Ingvild - part of the Orkla family

Annual Financial Statements for Orkla ASA 2016

INCOME STATEMENT

Amounts in NOK million	Note	2016	2015
Operating revenues		35	32
Operating revenues Group	1	651	667
Total operating revenues		686	699
Payroll expenses	2	(487)	(517)
Other operating expenses	5	(597)	(681)
Depreciation/write-downs and amortisation	8, 9	(23)	(20)
Operating loss		(421)	(519)
Dividends and contributions from Group		5 723	5 045
Interest income Group		124	140
Financial costs Group	6	(789)	(312)
Net foreign exchange gains and losses	12	661	(620)
Gains, losses and write-downs in the share portfolio		182	116
Other financial income	7	64	46
Other financial costs	7	(228)	(166)
Profit before taxes		5 316	3 730
Taxes	11	(374)	(31)
Profit after tax		4 942	3 699

COMPREHENSIVE INCOME

	2016	2015
Profit after tax	4 942	3 699
Change in unrealised gains on shares after tax	(184)	(43)
Change in hedging reserve after tax	68	11
Change in actuarial gains and losses pensions	(10)	(15)
Comprehensive income	4 816	3 652
Proposed dividend (not provided for)	(2 646)	(2 545)

CASH FLOW

Amounts in NOK million	2016	2015
Profit/loss before tax	5 316	3 730
Depreciation and write-downs	23	20
Changes in net working capital etc.	2	29
Changes in outstanding Group contributions	(110)	(245)
Portfolio gains and dividends to investment activities	(228)	(132)
Correction against financial items, payable	956	(1 710)
Taxes paid	(8)	(147)
Cash flow from operating activities	5 951	1 545
Sale of property, plant and equipment	6	45
Replacement expenditures	(46)	(13)
Sale of companies	61	-
Investments in subsidiaries	(1 692)	(1 732)
Net purchase/sale shares, dividends and financial assets	444	315
Cash flow from investing activities	(1 227)	(1 385)
Dividends paid	(2 543)	(2 544)
Net sale/purchase of treasury shares	(77)	(31)
Net paid to shareholders	(2 620)	(2 575)
Change in other interest-bearing liabilities	(1 523)	(1 239)
Change in interest-bearing receivables	(296)	1 968
Change in net interest-bearing liabilities	(1 819)	729
Cash flow from financing activities	(4 439)	(1 846)
Change in cash and cash equivalents	285	(1 686)
Cash and cash equivalents 1 January	275	1 961
Cash and cash equivalents 31 December	560	275
Change in cash and cash equivalents	285	(1 686)

STATEMENT OF FINANCIAL POSITION

Assets

Amounts in NOK million	Note	2016	2015
Intangible assets	9	33	29
Deferred tax asset	11	252	282
Property, plant and equipment	8	223	212
Shares in subsidiaries	10	39 952	39 021
Loans to Group companies, interest-bearing		6 897	6 185
Other financial assets		250	421
Non-current assets		47 607	46 150
Receivables external		168	77
Receivables Group, non-interest-bearing		269	1 191
Receivables Group contribution		1 325	1 215
Financial investments	See Note 24 Group	107	473
Cash and cash equivalents		560	275
Current assets		2 429	3 231
Total assets		50 036	49 381

Equity and liabilities

Amounts in NOK million	Note	2016	2015
Paid-in equity		1 994	1 994
Retained earnings		30 497	28 301
Equity		32 491	30 295
Pension liabilities	2	517	491
Non-current interest-bearing liabilities		7 007	8 317
Non-current non-interest-bearing liabilities		397	478
Non-current liabilities and provisions		7 921	9 286
Liabilities to Group, interest-bearing		6 208	8 987
Liabilities to Group, non-interest-bearing		100	51
Tax payable		374	13
Other current liabilities		2 942	749
Current liabilities		9 624	9 800
Equity and liabilities		50 036	49 381

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK million	Share capital	Treasury shares	Premium fund	Total paid-in equity	Other equity[1]	Total Orkla ASA
Equity 1 January 2015	1 274	(2)	721	1 993	27 225	29 218
Comprehensive income Orkla ASA	-	-	-	-	3 652	3 652
Dividends 2014	-	-	-	-	(2 544)	(2 544)
Net sale of treasury shares	-	1	-	1	(32)	(31)
Equity 31 December 2015	1 274	(1)	721	1 994	28 301	30 295
Comprehensive income Orkla ASA	-	-	-	-	4 816	4 816
Dividends 2015	-	-	-	-	(2 543)	(2 543)
Net purchase of treasury shares	-	-	-	-	(77)	(77)
Equity 31 December 2016	1 274	(1)	721	1 994	30 497	32 491

[1]Other equity for Orkla ASA as at 31 December 2016 includes a fund for unrealised gains totalling NOK 53 million (NOK 236 million as at 31 December 2015) and other paid-in equity (options) totalling NOK 388 million (NOK 388 million as at 31 December 2015).

NOTE 1 ACCOUNTING PRINCIPLES

Besides all head office activities, the financial statements of the holding company Orkla ASA cover the remainder of the Group's share portfolio and some real estate activities. The latter are part of the business operations of Orkla Eiendom. The financial statements also cover the administration of the Orkla Foods, Orkla Confectionery & Snacks, Orkla Care, Orkla Food Ingredients and Orkla Investments business areas, and the Operations and Purchasing functions, in addition to the administration of the Purchasing Academy, Sales Academy and Brands Academy in Orkla ASA.

Activities at head office include the Group's executive management and the corporate and common functions Communications, Legal Affairs, Sales & Business Development, Marketing & Innovation, M&A, HR, Accounting/Finance, Risk Management and Internal Audit. In addition to exercising parent company functions, the departments largely carry out assignments for the Group's other companies and charge them for these services. Orkla ASA owns certain trademarks that are utilised by various Group companies. Royalty fees are invoiced for the use of these trademarks. The revenues from these activities are presented on the line for "Other operating revenues Group". The Group Treasury acts as an internal bank and is responsible for the Group's external financing, management of the Group's liquid assets and overall management of the Group's currency and interest risks. Interest from the Group's internal bank and dividends and contributions to the Group from investments in subsidiaries are presented as financial items and specified in the income statement.

The financial statements for Orkla ASA have been prepared and presented in accordance with simplified IFRS pursuant to section 3-9 of the Norwegian Accounting Act. Internal dividends and contributions to the Group have been accounted for according to good accounting practice as an exception to IFRS. Provisions have been made for dividends and contributions. The explanations of the accounting principles for the Group also apply to Orkla ASA, and the notes to the consolidated financial statements in some cases cover Orkla ASA. Ownership interests in subsidiaries are presented at cost.

The Board of Directors has deemed that Orkla ASA, after the proposed dividend of NOK 2.60 per share, had adequate equity and liquidity at the end of 2016.

NOTE 2 PAYROLL AND PENSIONS

Amounts in NOK million	2016	2015
Wages	(367)	(379)
National insurance contributions	(57)	(63)
Remuneration of the Board and other pay-related costs	(29)	(41)
Pension costs	(34)	(34)
Payroll expenses	(487)	(517)
Average number of employees	189	190

Breakdown of net pension costs

The assumptions on which the calculation of pension costs has been based are disclosed in Note 12 to the consolidated financial statements.

Amounts in NOK million	2016	2015
Current service cost (incl. national insurance contribution)	(19)	(18)
Costs contribution plans	(15)	(16)
Pensions classified as operating costs	(34)	(34)
Pensions classified as financial items	(19)	(9)
Net pension costs	(53)	(43)

Breakdown of net pension liabilities as at 31 December

Amounts in NOK million	2016	2015
Present value of pension obligations	(517)	(491)
Pension plan assets	-	-
Capitalised net pension liabilities	(517)	(491)

The remaining net pension liabilities at 31 December 2016 mainly consist of unfunded pension plans for former key personnel and unfunded early retirement plans, and liabilities related to plans for employees who earn more than twelve times the Norwegian National Insurance Scheme's basic amount (12G). For other employees, the company primarily has defined contribution pension plans.

The company has a pension plan that meets the requirements of the Compulsory Service Pensions Act.

NOTE 3 GUARANTEES AND ASSETS PLEDGED

Amounts in NOK million	2016	2015
Subscribed, uncalled limited partnership capital	5	8
Guarantees to subsidiaries	212	233

NOTE 4 LOANS TO EMPLOYEES

Other financial assets include loans to employees.

Amounts in NOK million	2016	2015
Loans to employees	1	4

NOTE 5 REMUNERATION AND CONTRACTUAL ARRANGEMENTS

Remuneration of the Group Executive Board

The Board of Directors decides the terms and conditions of the President and CEO and makes decisions on fundamental issues relating to the Group's compensation and benefits policy and compensation arrangements for other employees. The Board of Directors has a special Compensation Committee that prepares matters relating to compensation for decision by the Board. The Committee consists of three Board members, one of whom is elected by the employees, and was chaired by the Deputy Chair of the Board in 2016. The administration prepares matters for the Compensation Committee and the Board.

The Group Executive Board participated in the Group's annual bonus system and long-term incentive programme in 2016.

Salaries and remuneration to the Group Executive Board and accrued bonuses are presented on the next page. The table also shows accruals and the balance in the bonus bank as at 31 December 2016, based on the Orkla share price as at 31 December 2016 (NOK 78.20).

Note 5 cont.

Remuneration paid in 2016

Amounts in 1,000 NOK	Fixed salary 31 Dec. 2016	Paid salary and holiday pay (A)	Paid bonus (accrued in 2015)	Paid from bonus bank	Benefits in kind (B)	Total paid salary and allowance
Peter A. Ruzicka	5 923	6 199	3 629	-	242	10 070
Jens Bjørn Staff	2 870	2 980	986	-	263	4 229
Terje Andersen	2 899	3 524	1 474	1 043	221	6 262
Karl Otto Tveter	2 913	3 183	1 111	892	239	5 425
Atle Vidar Nagel-Johansen	3 570	3 884	1 818	1 419	272	7 393
Ann-Beth Freuchen	2 800	2 969	1 440	381	203	4 993
Pål Eikeland	2 800	3 067	1 390	1 298	235	5 990
Stig Ebert Nilssen	3 140	3 384	666	746	198	4 994
Johan Clarin (salary in SEK)	2 915	2 922	1 175	469	257	4 823

Accrued remuneration, not paid in 2016

Amounts in 1,000 NOK	Accrued bonus in 2016[1]	Accrued long-term incentive programme[2,4]	Accrued pension costs	Accrued total (C)	Balance bonus bank 31 Dec. 2016[2,4]
Peter A. Ruzicka[3]	2 961	2 961	2 127	8 049	7 166
Jens Bjørn Staff	881	881	730	2 492	1 929
Terje Andersen	1 197	1 197	907	3 301	3 944
Karl Otto Tveter	953	953	720	2 626	3 248
Atle Vidar Nagel-Johansen	1 250	1 250	978	3 478	3 963
Ann-Beth Freuchen	1 624	1 624	589	3 837	3 588
Pål Eikeland	862	862	682	2 406	5 054
Stig Ebert Nilssen	1 046	1 046	809	2 901	2 631
Johan Clarin (salary in SEK)	943	943	699	2 585	3 488

[1]Accrued annual bonuses for 2016 are paid in 2017.
[2]50% of long-term incentives accrued in 2016 are paid after 24 months and 50% after 36 months, provided that the employee has not given notice of resignation on the payment date. See also point (iii) on the next page and Note 11 in the consolidated financial statements.
[3]The accrued salary and remuneration of the President and CEO totalled NOK 14,490,000 (A+B+C) in 2016.
[4]The bonus bank balance does not include bonuses accrued in 2016.

The Group Executive Board participates in the Group's general employee share purchase programme. The programme was not implemented in 2016. No guarantees have been provided for members of the Group Executive Board.

The shareholdings of members of the Group Executive Board are presented on page 160. The retirement age of the President and CEO is 62, and the period of notice is six months, with a period of pay of 12 months after termination of employment. From the age of 62 until he reaches the age of 67, he will be paid 60% of his salary upon retirement.

The other members of the Group Executive Board have a period of notice of six months, and their retirement age is 65. From the age of 65 until they reach the age of 67, Orkla will pay them 66% of their salary upon retirement, after which their pension will be paid from Orkla's pension plan. Terje Andersen may retire at the age of 62 with the same benefits. Terje Andersen and Karl Otto Tveter have personal loans on which a regulated interest rate is charged. The balance as at 31 December 2016 was NOK 472,921 for Mr Andersen and NOK 69,974 for Mr Tveter. No other members of the Group Executive Board have personal loans.

Options awarded to the Group Executive Board as of 31 December 2016

	Number	Award date (dd/mm/yyyy)	Strike price	1st exercise/exercise date (dd/mm/yyyy)	Last exercise (dd/mm/yyyy)
Karl Otto Tveter	-50 000	10.05.2010	36.38	19.02.2016	Exercised at 70.65
	-50 000	09.05.2011	40.03	28.09.2016	Exercised at 82.22
Atle Vidar Nagel-Johansen	35 000	09.05.2011	40.03	09.05.2014	09.05.2017
	-35 000	09.05.2011	40.03	05.09.2016	Exercised at 77.88
Ann-Beth Freuchen	40 000	09.05.2011	40.03	09.05.2014	09.05.2017
Stig Ebert Nilssen	50 000	09.05.2011	40.03	09.05.2014	09.05.2017
	-50 000	10.05.2010	36.38	17.02.2016	Exercised at 71.44

Note 5 cont.

The Board of Directors' statement of guidelines for the remuneration of the executive management

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

(i) Pay and other remuneration of the executive management

Information regarding pay and other remuneration of the executive management for the previous financial year has been provided on page 143.

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

With regard to guidelines for pay and other remuneration of the executive management in the coming financial year, the Board of Directors will submit the following guidelines to the General Meeting in 2017 for an advisory vote:

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

a) Fixed elements

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

Orkla has a defined contribution pension plan in Norway. The contribution rates are 5% for salaries between 1G and 7.1G and 23.1% for salaries over 7.1G (as from 1 May 2015 1G is NOK 92,576). For members of the Group Executive Board as at 1 September 2014, the rate for salaries over 12G is 27%. Employees who have entered into an early retirement agreement entitling them to retire before the age of 67 receive a pension (unfunded) that is equivalent to 60 per cent of their annual pay. Other members of the Group Executive Board than the President and CEO have 66%, all subject to a minimum of 30 qualifying years. In addition to the above, the Group provides benefits such as a company car and company telephone and other limited benefits in kind.

(b) Variable elements – annual bonus

Orkla has an annual bonus programme. Under this programme, a "good performance", which is specifically defined for the various elements, can result in an annual bonus of 30% of an employee's annual base salary, while the maximum bonus is 100% of the employee's annual base salary. Approximately 175 senior executives and key personnel participate in this bonus programme. The bonus programme targets for 2017 will consist of organic growth, EBIT (adj.)-development, capital use and individual components. The primary goal is profit growth.

(iii) Special comments on share-based incentive programmes

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

(iv) Senior executive pay policy in previous financial years

The guidelines for the pay and remuneration of senior executives described in (ii), which were considered at the Annual General Meeting in 2015, also served as guidelines for the determination of senior executive remuneration in 2016.

Discounted shares for employees

For several years the Group has had a programme offering employees an opportunity to buy a limited number of shares at a discount of 30% on the market price. Shares may be purchased for five different amounts: NOK 28,000, 20,000, 12,000, 4,000 and 1,000 (amounts after discount). In 2016 this programme was not implemented as planned. The costs related to the share purchase programme in 2015 amounted to approximately NOK 22 million. The Board of Directors recommends to the General Meeting that the employee share purchase programme is continued. Further, as a temporary arrangement applicable only in 2017, the possibility of purchasing shares for NOK 40,000 and NOK 50,000 (amounts after discount) will be offered, thereby taking into account the fact that the programme was not implemented in 2016. The same conditions as in 2015 otherwise apply.

Remuneration of the Board of Directors and Board members' shareholdings

As from 17 April 2016, the Board of Directors is remunerated at the following rates:

Board Chair	NOK 700 000	per year
Board Deputy Chair	NOK 545 000	per year
Board member	NOK 410 000	per year
Observer	NOK 156 000	per year
Deputy member	NOK 26 500	per meeting
Compensation Committee		
Committee Chair	NOK 134 000	per year
Member	NOK 100 000	per year
Audit Committee		
Committee Chair	NOK 168 000	per year
Member	NOK 112 000	per year

In addition, shareholder-elected Board members residing outside Norway receive an additional NOK 16,500 per meeting attended.

Note 5 cont.

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

Amounts in NOK	Director's fee incl. committee work	Number of shares[1]
Shareholder-elected Board members		
Stein Erik Hagen	792 666	249 142 000
Grace Reksten Skaugen	673 000	3 000
Ingrid Jonasson Blank	567 166	1 750
Lisbeth Valther	456 166	3 000
Nils K. Selte	573 333	18 000
Lars Dahlgren	456 166	2 000
Employee-elected Board members		
Terje Utstrand	See table below	5 240
Roger Vangen	See table below	7 014
Sverre Josvanger	See table below	18 053
Karin Hansson	See table below	487

[1]Total share ownership including related parties

Amounts in 1,000 NOK	Fixed salary	Director's fee	Benefits in kind	Pension costs
Employee-elected Board members				
Terje Utstrand	554 872	506 000	29 747	26 779
Roger Vangen	544 869	307 944	36 929	23 561
Sverre Josvanger	507 708	517 666	113 080	21 901
Karin Hansson (salary in SEK)	396 410	307 500	-	17 155

No loans have been granted to or guarantees provided for members of the Board of Directors.

Remuneration of the Nomination Committee

As from 17 April 2016, the Nomination Committee is remunerated according to the following rates:
Committee Chair NOK 60,000 per year, members NOK 44,000 per year and employee-elected representatives NOK 5,500 per meeting.

Fees to Group external auditor

Amounts in NOK million (excl. VAT)	2016	2015
Parent company		
Statutory audit	3.0	2.7
Other attest services	0.2	0.0
Tax consultancy services	1.8	2.5
Other non-audit services	6.3	2.8
Group		
Statutory audit	26	24
Other attest services	1	0
Tax consultancy services	5	4
Other non-audit services	7	5
Total fees to EY	39	33
Statutory audit fee to other auditors	2	2

NOTE 6 FINANCIAL COSTS GROUP

Amounts in NOK million	2016	2015
Write-down share investments in subsidiaries[1]	(763)	(258)
Gain on sale of Cederroth AS	19	-
Interest income Group	(45)	(54)
Total financial costs Group	(789)	(312)

[1]Shares in the subsidiaries Cederroth Intressenter AB and Industriinvestringer AS were written down due to the companies' pay-out of dividends (2015: Orkla Confectionery & Snacks Finland, Øraveien Industripark and Viking Askim).

NOTE 7 OTHER FINANCIAL INCOME AND FINANCIAL COSTS

Other financial income

Amounts in NOK million	2016	2015
Interest income	2	13
Dividends received	47	16
Other financial income	15	17
Total other financial income	64	46

Other financial costs

Amounts in NOK million	2016	2015
Interest costs	(226)	(233)
Change in fair value interest element	50	53
Other	(52)	14
Total other financial costs	(228)	(166)

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

Amounts in NOK million	Land, buildings and other property	Machinery, fixture and fittings etc.	Assets under con-struction	Total
Book value 1 January 2016	100	93	19	212
Investments	-	1	43	44
Disposals	(8)	-	-	(8)
Reclassifications[1]	5	(3)	(8)	(6)
Depreciation	(2)	(17)	-	(19)
Book value 31 December 2016	95	74	54	223
Initial cost 1 January 2016	118	199	19	336
Accumulated depreciation and write-downs 1 January 2016	(18)	(106)	-	(124)
Book value 1 January 2016	100	93	19	212
Initial cost 31 December 2016	115	197	54	366
Accumulated depreciation and write-downs 31 December 2016	(20)	(123)	-	(143)
Book value 31 December 2016	95	74	54	223

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

NOTE 9 INTANGIBLE ASSETS

Amounts in NOK million	Trademarks not amortisable	IT	Total
Book value 1 January 2016	26	3	29
Reclassifications property, plant and equipment[1]	-	6	6
Investments	-	2	2
Amortisation	-	(4)	(4)
Book value 31 December 2016	26	7	33
Initial cost 1 January 2016	26	56	82
Accumulated amortisation and write-downs 1 January 2016	-	(53)	(53)
Book value 1 January 2016	26	3	29
Initial cost 31 December 2016	26	64	90
Accumulated amortisation and write-downs 31 December 2016	-	(57)	(57)
Book value 31 December 2016	26	7	33

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

NOTE 10 SHARES IN SUBSIDIARIES, DIRECTLY OWNED

Beløp i mill. NOK	Group's share of capital	Book value 2016	Book value 2015
Orkla Foods Norge AS	100%	9 362	9 362
Industriinvesteringer AS	100%	9 012	9 290
Orkla Foods Sverige AB	100%	5 469	5 469
Orkla Conf. & Snacks Finland Ab	100%	3 652	3 652
Orkla Food Ingredients AS	100%	2 466	2 466
Orkla Energi AS	100%	1 765	1 765
Hamé s.r.o.	100%	1 357	-
SIA Orkla Conf. & Snacks Latvija[1]	100%	959	1 032
Orkla Conf. & Snacks Norge AS	100%	906	906
Orkla House Care AS	100%	865	515
Orkla Health AS	100%	631	590
Orkla Eiendom AS	100%	574	574
Lilleborg AS	100%	526	502
Swebiscuits AB	100%	512	512
Viking Askim AS	100%	400	400
Sarpsfoss Limited			
Ordinary shares	100%	253	253
Preference shares	99.9%	43	43
SIA Orkla Foods Latvija[2]	100%	246	173
Attisholz AB	100%	187	187
Orkla Foods Romania SA	100%	184	184
Orkla Foods Danmark A/S	100%	175	175
Orkla Asia Holding AS	100%	166	166
Orkla Insurance Company Ltd.	100%	65	65
UAB Orkla Foods Lietuva[3]	100%	57	57
Trælandsfos Holding AS	100%	36	36
Orkla IT AS	100%	34	34
Meraker Eiendom Holding AS	100%	15	15
Øraveien Industripark AS	100%	15	15
Orkla Investeringer AS	100%	10	-
Orkla Design AS	100%	5	-
Orkla Accounting Centre Estonia	100%	2	2
Cederroth Intressenter AB	100%	1	438
Orkla France S.A.S.	100%	1	-
Attisholz Infra AG[4]	0.4%	1	1
Cederroth AS	100%	-	104
Orkla Invest AB	100%	-	38
Total		39 952	39 021

[1]Formerly NP Foods Group Latvia and JCS Latfood
[2]Formerly SIA Spilva
[3]Formerly UAB Suslavicius-Felix
[4]The remaining shares are owned by Attisholz AB

The table above shows only directly owned subsidiaries. The Group consists of a total of around 235 companies. The most important indirectly-owned subsidiaries are shown in the Group Directory at the end of the Annual Report.

NOTE 11 TAXES

Taxes

Amounts in NOK million	2016	2015
Profit before taxes	5 316	3 730
Change in temporary differences	(75)	(67)
Of which change in temporary differences previous years	(2)	43
Correction for change in temporary differences taken to comprehensive income	83	6
Total change in temporary differences	6	(18)
Non-deductible expenses	79	116
Tax-free dividends, capital gains (losses) and write-downs share portfolio	(226)	(133)
Impairment of shares in subsidiaries	763	258
Dividends from subsidiaries	(4 398)	(3 830)
Options and long-term bonus agreements	0	(14)
Other permanent differences	(44)	(63)
Total permanent differences	(3 826)	(3 666)
Total taxable income	1 496	46
Calculated current tax expense	(374)	(12)
Withholding tax foreign dividends	0	(1)
Correction in provisions for previous years' taxes	4	11
Total current tax expense	(370)	(2)
Change in deferred tax liabilities	(4)	(29)
Total tax expense	(374)	(31)

Deferred tax liabilities

Amounts in NOK million	2016	2015
Financial derivatives	(3)	(80)
Unrealised gains (losses) on shares outside the tax exemption method in equity	0	0
Accumulated write-downs outside the tax exemption method	(11)	(11)
Hedging reserve in equity	(397)	(493)
Property, plant and equipment	12	(4)
Pension liabilities	(425)	(383)
Other current liabilities	(228)	(159)
Basis deferred tax	(1 052)	(1 130)
Deferred tax asset	(252)	(282)
Change in deferred tax	(30)	(41)
Change in deferred tax taken to comprehensive income	26	12
Change in deferred tax in the income statement	(4)	(29)

Reconciliation of total tax expense

Amounts in NOK million	2016	2015
25% of profit before taxes	(1 329)	(1 007)
Effect of change in tax rates	(6)	(13)
Tax-free dividends, capital gains (losses) and write-downs shares and share portfolio	57	36
Dividends from subsidiaries	1 100	1 034
Write-downs shares in subsidiaries	(191)	(70)
Options and long-term bonus agreements	0	4
Other permanent differences	11	17
Non-deductible expenses	(20)	(31)
Withholding tax	0	(1)
Correction previous years' taxes	4	0
Total tax expense for Orkla ASA	(374)	(31)

NOTE 12 FINANCIAL RISK

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

Shares and financial assets

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

The Group's internal bank

The Group Treasury of Orkla ASA manages the interest rate and currency risk for the Group. The Treasury Department acts as Group internal bank and executes all external funding and hedging transactions in interest rate and currency derivatives. The subsidiaries mitigate their currency risk by entering into internal currency hedging contracts with the internal bank, which in turn hedges this risk through external hedging positions. In addition, the internal bank holds debt in foreign currencies in order to hedge currency risk on internal loans, book equity and goodwill. In 2016, NOK 655 million was recognised in the income statement in connection with these hedges (NOK -622 million in 2015). The internal bank does not actively take on currency risk. Intercompany loans and deposits are at floating interest rates, and no intra-group interest rate hedging contracts are made. Further details of the management of interest rate and currency risk for Group-external items are disclosed in Note 30 to the consolidated financial statements.

Derivatives and hedge accounting

Currency forward contracts. The internal bank's internal and external currency forward contracts and cross currency swaps are recognised at fair value in the statement of financial position with changes in fair value recognised through profit and loss. Foreign currency effects related to internal and external loans are also accounted for through profit and loss.

Interest rate swaps. External funding for the Group is mainly originated through Orkla ASA. Loans issued at fixed interest rates are normally swapped to floating interest rates through interest rate swaps. These swaps are accounted for as fair value hedges with fair value changes recognised through profit and loss. As at 31 December 2016, the fair value of these interest rate swaps was NOK 249 million (NOK 414 million in 2015). During the year NOK 165 million was recognised as costs in the income statement related to changes in the fair value of the interest rate swaps, and NOK 165 million was recognised as income related to changes in the fair value of the hedged loans.

When Orkla hedges future interest payments, interest rate swaps, where Orkla receives floating interest rates and pays fixed interest rates, are used. These interest rate swaps are accounted for as cash flow hedges with changes in fair value recognised through comprehensive income. As of 31 December 2016, the fair value of these swaps amounted to NOK -397 million (NOK -478 million in 2015).

Equity hedging reserve. Change in equity hedging reserve:

Amounts in NOK million	2016	2015
Opening balance hedging reserve before tax	(492)	(521)
Reclassified to profit/loss – net financial items	112	93
Fair value change during the year	(16)	(64)
Closing balance hedging reserve before tax	(396)	(492)
Deferred tax hedging reserve	95	123
Closing balance hedging reserve after tax	(301)	(369)

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

2017:	NOK -113 million
After 2017:	NOK -283 million

NOTE 13 OTHER MATTERS

PAYE tax guarantee and guarantee for pension liabilities

Orkla ASA has a bank guarantee to cover Pay-As-You-Earn (PAYE) tax payable by employees and pension liabilities for employees who earn more than 12G on behalf of its Norwegian subsidiaries. The company has no other restricted assets.

Material leases

In 2013, Orkla ASA moved to new temporary premises in Nedre Skøyen vei 26, Oslo, along with the companies Orkla Health, Orkla Home & Personal Care, Orkla Confectionery & Snacks Norge, Pierre Robert Group, Hydro Power, Orkla IT, Orkla House Care and Orkla Eiendom. The building has been leased from Evry until 2018 pending the construction of new permanent premises at Drammensveien 149 and 151. Annual leasing costs total NOK 41 million. Orkla ASA subleases premises to the other companies.

Orkla ASA still leases premises at Karenslyst allé 6, Skøyen, in Oslo, from Investorprosjekt 93 AS until the year 2020. Annual leasing costs total NOK 21 million. At present, a provision of NOK 35 million has been made in the financial statements for 2016, as parts of the building are unoccupied.

As a result of the acquisition of Rieber & Søn ASA, Orkla ASA took over the lease of Rieber's head office in Nøstegaten 58, Bergen in 2013. The contract runs until 2019, and the lessor is AS Inventor Eiendommer. Annual leasing costs total NOK 19 million. The building is subleased, primarily to KnowIt, Kredinor and Bergen Municipality. A provision of NOK 12 million has been made in the financial statements for 2016, as parts of the building are unoccupied.

Matters disclosed in the Notes to the Consolidated Financial Statements

Share-based payment – Note 11

Events after the balance sheet date – Note 41

Shareholders in Orkla ASA

A list of the largest shareholders in Orkla ASA is presented in Note 32.

Statement from the Board of Directors of Orkla ASA

We confirm that the financial statements for the period 1 January up to and including 31 December 2016 have, to the best of our knowledge, been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the Group as a whole, and that the Board of Directors' report includes a fair review of the development and performance of the business and the position of the company and the Group as a whole, together with a description of the principal risks and uncertainties that they face.

Oslo, 8 February 2017
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
Lisbeth Valther	Nils K. Selte	Terje Utstrand	Sverre Josvanger
Karin Hansson	Roger Vangen	Peter A. Ruzicka President and CEO	

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

Independent auditor's report

TO THE GENERAL MEETING OF ORKLA ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Orkla ASA comprising the financial statements of the Parent Company and the Group.

The financial statements of the Parent Company comprise the statement of financial position as at 31 December 2016, the income statement, comprehensive income, cash flow and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements of the Group comprise the statement of financial position as at 31 December 2016, the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the Parent Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Revenue recognition – provisions for discounts and bonuses

Revenue is measured as sales reduced by discounts and bonuses earned by customers. Due to the multitude and variety of agreements and contractual terms, the determination of discounts and bonuses recognized on sales made during the year is considered complex and requires management judgement. Revenue recognition including provisions for discounts and bonuses is therefore a key audit matter.

Our audit procedures included identifying, understanding, evaluating and testing management procedures and controls for determining the reduction in revenues by discounts and bonuses. We performed detailed testing on a sample basis and analytical procedures to test that discounts and bonuses are recognized in the correct period, and accuracy and completeness of the provision and the underlying calculation. These procedures included testing of the basis for calculating discounts and bonuses against actual sales and agreed terms. Further, we have tested the accuracy of historical provisions for discounts and bonuses.

We refer to the Group's disclosures in notes 4 and 9 in respect of revenue recognition and provision for discounts and bonuses.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and President and CEO (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and in the statements on corporate governance and corporate social responsibility
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and in the statements on corporate governance and corporate social responsibility, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 24 February 2017
ERNST & YOUNG AS

Erik Mamelund
State Authorised Public Accountant (Norway)

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