topics related to corporate responsibility and sustainability, an average of 4.8 hours per employee. Several meetings and gatherings were also held in Orkla's internal professional networks. The training has created greater awareness and knowledge of corporate responsibility and sustainability issues in the Group, promoted more active engagement and ensured a more uniform approach to efforts in these areas.

Orkla monitors the companies' corporate responsibility and sustainability work by means of annual internal status reports. These reports are submitted in connection with business reviews and in connection with Orkla's external sustainability reporting. Sickness absence and injuries are monitored monthly, and status as regards food safety is tracked quarterly. Orkla has internal sustainability, EHS and food safety networks that are used to promote learning, experience

sharing, collaboration and reporting.

Orkla's Board of Directors monitors the Group's efforts by means of an annual assessment of progress in sustainability work, quarterly reviews of changes in key EHS indicators and ongoing discussion of individual matters considered to be of material importance for Orkla's operations. Orkla's Group Director for Corporate Communications and Corporate Affairs has administrative responsibility for Orkla's corporate responsibility work, and determines which matters are to be submitted to the Board of Directors. The Board also discusses Orkla's annual sustainability reporting.

Orkla's whistle-blowing function enables employees to alert the Group's governing bodies to possible breaches of the Orkla Code of Conduct. The whistle-blowing function is administered by Orkla's internal audit staff on behalf of Orkla's Audit Committee and is independent of Orkla's line management. Employees can report concerns anonymously and in their mother tongue. Orkla's internal ethics board is headed by Orkla's chief audit officer, and also comprises Orkla's heads of compliance, sustainability and tax. The ethics board is involved when necessary to discuss whistle-blowing matters.

Alignment with external principles

Orkla has been a signatory to the UN Global Compact since 2005 and is a member of the Ethical Trading Initiative Norway (IEH). Since 2008, the Group has reported environmental information to the investor-initiated CDP, and has supported the CDP's two initiatives, "Commit to report climate change

information in mainstream reports as a fiduciary duty" and "Commit to remove commodity-driven deforestation from all supply chains by 2020". Orkla has also signed the UN's New York Declaration on Forests. In 2019, Orkla supported the Global Compact's campaign, "Business Ambition for 1.5 °C: Our Only Future". Through Orkla's sustainability work, the Group contributes to achieving several of the global sustainable development goals up to 2030, which were launched by the UN in 2015.

In 2019, for the ninth consecutive year, Orkla was included in the Dow Jones Sustainability Index Europe. The Board of Directors is pleased that Orkla has made good progress in its efforts to develop products for a healthy, sustainable lifestyle, reduced greenhouse gas emissions from its operations and continued the positive development in its efforts to promote sustainable raw material production.

Reporting on corporate responsibility

Under sections 3-3a and 3-3c of the Norwegian Accounting Act, Orkla is required to report on its corporate responsibility and selected related issues. An account of the Group's efforts to address these issues in 2019 is provided in Orkla's sustainability report, which is included in this Annual Report, under the sections:

- "Orkla's sustainability work" page 57 (corporate responsibility)
- "Environmental engagement" page 64 (environment)
- "Sustainable sourcing" page 76 (human rights, workers' rights, social conditions and environment in the supply chain)

- "Care for people and society" page 107 (human and workers' rights in own company, equality and non-discrimination, working environment, injuries, accidents, sickness absence, anti-corruption, social conditions)

In its sustainability reporting for 2019, Orkla has attached importance to applying the Oslo Stock Exchange's guidance on reporting corporate responsibility. More information on the principles on which Orkla's reporting is based is provided on page 61.

Personnel and administration

As at 31 December 2019, the Group had 18,348 (18,510) employees. Of these, 2,947 (3,197) worked in Norway, 6,028 (5,743) in other Nordic countries and 9,373 (9,570) in countries outside the Nordic region. Collaboration between management and the employee organisations functions well and makes a valuable contribution to finding constructive solutions to the challenges faced by the Group and the individual companies.

Peter A. Ruzicka resigned as Orkla President and CEO at his own request on 7 May 2019. Mr Ruzicka took up the position of President and CEO on 10 February 2014. He served as member of Orkla's Board of Directors from 2008 to 2014 and from 2003 to 2005. He was member of the Corporate Assembly from 2006 to 2007.

Terje Andersen served as Interim President and CEO from 7 May to 15 August 2019, when Jaan Ivar Semlitsch took over as Orkla President and CEO. Jaan Ivar Semlitsch previously held the position of CEO of Elkjøp Nordic, which he headed for more than six years. In the last year he was also CEO of the parent company Dixons Carphone's international operations.

With effect from 1 November 2019, changes were made in Orkla's Group Executive Board and corporate structure. A separate corporate function was given responsibility for the acquisition and sale of companies (M&A) and strategy development. Orkla Consumer & Financial Investments became a new business area in Orkla, consisting of two parts:

- Orkla Consumer Investments, consisting of Orkla House Care, Lilleborg, Pierre Robert Group, Kotipizza Group and Gorm's.
- Industrial & Financial Investments, consisting of Hydro Power, Eiendom, Venture and Orkla's minority interest in Jotun.

Sverre Prytz took up his duties as EVP for M&A and Strategy on 1 December 2019. Kenneth Haavet became new head of Orkla Consumer & Financial Investments on 1 February 2020.

After the change, Orkla consists of five business areas: Orkla Foods, Orkla Confectionery & Snacks, Orkla Food Ingredients, Orkla Care and Orkla Consumer & Financial Investments.

Karl Otto Tvester stepped down from Orkla's Group Executive Board with effect from 1 November 2019, and will leave Orkla on 30 April 2020. Mr Tvester will subsequently be associated



with Orkla as lawyer and adviser.

Harald Ullevoldsæter was appointed as new EVP and CFO of Orkla ASA as from 1 March 2020. He will succeed Jens Bjørn Staff, who has chosen to resign from his post to become CEO of Skagerak Energi.

At Orkla's Annual General Meeting in April 2019, Stein Erik Hagen, Grace Reksten Skaugen, Ingrid Jonasson Blank, Liselott Kilaas, Peter Agnefjäll, Nils Selte, Lars Dahlgren and Caroline Hagen Kjos (personal deputy for Stein Erik Hagen and Nils Selte) were re-elected as shareholder-elected members of Orkla's Board of Directors. Stein Erik Hagen was re-elected as Chairman of the Board and Grace Reksten Skaugen as Deputy Chair. All of the shareholder-elected Board members were elected for a term of one year, i.e. until the 2020 Annual General Meeting.

Of a total of seven shareholder-elected members of Orkla's Board of Directors, three are women and four are men. Among the employee-elected Board members and their deputies, both genders are represented. Orkla ASA therefore fulfils the requirement in section 6-11a of the Public Limited Liability Companies Act regarding representation of both genders on the Board of Directors.

The Board of Directors wishes to thank all employees for their efforts and for the results achieved in 2019.

Corporate governance

(Statement of Policy on Corporate Governance)

Orkla's governance systems are based on principles set out in the Norwegian Code of Conduct for Corporate Governance, and are largely aligned with applicable international guidelines on good corporate governance. An overall statement of policy on corporate governance at Orkla may be found on page 44 of this Annual Report. The statement of policy will be an item of business for discussion at the 2020 Annual General Meeting.

Pay and other remuneration of senior executives

The Board of Directors has a separate Compensation Committee, which deals with all material matters related to pay and other remuneration of senior executives before such matters are formally discussed and decided by the Board of Directors. In accordance with Norwegian company legislation, the Board of Directors has also prepared a separate statement of guidelines on the pay and other remuneration of senior executives, included in Note 5 to the financial statements for Orkla ASA, which will be presented and discussed at the 2020 Annual General Meeting. The note also provides details of remuneration and contractual arrangements.

Accounting policies

The consolidated financial statements for 2019 have been prepared and presented in accordance with the International Financial Reporting Standards (IFRS), as approved by the EU. The financial statements for the parent company have been prepared in accordance with section 3-9 of the Norwegian Accounting Act (simplified IFRS). The explanation of accounting policies in

Notes 1-4 and in respective notes describes important matters relating to accounting treatment under IFRS. The consolidated financial statements have been prepared and presented on the basis of the going concern assumption, and in accordance with section 3-3 of the Accounting Act the Board of Directors confirms that use of the going-concern assumption is appropriate.

Orkla ASA

Orkla ASA is the parent company in the Orkla Group and supplies and performs services for the Group's other companies. In 2019, Orkla ASA delivered profit after tax of NOK 3,806 million (NOK 2,369 million). At year end, Orkla ASA had total assets of NOK 49,505 million (NOK 45,290 million), equivalent to an increase of 9.3 per cent, compared with the previous year. The equity ratio was 69.3 per cent (72.8 per cent).

Allocation of comprehensive income

In 2019, Orkla ASA posted comprehensive income of NOK 3,870 million. The Board of Directors proposes the following allocation:

Transferred to equity	NOK 1,269 million
Proposed dividend	NOK 2,601 million

As at 31 December 2019, Orkla ASA had total equity of NOK 34.3 billion (NOK 33.0 billion). The Board of Directors has determined that Orkla ASA had adequate equity and liquidity at the end of 2019. The Board of Directors proposes to pay an ordinary dividend of NOK 2.60 per share for the 2019 financial year.

Outlook

Orkla continues to face strong competition from both international players and the retail trade's private labels. At the same time, consumer preferences are shifting, with local players gaining ground at the expense of major global brands. With over 300 local brands and a strong local focus on innovations, Orkla is well positioned to respond to this shift. In addition, a channel shift is taking place with consumers moving away from traditional grocery retailers in many product categories. Orkla is addressing the changes in a variety of ways, including increased focus on presence in new channels outside the traditional grocery retail trade and on making strategic acquisitions that offer access to other channels.

While strategically relevant acquisitions will remain a key element of Orkla's growth strategy and value creation model, the Group will to a greater degree reduce complexity through more active portfolio management.

Orkla targets long-term organic growth at least in line with market growth. In the short term, market growth is expected to be aligned with the 2019 level. Market growth is also expected to remain challenging for Orkla Care. For 2018-2021, Orkla targets EBIT (adj.) margin growth of minimum 1.5 percentage points adjusted for acquisitions, sales and currency effects.

There is great uncertainty attached to future raw material price development. Orkla is exposed to a broad range of raw material categories, and prices are, in total, expected to increase going forward.

The UK exited the European Union as of 31 January 2020. There will be a transitional period up until the end of the year, during which a permanent cooperation agreement will be negotiated. Orkla has production in the UK, in addition to trade between the UK and the EU as well as Norway, and consequently could be affected by the outcome.

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.

Oslo, 11 March 2020
The Board of Directors of Orkla ASA

Stein Erik Hagen
Chairman of the Board

Grace Reksten Skaugen
Deputy Chair of the Board

Ingrid Jonasson Blank

Lars Dahlgren

Liselott Kilaas

Nils K. Selte

Peter Agnefjäll

Terje Utstrand

Karin Hansson

Sverre Josvanger

Roger Vangen

Jaan Ivar Semlitsch
President and CEO

[This translation of the Board of Directors' report from Norwegian has been made for information purposes only.]