

# Environment for innovation

# This is TINE

TINE aims to be a leading supplier of branded food and drink products, focusing primarily on dairy products.

TINE's vision: Together, we create authentic food experiences that people want.

The TINE Group's business concept generates value in close collaboration with nature, agriculture and the market. The TINE Group turns pure, natural ingredients into good, healthy food that consumers prefer, making it the country's leading supplier of food products. The TINE Group is owned by Norwegian dairy farmers and is organised as a cooperative society.

The TINE Group has Norwegian and foreign wholly and partly owned subsidiaries, such as Diplom-Is AS and Fjordland AS. The majority of TINE's international business is in the US, Sweden and the UK.

# Environment for innovation and growth

2018 was a demanding year, not least for our shareholders due to the drought. It was a special year for me, as it was my last year as CEO of TINE. Growth through innovation and efficient value chains will be crucial when it comes to increasing competitiveness in the future, but our work is also all about producing healthy food in a sustainable way.

The drought last summer and the battle to make sure the animals got enough food affected us all. TINE implemented a range of measures. Meetings were held in the vulnerable areas in order to discuss the situation and a number of advisory visits were made to farms. TINE cooperated closely and effectively with the other agricultural organisations in order to monitor the situation and assess our response.

**But we broke a chilly record because of the summer weather!** Every cloud has a silver lining, as they say. We saw record sales of ice cream as a result of the hot summer weather. This means that Diplom-Is enjoyed particularly good financial results, which also impacts TINE's overall results for 2018. This kind of increase in the production and sale of ice cream would not be possible without an efficient production and logistics operations. The entire organisation made a huge effort to continue delivering throughout the hot summer.

**Losing volume, facing a challenge** Besides good ice cream sales, we have also seen a reasonable increase in sales of iced coffee, iced tea and flavoured milk. Nevertheless, the fact is that we are facing major volume challenges when it comes to our core products. The milk segment is under pressure and the value growth is weak. We are losing volume on consumer milk, cream, yoghurt and cheese because of changing consumer needs and increased competition. This challenges us on several fronts. This means loss of revenue, but it also challenges our capacity and costs in terms of both production and logistics.

Our Norwegian competitors now have better conditions. Imports are on the increase. The cheese quota for duty-free import has increased, and many products have weak toll barriers. We have to anticipate even stronger competition going forward, and so we have to improve our competitiveness.

**Innovation together with customers to create growth.** One of the most important aspects for TINE at present is growth. Innovation and growth together with our customers and increased pace of implementation are both important factors when it comes to creating growth. Our work on developing efficient value chains is also becoming more important than ever.

Following the recent changes to senior management, our organisation is clearly business-oriented and our innovation work is more market-focused. I have great expectations that this will pay off, but we have to change constantly and adapt our corporate culture to be able to handle the challenges of the future. To my mind, culture is all about the way in which we do things. TINE's circumstances and challenges have changed extensively over the last 20 years, and we have to change accordingly to continue our success.

**New technology provides a better foundation for improvement.** Digital transformation is in full swing and should provide a better foundation for improvements within quality, flexibility and productivity. We have to make use of the opportunities provided by technology throughout the entire value chain. Mimiro is the name of the new company that aims to use agricultural data in order to increase the productivity and profitability of farmers. This company was founded in 2018 and is

owned jointly by TINE and Felleskjøpet. Its objective is to develop the world's best management system for farmers and to turn Norway into a test laboratory for the milk producers of the world.

**TINE must take responsibility for public health and the environment.** TINE's business impacts various areas of society, and we must take responsibility for the areas we affect. Life-style diseases are a major problem. As a major food producer, TINE has a responsibility to help improve public health in Norway. TINE must help to ensure that Norwegians of all ages have a healthy, varied and balanced diet.

After very good environmental results in 2016, 2017 was something of an intermediate year with just minor changes in greenhouse gas emissions. 2018 was a good year for our environmental efforts, in which we saw significant reductions in greenhouse gas emissions. TINE's objective is to only use renewable energy and fuel for production and transport by 2025. We are well on our way to achieving that aim, and our major focus on #Kukraft (#CowPower) and other initiatives is essential. TINE appeared at the top of national reputation surveys again in 2018, and we were named Supplier of the Year by COOP. People trust us, and our customers are happy with us. This trust is something that we have to earn every day. As we now move all the more quickly and more energetically in terms of our innovation work, it is important that we take with us the best from TINE's long history.

**A special year for me, my last year as CEO.** This has been a special year for me, as it was my last year as CEO. It is only natural at this point for me to look back on my 14 years in the job. Let me begin with what has been the most important thing for me: To give our owners the highest possible milk price through good financial results. Even if the company's profits have increased sixfold over the last few years, I have nonetheless always been strongly concerned with combining corporate responsibility, profitable operations and a good working environment in a positive way. Corporate responsibility is all about producing healthy food in a sustainable way.

Implementing changes in framework conditions and competition orientation for TINE have been both exciting and challenging, but we are on our way to where we want to be. TINE's competitiveness must be improved further, and I have a great belief that my successor, Gunnar Hovland, will lead TINE onwards with great success.

Thank you for all of the valuable years and great cooperation over my years as CEO, and I wish Gunnar Hovland the very best of luck!

– Hanne Refsholt

# Report of the Board of Directors

## KEY HIGHLIGHTS FOR 2018

- Operating profit for 2018 was NOK 1537 million, on par with 2017
- Falls in sales volumes for the major categories, but successful new launches have had a positive effect
- New sales records for Diplom-Is and increased sales for Jarlsberg® internationally
- Improvements throughout the value chain have resulted in cost reductions
- Construction projects in Ireland and Bergen are on schedule
- Losses in the value chain have been reduced considerably
- The drought last summer was a great challenge, but the owners have delivered increased milk volumes

**A new CEO at TINE.** Hanne Refsholt announced her retirement as CEO after 14 years with considerable improvements in profits. The Board has appointed Gunnar Hovland as new CEO with effect from 1 January 2019. Hovland comes to TINE from the position as CEO at BN Bank ASA and has broad commercial leadership experience from companies such as Fjordkraft AS, Trondheim Energi AS and TINE.

## TINE'S TARGETS AND STRATEGY

TINE is a cooperative organisation whose overall objective is to create as much value as possible from its owners' milk production operations, both now and in the future.

The Board has acknowledged that the intensity of competition is increasing significantly from both national and international companies, while trends in milk consumption are decreasing. For this reason, the Board wants to continue its work of continuous adaptation and streamlining throughout our value chain, while also increasing our commercial focus on growth and profitability in order to sell the highest possible volumes at the best possible milk prices in the long term.

**Strategy TINE 2020 – A faster and stronger TINE.** We have defined four levels of ambition for the TINE Group:

- We must be the first choice for our customers and consumers
- We must continuously improve our value chain We must build a results-oriented culture
- We must be Norway's most sustainable food producer

**First year of operations with the new strategy.** 2018 was the first year with our new strategy: "A faster and stronger TINE". The strategy requires major changes to the organisation. In 2018, we included clear sustainability goals in our business plan – goals that also impact on TINE's growth initiative. This affects the choices we make in our value chain. We learn from changes, and this empowers us to initiate yet further improvements.

## RESULTS FOR 2018

Operating revenues for the TINE Group amounted to NOK 23.0 billion, representing an increase of NOK 0.5 billion. This is equivalent to a 2.1 per cent increase on 2017 (2.3 per cent with adjustment for changes in currency exchange rates).

In 2018 there was growth in value terms for the Norwegian dairy segment, but there was also a negative growth in volume terms compared to 2017. The ice cream segment showed good sales trends, and international sales of Jøllberg® were good in 2018.

The operating profit was also affected by increased energy and fuel costs, the impairment of fixed assets, high milk input, reduced export subsidies and a weaker Norwegian krone. This was partly compensated for by lower pension costs and lower waste costs. The operating profit for the TINE Group amounted to NOK 1,537 million, equivalent to 2017.

TINE is constantly working to adapt and improve its operations and organisation. Improvement effects equivalent to NOK 195 million were realised in the domestic dairy operations business area throughout 2018. These effects were primarily related to purchasing, internal improvements of operations and processes and development of the organisation.

The 2018 accounts were also charged with NOK 23 million net in other non-recurring items. This consisted mainly of impairment of fixed assets and reorganisation costs in connection with structural changes amounting to a total of NOK 60 million, while gains from sales of other fixed assets amounted to NOK 30 million. The 2017 accounts were also charged with NOK 17 million net in other non-recurring items.

TINE's business consists of the domestic Meieri Norge, International dairy operations and Other business.

TINE's business is represented all over Norway, and the company's head office is located in Oslo. Back in 2016, TINE's Board decided to move the company's head office to TINE Meieriet Oslo (Kalbakken), in order to gather all of the head

office functions under one roof. Reconstruction work is taking place at Kalbakken so that the entire head office can move from its current location at Lakkegata 23 in central Oslo to Kalbakken in 2020.

The majority of the company's international activities take place in the US, Sweden and the UK. In 2018, TINE began building a new dairy in Ireland, which is scheduled to begin operations in 2020.

# The first choice of consumers and customers alike

In order to be **the first choice of consumers and customers**, TINE must develop brands that customers can enjoy, with dairy products at their core. The TINE Group must continue its long-term work on building brands that customers and consumers prefer. We will develop products and solutions through innovation and business development that meet the needs of our customers and consumers.

## DOMESTIC DAIRY OPERATIONS (MEIERI NORGE)

Domestic dairy operations include TINE SA and OsteCompagniet AS. Sales revenues for domestic dairy operations for 2018 amounted to NOK 18.0 billion, representing an increase of 1.5 per cent on 2017. The operating profit for TINE's domestic dairy operations was NOK 1,324 million, a reduction of NOK 93 million from 2017.

Overall, we can see a growth of 4.7<sup>1</sup> per cent for 2018 in value terms within the categories in which TINE operates, while our own volume growth is somewhat in decline. TINE had a value growth of 3.0<sup>1</sup> per cent and a negative volume development of 2.1<sup>1</sup> per cent. TINE is losing segment shares within several of the major dairy categories, especially within fresh milk, yoghurt and cream/sour cream, for which category volumes as a whole are also receding. The main cause of this decline is changes to consumer needs and increased competition. It is, however, pleasing to note growth in value shares within soured milk, butter and desserts. In addition, TINE has successfully promoted growth through its YT<sup>®</sup>, Sunniva<sup>®</sup> isTe and TINE IsKaffe brands.

**Innovation that hits the mark – holistic customer experiences.** TINE Meieriet Byrkjelo, Frya and Tretten received awards at the International Food Contest in Herning for Ekte Geitost goats' cheese, Nyt licorice yoghurt and Rice lunch with passionfruit, respectively. Five gold medals, 26 silver and 18 bronze medals were awarded to TINE's dairies. This confirms that TINE's products are able to outperform the competition posed by dairy products from neighbouring countries. There was a Norwegian victor at the Cheese World Championship in Bergen: Fana cheese from Ostegården. TINE was awarded six medals: one silver and five bronze. TINE was one of the main sponsors of this successful event, which has increased the interest in quality Norwegian cheeses.

In 2018, we launched 65 products on the Norwegian market, among which YT<sup>®</sup> Protein was the most successful. YT<sup>®</sup> has helped us to reclaim the top spot within fitness food and drink products, with YT<sup>®</sup> delivering an impressive value growth of 102<sup>1</sup> per cent in 2018.

Creating good and comprehensive customer experiences around our products is important. In a situation in which TINE is losing shares for sour cream and cream, we have established TINE Kjøkken, which helps to strengthen TINE's position at the dinner table, both through our products and our digital recipe platform. Since its launch in May, we have seen a 16 per cent increase in new users of tinekjokken.no. We are investing further in exploiting technological opportunities and we were the first company to offer a voice-activated recipe service in Norway.

We have increased our investment in direct relationships with the consumer. In April, we launched Tid<sup>®</sup>, services for housebound senior citizens in the form of ready-to-eat dinner services, social and practical activities and sales of snacks. We have also developed the Heimatt<sup>®</sup> café concept, a café experience aimed at young people between the ages of 18–25, which was launched in 2017, as well as an online shopping solution for our YT products.

**1.7 million people have participated in the TINE Relay.** TINE has a presence in various arenas – from Norwegian kitchen tables and our efforts aimed at children and young people through to the TINE Football Academy and the TINE Relay, among other things. In 2018 the TINE Relay celebrated its 25<sup>th</sup> anniversary, with more than 1.7 million pupils having participated over the 25 years that the relay has been held. We have also continued to invest in communications through our own channels and social media, and we have received acknowledgement in the form of the Gold Chain Award (Gull Lenken) for the best brand in social media.

**Value growth for fresh milk, but per capita consumption continues to fall.** The milk-based drink segment increased in value, both for fresh milk, soured and flavoured milks. Good volume growth in soured and flavoured milks was not enough to stop an overall volume decrease in fresh milk. In 2018, per capita consumption of milk-based drinks decreased by 1.6<sup>2</sup> per cent, and TINE has lost shares within fresh milk. TINE is driving value growth in soured milk and could boast two-figure growth of 15<sup>1</sup> per cent within flavoured milk. Both the newly launched flavoured Tinemelk<sup>®</sup> and Litago<sup>®</sup> brands yielded good results in the flavoured segment, while Biola<sup>®</sup> is leading developments within the soured segment and has grown in all grocery chains. Styrk<sup>®</sup> has increased by 33.5<sup>1</sup> per cent in value terms and has grown in all three sub-segments: fresh milk, flavoured milk and soured milk.

**Sunniva<sup>®</sup> is Norway's preferred juice brand.** Consumers have many alternatives to milk-based drinks and juices are one of them. In 2018, we once more saw value growth in the juice category. Sunniva<sup>®</sup> has performed well, especially in volume terms, but also in value terms and is the most popular juice brand in Norway. Developments within the segment for refreshing small drinks has also been good, both within Sunniva<sup>®</sup> isTe and TINE IsKaffe.

We are seeing a steadily increasing demand for plant-based food and drinks, and the plant-based Gyr<sup>®</sup> range therefore represents an important area of investment for Sunniva<sup>®</sup> and the TINE Group. The first two Gyr<sup>®</sup> products were launched in September 2018 and our cooking ingredient, Gyr<sup>®</sup> Til Matlagning (plant-based alternative to cream) in particular has been very well-received by consumers.

**Value growth for both Norvegia<sup>®</sup> and Jarlsberg<sup>®</sup>.** The cheese segment is in growth; hard white cheeses have grown by 3.3<sup>1</sup> per cent in value. We have seen great success with brand-building activities for Norvegia<sup>®</sup> and Jarlsberg<sup>®</sup> and have taken the brands into new areas of use with the launch of cheese sticks. In total, TINE saw a growth in store sales of NOK 93<sup>1</sup> million within cheese in 2018, but lost shares in both volume and value terms, principally due to a recession in the brown cheese segment. TINE developed its new Norsk Alpeost cheese in collaboration with Meny and it has been well-received by consumers. We have also launched several unique products for the chains.

**Snacks have grown, driven by eating on the go.** In the snacks segment, yoghurt was the major driver of growth in value, with NOK 113<sup>1</sup> million. We have also noted a percentage-wise large growth in other snack products, such as porridges, kvarg and puddings. Growth in products that are eaten at home has stagnated, while consumption of products that are adapted to be eaten "on-the-go" has grown. The Go'morgen<sup>®</sup> yoghurt pot brand has grown by 2.1<sup>1</sup> per cent in value terms, and in 2018 we launched Go'morgen<sup>®</sup> Shakes in drinking bottles. TINE Rislunsj<sup>™</sup> has delivered well in the porridge trend and has grown by as much as 23.1<sup>1</sup> per cent in volume terms and 28.2<sup>1</sup> per cent in value terms.

**Groceries in a process of change.** Increased customer-orientation and shared value creation are important, both within grocery stores and within the convenience store, petrol station and service trade segment – known as the KBS segment in Norway. Not least, it is important in terms of product development and launches of new concepts and categories. Our ambition is for more presence and a close dialogue with our customers. TINE was awarded Supplier of the Year for 2018 in all of COOP's chains. It has been a team initiative involving many people across all of TINE that has led to us winning this award. The chains' own private labels have experienced stable value development in TINE's categories. Private labels perform best in the juice and cheese categories, but more marginally in other TINE categories.

NorgesGruppen has already taken over the work related to in-store exposure, and at REMA 1000 exposure assistance was withdrawn at the New Year. At the end of November, COOP reported that the industry's product promoters will be released from their duties as of 1 June 2019. TINE's salesforce will, unfortunately, have to be reduced as a result of the change, but at the same time the role of the salesforce within consultancy and sales development will become even more important.

TINE grew within flavoured milk drinks and refreshing drinks in the KBS segment, thanks to strong brands such as TINE IsKaffe, Litago®, Sunniva® isTe and Isklar®. The hot summer was one important reason for the growth. Food is becoming an ever more important part of sales in convenience stores and petrol stations. TINE collaborates well with its customers in this KBS segment, with a focus on the promotion of common growth.

**TINE Partner in new chains and sales channels.** TINE Partner, which is the sales channel for the catering market, has an ambition to create strong customer relationships through value-adding collaboration. It was therefore pleasing to get recognition from our customers for good collaboration, and to be awarded the titles of Supplier of the Year by the Student Welfare Organisation (Studentsamskipnaden) and Food Supplier of the Year by Thon Hotels.

In a market characterised by increasing competition, it was satisfying to be able to sign a contract for delivery of dairy products to the Gress Group. From October 2018, a wide range of TINE's products could once again be found in hotels, restaurants and canteens at, among other places, Scandic Hotels, Compass Group Norge and the Radisson Hotel Group. Malnutrition among the elderly is an increasing problem in society, and a huge challenge faced by the health and social care sector. TINE wants to play its part in ensuring that the elderly get good nutrition and to contribute towards improving the quality and enjoyment of food. E+® is a range of food and drink products that is adapted to meet the needs of those who have only small appetites. Up until now, the products have been available in hospitals and nursing homes. In the autumn of 2018 TINE Partner signed an agreement with the pharmacy chain Apotek 1 regarding the placement of E+® in display fridges at almost 300 pharmacy outlets. In addition, a collaboration has been initiated with Boots Homecare for the delivery of E+® to housebound individuals, currently in Eastern Norway. This is active in Eastern Norway at present. Through its "Mat for Livet" programme, TINE Partner is working closely with health institutions in order to generate increased expertise surrounding food, nutrition and food in care.

**TINE Partner Industri shows positive sales trends.** TINE Partner Industri used 2018 to build a new organisation and implement a new strategy, aimed at meeting future competition, our customers' expectations and market trends. In 2018, TINE Partner Industri had very positive development of its sales of dairy products to the food industry. Norwegian consumers seem to prefer ready-to-eat Norwegian foods, such as soups, sauces and salads, to an increasing extent. Our customers who provide the grocery chains with these sorts of products are enjoying the benefits of this trend. We also see signs of an increasing degree of fish processing in Norway. This is a pleasing development for the food industry and hence TINE

**TINE paves the way for good food and drink provision in schools.** With Skolelyst.no, TINE can offer a wide range of food and drinks throughout the school day. Parents and guardians can order everyday products for their children, and they can order different products throughout the day and week. Pupils can also choose yoghurt, oatmeal porridge, smoothies, fruit drinks and pieces of fresh fruit, in addition to milk. There are currently around 200,000 pupils enjoying this offer.

With Skolelyst.no, TINE is able to develop its corporate responsibility within many areas:

- Nutrition: TINE offers healthy products that adhere to the nutrition strategy for 2018 and the Norwegian Directorate of Health's guidelines.
- Social equality: TINE provides 2,000 free subscriptions to pupils who cannot afford to participate in the school milk scheme
- The Skolelyst fund: All schools can apply for funding for activities that contribute to making school more enjoyable from a dedicated fund, the Skolelystfondet.

In addition, a new milk carton design was launched in the autumn of 2018 that focused on learning, as part of a collaboration with the Norwegian Centre for Mathematics Education and the National Centre for Food, Health and Physical Activity.

## INTERNATIONAL DAIRY OPERATIONS

In 2018, TINE's international dairy operations had sales revenues of NOK 2.9 billion – a growth of 2.2 per cent from 2017 (3.8 per cent growth adjusted for the change in exchange rates).

Operating profit in 2018 amounted to NOK 49 million, an increase of NOK 15 million from 2017. The main reason for the increase in operating profit was improved earnings in the United States and Sweden.

In 2018, international dairy operations accounted for 13 per cent (on par with 2017) of the Group's sales revenues based on the sale of branded products from TINE and other cheese producers. TINE has subsidiaries in Sweden, Denmark, the UK, the United States and Ireland. Wernersson Ost AB distributes and sells products in Sweden, Denmark and Finland. Norseland Ltd. is our British subsidiary, and Norseland Inc. operates in the United States and Canada. TINE's special cheese products are sold via selected distributors in other markets.

Jarlsberg® is currently TINE's biggest brand on an international level and is sold in 16 countries, including Norway. Jarlsberg® is produced at our Norwegian plants and our own Alpine Cheese Co. plant in Ohio in the US, and contract production takes place at Dairygold Ltd. in Ireland. Total international sales of Jarlsberg® increased by 9.6 per cent compared with 2017.

Despite facing strong competition, TINE's United States subsidiary, Norseland Inc., has managed to maintain and consolidate its position as a leading supplier in the Speciality Cheese category. Sales of Jarlsberg® have been strengthened in the US as a consequence of a number of marketing activities and targeted marketing initiatives aimed at the American consumer. In addition to selling TINE's brands, Norseland Inc. also sells brands on behalf of other manufacturers (partners).

The Board of TINE has decided to make further share acquisitions in Lotito Foods Holding LLC. As a consequence of this, its ownership share increased to 66.67 per cent (formerly 33.33 per cent) on 2 January 2019. TINE has also undertaken to purchase shares to increase the percentage to 90 per cent by 2023. TINE has an option for the remaining 10 per cent that can be exercised in 2024. The acquisition takes place through Norseland Inc. Norseland Inc. has now completed its second year as a part-owner of Lotito Foods Holding LLC in New Jersey. Norseland Inc. has been working in partnership with Lotito Foods Holding LLC on the packing and slicing of Jarlsberg® since the year 2007. Norseland Inc.'s investment in Lotito Foods has strengthened its access to the catering market. The collaboration has also strengthened innovation for Jarlsberg®. It has given us entry into new product areas in adjacent categories in retail.

Norseland Ltd. in the UK returned a profit for 2018 that was slightly lower than in 2017. This was mainly driven by higher raw material costs. Norseland Ltd.'s brands such as Ilchester, Applewood® and Mexicana® retain their position on the British market. Jarlsberg® strengthened its market position in spite of strong competition. Export from Norseland Ltd. has remained stable throughout the year.

Wernersson Ost AB in Sweden enjoyed solid growth in sales revenues in 2018 and a pleasing improvement of its operating profit. Wernersson has experienced pressure on its margins due to the weakness of the Swedish krona against the euro, even though price increases have partly compensated for this. In 2018, Sweden was the largest international market for brown cheese.

## OTHER BUSINESS

TINE's other business activities include the production and sale of food products such as ice cream and frozen desserts, margarines, porridges and fresh ready meals. These activities are mainly developed at our wholly and partly owned subsidiaries, Diplom-Is AS and Fjordland AS.

Sales revenues for Other Business amounted to NOK 3.0 billion, representing an increase of NOK 236 million compared with 2017. The operating income for other business activities was NOK 165 million, an increase of NOK 78 million on 2017. The huge demand for ice cream at Diplom-Is is the explanation for the increase in profits in this area, in addition to improved earnings at Fjordland.

**Hot summer and hard work gave a strong boost to ice cream sales.** Diplom-Is AS enjoyed record sales in the summer of 2018 due to the very positive reception of new launches and promotions, as well as a fantastic demand for ice cream throughout the summer. The company has never achieved equivalent sales figures for the whole summer before. Diplom-Is AS saw an increase of well above 20 per cent throughout May, June and July. A well-functioning organisation, not least the production and logistics systems, ensured production and delivery of ice cream throughout the summer. The hot summer, combined with the efficient operations of Diplom-Is AS and at its subsidiaries Isdalen AS, Kulinaris AS and Laguna Produkter AS gave a far stronger result than in 2017. In addition, Diplom-Is AS has continued its high rate of innovation with a range of new launches on the market.

**Sales growth at Fjordland AS.** TINE owns 51 per cent of Fjordland AS, a brand company that drives development, marketing and sales in the categories of fresh convenience food, margarines, yoghurt and desserts in the Norwegian market. In 2018, Fjordland AS had several product launches and exerted significant market and activity pressure. This resulted in good growth in sales revenues, especially within ready meals and ready-to-eat snacks. Fjordland AS merged the subsidiaries Matvarehuset AS, Matlyst AS and Transporty AS in 2018, with Matvarehuset AS as the acquiring company. Matvarehuset increased its sales revenues within sales of meal solutions for local authority and private institutions. Its subsidiary Safari Næringsmidler AS also enjoyed good sales trends within the catering and corporate market.

1 Source: Nielsen ScanTrack, Norge Total DVH, Ref.no.01088874, Date:15 Jan. 2019 Tine Category base (various categories). Not in regard to Nielsen's standard product group hierarchy, Value Sales '000, +/- Value Sales '000 YA, Value % Chg YA, Volume Sales '000, +/- Volume Sales '000 YA, Volume % Chg YA, 2017, YTD TY, last 4 weeks and YTD YA, week 52, 2018. (Copyright © Nielsen.)

2 Source: melk.no Milk total with import.

## Efficient value chains

Our ambition for **efficient value chains** must be achieved through continuous improvement and the adaptation of capacity throughout the value chain. The digital turn and new technology will help us in our improvement work. Projects are in progress both within production and logistics to employ new technology.

TINE established the company Mimiro AS in partnership with Felleskjøpet AS in July 2018. The new company, which began operations on 1 January 2019, will use agricultural data to increase the productivity and profitability of farmers. Its objective is to develop the world's best management system for farmers and to turn Norway into a test laboratory for the milk producers of the world.

### LOGISTICS AND DISTRIBUTION

TINE Logistikk encompasses tanker transport, distribution, intermediate transport and warehousing. Following the most recent organisational changes, all transport is gathered under TINE Logistikk. The planning and adaptation of logistics and transport services are crucial to TINE's success. TINE had a 98.4 per cent delivery level for all products to customers in 2018. This puts TINE among the global leaders. At the same time, the disposal of finished products due to expiration has been reduced by 23 per cent compared with 2017. Consumers get a better expiry date, which leads to reduced disposal of food. This is positive for both the environment and the economy.

**No one as convenient and as local as TINE.** TINE distributes milk and other fresh products directly from the dairy to shops, schools, nurseries and other customers. TINE will continue to do this because it ensures that consumers get the freshest products with the best quality. TINE has dairies throughout Norway. The milk with the lowest food miles comes from TINE.

**Developing sales of distribution services.** In 2018, several improvement projects took place at TINE Logistikk and new projects have been initiated with the goal of efficiency gains of 5 per cent each year. These efficiency measures come from two types of initiative: Local initiatives in which employees and managers work on continuous improvement and large central projects, based on digitisation. TINE offers nationwide distribution services to other stakeholders with a special focus on fresh food. From 2018, electronic tracking and improved digital booking tools will be offered.

**Challenging biofuel access.** TINE's transport activities represent around 71 per cent of TINE's greenhouse gas emissions. The government's escalation of mandatory biofuel sales and its reclassification of the raw material PFAD<sup>3</sup> as a byproduct have led to reduced access to HVO biodiesel<sup>4</sup> and strong increases in the price of the product. For this reason, TINE was forced to reduce its use of biodiesel, resulting in an increase of greenhouse gas emissions. At present, approximately 10 per cent of fuel consumption is diesel fuel with the share of mixed-in HVO equating to 20 per cent or more.

We are finding that there is still a long way to go before good environmental solutions for transport of heavy goods will be available. Over the next few years, biodiesel in particular will be available to a certain extent. We expect that there will be increased access to biogas. Read more about #Kukraft (CowPower) on page 14.

TINE continues its transition to new vehicles with Euro VI engines<sup>5</sup> and NOx emissions were reduced by 27 per cent in 2018.

## INDUSTRY AND STRUCTURE

Fresh milk saw further reductions in sales in 2018. For this reason, TINE is working in a structured manner on continuous improvement in all areas in order to make production as cost-efficient as possible.

In 2018, TINE continued its work on the implementation of a future production structure for brown cheese and cream cheese. Brown cheese production has been moved from TINE Meieriet Elnesvågen and TINE Meieriet Ørsta to TINE Meieriet Byrkjelo and TINE Meieriet Lom & Skjåk. At TINE Meieriet Ørsta preparations are being made in buildings and equipment for the take-over of cream cheese from TINE Meieriet Hardanger in the spring of 2019. This provides the basis for more efficient production of cream cheese and brown cheese. At the same time, this will mean changes for some employees.

In June 2018, TINE's Board decided to extend TINE Meieriet Storsteinnes with a new cheese processing plant and warehouse – an investment of NOK 180 million. This will also increase capacity from 28 million litres to 40 million litres of cow milk, and ensure reception of goats milk. The building project started in December. Production at the new cheese processing plant is planned to start in August 2020.

The new dairy in Bergen is under construction and work is progressing according to plan. The dairy will be the most climate friendly of its kind in Norway, and will begin operating from the summer of 2019. A dedicated organisational development project has commenced to ensure the right staffing and correct expertise.

In December 2017, TINE's Board decided to invest 77 million euros in the construction of production capacity for Jarlsberg<sup>®</sup> in Ireland. The goal has been to develop Jarlsberg<sup>®</sup> further as an international brand after the subsidies for the export of Norwegian cheese will be phased out in 2020. The facility is being built beside Dairygold's existing facility in Mogeely in Ireland. Although this will be TINE's dairy, it is still a project based on collaboration with Dairygold, Ireland's largest dairy company, based on cooperative principles. TINE will buy milk from Dairygold, and Dairygold will buy cream and whey from TINE. There will also be collaborations on water, electricity, natural gas and a treatment plant. According to the plan, the first deliveries of milk will arrive at the plant October 2019 and it will be ready to take over the entire export production from Norway when this is phased out in 2020.

**A good year for the environment in TINE Production.** TINE's dairy business is responsible for 26 per cent of TINE's total greenhouse gas emissions. After very good environmental results in 2016, 2017 was something of an intermediate year with just minor changes in greenhouse gas emissions. 2018 was once again a good environmental year in which we saw reductions in greenhouse gas emissions of nearly 8,000 tonnes.

Our dairy operations have continued their work on optimising production, with a particular focus on reducing waste and energy consumption. A detailed plan has been devised for increasing the proportion of renewable energy in production, and the goal is for TINE to only use renewable energy sources by 2025, both in production and transport.

TINE Meieriet Ålesund has installed heat pumps with groundbreaking new technology. This change replaces natural gas with district heating and reduce its CO<sub>2</sub> emissions by no less than 66 per cent. The increased use of heat pumps at TINE Meieriet Jæren have also helped to reduce greenhouse gas emissions.

3 PFAD (Palm Fatty Acid Distillate).

4 HVO stands for hydrogenated vegetable oil, which replaces traditional diesel fuel. This biodiesel is based on vegetable oils or animal fats.

5 EURO-VI: An engine type that filters out particles and NOx.

## The most sustainable food producer

TINE shall become **the most sustainable food producer** in Norway. Business at TINE is all about producing healthy food in a sustainable way. TINE is very clear that its sustainability strategy must be naturally integrated into our operations, whether this be through healthier products or measures for reducing greenhouse gas emissions throughout the entire value chain. Our goal is financial value creation which allows us to contribute positively to our environmental and social surroundings. This is what we here at TINE call sustainable value creation. TINE's entire business is based around processing milk to create various dairy products, and major climate change will have a severe impact on food production. This means we have a strong vested interest in helping to bring about sustainable use of the Earth's resources and limit climate change. Since 2010, TINE has been reporting its corporate social responsibility and environmental work in accordance with the international standards set out by the Global Reporting Initiative (GRI-G3/G4). Please see also further information submitted by the administration concerning TINE's corporate social responsibility work and the full report pursuant to GRI.Standards ([www.tine.no](http://www.tine.no)).

**#Kukraft reduces emissions in transport and food production.** 2017 saw the launch of TINE's #Kukraft (CowPower) concept on the transport side of things. This is an exciting environmental programme designed to implement the use of manure-based biogas. Emissions are reduced by up to 13 per cent per litre of milk. New engine technology makes it now possible to use liquid biogas in trucks that are big enough to meet TINE's needs. TINE has ordered more vehicles using liquid biogas, which will be delivered in 2019. #Kukraft will be continued and we will remain at the forefront when it comes to developing and testing new technologies such as hybrid solutions, electric solutions and hydrogen. TINE will continue its ambitious environmental investment, and by 2025 only renewable fuels and zero-emission solutions will be used in our transport.

**TINE will help to improve public health in Norway.** We will contribute to making Norway a healthier country by offering and promoting a healthy, varied and balanced diet for all age groups. Life-style diseases are a major problem. As a food producer, TINE has a responsibility to help improve public health in Norway. TINE is a member of the business group for systematic and targeted work in this area, established by the Minister for Health.

**Recyclable packaging and labelling changes.** In August 2018, we achieved our ambition of 100 per cent recyclable packaging for fresh milk. We want to help consumers reduce their food waste through innovative packaging and labelling solutions and through dialogue with our consumers. Labelling of our products with "Best before, not bad after" has yielded results. Waste within yoghurt and sour cream has been significantly reduced<sup>6</sup>.

**Sustainable exploitation of resources.** TINE expends a significant amount of resources in its business. We have to ensure optimised, sustainable use of these resources, and reduce waste to a minimum. Measures have been implemented across the entire value chain to reduce wastage. Throughout 2018, TINE has reduced food wastage by 16 per cent. Overall, food wastage has been reduced by 21 per cent since 2015.

**Greenhouse gas emissions have been reduced by 4.5 per cent in 2018.** TINE must contribute to the reduction of greenhouse gas emissions in Norway by reducing its own emissions. We will improve continually in order to increase energy exploitation and prevent pollution. TINE's objective is to only use renewable energy and fuel in the company's production and transport by 2025. From 2018, greenhouse gas emissions from our subsidiaries will be included in our climate accounting, without correcting historical figures. In 2018, greenhouse gas emissions from the TINE Group were reduced by 4.5 per cent, while greenhouse gas emissions from TINE SA were reduced by 13 per cent. Greenhouse gas emissions from the TINE Group have been reduced by 14 per cent since 2007.

**Shopping Local - milk production throughout Norway.** Concerns regarding climate and the environment are increasingly being considered in connection with dietary and nutritional recommendations. The nutrition needed by individuals and populations is no longer the sole focus: what is sustainable for the planet is also taken into account. TINE depends on a sustainable agricultural industry to ensure access to high quality Norwegian milk. We have a unique insight and knowledge of our entire value chain, from production at dairy farms through to the point when products are delivered to the stores. TINE will also work actively towards agriculture achieving its goals or reduced emissions from the primary production. Several initiatives have been implemented. Projects associated with feed appear to be promising with regard to emissions of greenhouse gases.

**Milk producers deliver high quality.** Throughout 2018, 95.4 per cent of the milk delivered by TINE's producers has been characterised as elite milk (95.9 per cent in 2017). Elite milk is the highest accolade milk producers can achieve for the commodity they supply. The assessment is based on objective and measurable criteria. There was a slight reduction in the amount of elite milk delivered due to the extremely dry summer. High levels of access to quality commodities are due to targeted, long-term efforts to ensure good animal health and animal welfare through TINE's own consultancy services and through good work by the producers.

**Safe food is the result of good work in the value chain.** If people are to trust TINE products, then a focus on safety throughout the value chain is essential. Dairy products are deemed to be a very safe food group. None of the TINE products recalled in 2018 contained pathogenic bacteria.

**A stringent antibiotic regime results in good animal health** Health among cattle and goats in Norway is good, with the absence of serious infectious diseases. The regular use of antibiotics in milk production is an indication of animal health. Efforts to reduce the use of antibiotics in animals are also making an important contribution to the prevention of antibiotic-resistant bacteria in humans. All milk arriving at TINE plants in tankers is checked for the presence of antibiotics. In 2018, 82 deliveries of milk (88 deliveries in 2017) contained traces of antibiotics. This makes up only around 0.08 thousandths out of the total number of deliveries. Milk containing traces of antibiotics is discarded.

6 Østfoldforskning; Retail groceries 18 Oct. 2018

## Result-oriented culture

The ambition for an even more **result-oriented culture** shall be crucial in order to improve TINE's competitiveness. Good management and the correct skills are especially important for culture change, and it is decisive that TINE is regarded as being an attractive employer. Organisation development is an essential part of the improvements that have been implemented by TINE in order to reinforce its competitiveness. In 2018, TINE worked on the introduction of organisational changes that are intended to strengthen innovation and commercial business operations, while at the same time strengthening and simplifying coordination of the value chain.

## SAFETY, HEALTH AND THE WORKING ENVIRONMENT

Healthy employees and a robust workforce in a good working environment are prerequisites if TINE is to achieve efficient operation and quality at all levels. This work must be organised in a manner that ensures our employees are not subjected to harmful physical or mental strains, and so that no one is injured or falls ill as a result of their work.

**Reduction in sick leave.** Absence due to illness in TINE SA was 5.8 per cent in 2018. This was a reduction compared to the previous year of 0.5 percentage points. Although this is a positive development, TINE SA failed to attain its target of 5.6 per cent sick leave. The overall figure for sick leave across the TINE Group was 5.4 per cent. TINE has made systematic efforts to improve its results in this area and these have included management training and a close and beneficial cooperation with Occupational Health Services and the Norwegian Labour and Welfare Administration (NAV). Units with high levels of sick leave are followed up with to a particularly high extent.

**Still too many accidents at work.** The number of lost-time injuries has increased. TINE's overall target for 2018 was to achieve a lost-time injury rate (LTI rate) of zero. In 2018, TINE SA had 55 lost-time injury incidents, giving it an LTI rate<sup>7</sup> of 7.2. This was an increase from 2017, when there were 54 such incidents at the company. The company experienced two serious injuries in 2018. One employee had to have the end joints of two finger tips amputated, and another fell from a height and broke their pelvis.

In 2018, TINE registered 113 personal injuries that did not lead to absence. This is 13 fewer than in 2017.

In 2019, TINE must reinforce general health and safety training by establishing a mandatory e-training course for all business areas. An awareness campaign will also be prepared in order to reduce the number of so-called "I was just going to ..." incidents, as these are responsible for 50 per cent of all injuries. The TINE Group registered 70 lost-time injuries in 2018 (LTI rate: 7.2) compared with 69 registered injuries resulting in absence in 2017 (LTI rate: 7.1).

The registration and processing of unwanted incidents, near-incidents and proposals for improvement are an important prerequisite and an instrument for reducing work accidents through good improvement work. A total of 8,062 such cases were recorded at TINE SA in 2018. This is 438 fewer than the target figure of 8,500.

## ORGANISATION AND PEOPLE

At the end of 2018, there were 5,355 employees of the TINE Group (5,476 in 2017), 4,346 of whom were employed by TINE SA (4,469 in 2017).

The annual employee survey conducted by TINE showed that the good results from 2017 persisted in 2018 or have even improved.

**Mobility and restructuring.** TINE has implemented a number of major organisation development projects over the past few years. A central focus has been placed on increasing efficacy by simplifying organisation, clarifying responsibilities and reinforcing skills. The projects have simplified the organisation and given fewer levels. The roles of each individual unit and position have also become clearer, and specific skills requirements have been linked with individuals' roles. TINE has placed great importance on implementing a good restructuring process. The framework for this work is regulated by separate restructuring guidelines, the main aim of which is to find a new, lasting solution within or beyond TINE for affected employees.

**Broad diversity at TINE.** TINE embraces equal pay for equal work and gender equality. Women accounted for 35.4 per cent of TINE's employees in 2018. At year-end, 36.4 per cent of members of the Group executive were female. The percentage of women on TINE's Board, including employee representatives, was 35.7.

**Cooperation between management and staff.** TINE maintains extensive, inclusive dialogue with employees and employee organisations. TINE's management meets with employee representatives at several fora, including the Group's coordinating committee. Approximately 65 per cent of the employees in TINE SA are affiliated with a trade union. TINE is bound by five

general agreements, 10 agreements and a number of special agreements that are concluded both centrally and at its facilities. Dialogue with the employees and the employee organisations is well-expressed by the necessary changes and adjustments, as well as in the annual wage negotiations. TINE also completed a wage settlement in 2018 in line with the central guidelines from the Confederation of Norwegian Enterprise, the Norwegian Confederation of Trades Unions and other employee organisations. TINE has initiated joint training of managers and trades union officials in order to develop a clear and good form of cooperation.

**Ethics are a managerial responsibility.** TINE's Code of Conduct clarifies the attitudes and conduct which TINE expects from every employee in terms of respect, integrity and loyalty. TINE managers are responsible for making their employees aware of TINE's Code of Conduct and also for reflecting on and improving ways of handling ethical dilemmas.

In November, a verdict was handed down in Oslo City Court in the Tetra Pak case. A former manager of TINE and a former manager of Tetra Pak were both convicted on serious corruption charges. When the case became known in 2017, TINE chose to alert the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) immediately.

Ethical trade is a commercial activity which respects and supports human rights, labour rights, the environment and development throughout the value chain, regardless of countries' own ability and/or will to safeguard their responsibility to protect their own inhabitants against injustices. TINE is a member of Ethical Trading Initiative Norway (IEH), and their ethical trading guidelines have been incorporated into TINE's purchasing terms.

## CORPORATE GOVERNANCE

TINE's Board of Directors emphasises that the company must be administered and managed in accordance with good general principles. TINE must maintain the trust of various stakeholders and ensure that the Board receives sufficient and correct information on the business. An important part of corporate governance relates to establishing and maintaining systems and procedures that ensure compliance with regulations, standards and own guidelines.

The Norwegian Code of Practice for Corporate Governance (NUES) issues the Norwegian recommendation for corporate governance, which comprises principles and guidelines that help to clarify responsibilities and authorisations at major corporations. The recommendation has actually been drawn up for companies that are listed on the stock exchange in Norway, but the Board of Directors decided in 2010 that in spite of this, TINE would follow the principles of this recommendation for so long as they are suitable for TINE's business organisation and ownership.

In line with the recommendation of NUES, the Board has created an audit committee and a remuneration committee. The audit committee is preparatory and advisory committee for the Board as a whole in its work on exerting control of the company's financial reporting and control systems. The remuneration committee is a preparatory and advisory committee for the Board with regard to employment and terms of employment of TINE SA's CEO and main principles for remuneration and successor plans at a central management level in TINE SA. A more detailed description of how TINE complies with the NUES principles and guidelines can be found at [www.tine.no](http://www.tine.no).

## TINE'S OWNERSHIP ORGANISATION

TINE is a cooperative society owned by our milk producers. At the end of 2018, TINE had 10,120 owners. This represents a decrease of 358 compared to the previous year. Milk has been delivered by 8,057 companies, which represents a decrease of 324 compared to the previous year. TINE has held 12 Board meetings throughout the year. Permanent, elected Board members have an attendance record of 99 per cent. Deputy members are called in where necessary.

The owners are organised into 170 production cooperatives. Active production cooperatives are important for good corporate governance and high levels of member satisfaction. 37.2 per cent of owners attended the annual meetings in 2018. The production cooperatives have an important part to play in professional and social activities for members, by conducting professional tours, barn meetings and other production cooperative meetings.

Training for new elected representatives has been conducted in all ownership areas. New production cooperative leaders have been offered central courses that place special emphasis on the review of commercial conditions in TINE and the role of leader of a production cooperative. Meetings have been held for all working committees and special meetings for production cooperative leaders. These are important arenas for skills development, experience exchange and information about TINE. Animal welfare initiatives have been an important topic at the meetings in the autumn of 2018. 2018 has also seen a discussion process that aims at further development of the owner organisation.

The membership department initiated changes in administrative support to the production cooperatives in 2018. The membership managers follow up the production cooperatives in the district. Emphasis is placed on the production cooperatives being active professional and social meeting places for their members. The production cooperatives, with their working committees, have also been given a shorter way to other parts of TINE.

TINE carried out a member satisfaction survey in January 2018. Satisfaction is high, but fell from 79 per cent in 2017 to 77 per cent in 2018. Systematic efforts are aimed at improving member satisfaction.

7 Definition of LTI rate: Number of injuries leading to absence per million hours worked.

## Finances and capital structure

The annual profit for the TINE Group amounted to NOK 1,348 million, representing an increase of NOK 44 million on 2017. Minority holdings in 2018 amounted to NOK 32 million, and majority holdings were NOK 1,316 million.

**Financial results and tax.** Net financial expenses in the TINE Group amounted to NOK 72 million in 2018, a reduction of NOK 51 million from 2017. The reduction in financial expenses was primarily driven by gains from the sale of shares, in addition to currency effects.

Net interest expenses increased from NOK 104 million in 2017 to NOK 96 million in 2018. Net interest-bearing liabilities increased from the previous year, while lower credit supplements on refinancing led to lower total interest costs.

TINE experienced net foreign exchange gains of NOK 1 million in 2018, compared with losses of NOK 21 million in 2017.

Other financial

expenses amounted to a cost of NOK 10 million in 2018, compared with NOK 6 million in 2017. This is primarily due to gains from sales of shares in Landbruksforsikring.

Profits from associated companies in 2018 amounted to NOK 13 million, representing an increase compared with the previous year's profit of NOK 8 million. Skala AS went from a negative profit share of NOK 6 million to a positive profit share of NOK 1 million. Fjordkjøkken AS continued its positive development, and showed an improvement on 2017, while TUN Media AS and Lotitio Foods Holding LLC showed a small reduction on the previous year.

Tax expenses for the TINE Group in 2018 amounted to NOK 117 million. The effective tax rate was 8.0 per cent in 2018. This is a marginal increase from 7.8 per cent in 2017. It has been confirmed that the corporation tax rate in Norway from 2019 will be reduced from 23 per cent to 22 per cent. This has reduced the Group's deferred tax liability by NOK 30 million.

**Currency hedging.** TINE is exposed to foreign currency risks, mainly through purchases in euro (EUR) and sales in US dollars (USD). The Norwegian krone has weakened significantly since 2014 and has remained at a historically low level. Trade-weighted NOK rates (I-44) have, on average, remained at an equivalent level in 2018 compared with 2017, despite a significant weakening in the last two months of the year. On, average, the Norwegian krone was 2.9 per cent weaker against the euro and 1.6 per cent stronger against the dollar in 2018 compared with 2017. Both of these movements have, taken in isolation, a negative effect for TINE. This exposure has, however, been partially hedged by use of currency derivatives. The hedge portfolio led to a realised gain of NOK 15 million for EUR and USD in 2018 compared with NOK 24 million in 2017. Hedge accounting of forward contracts was introduced in 2016. See note 19.

**Balance Sheet.** The balance sheet for the TINE Group as of 31 Dec. 2018 stood at NOK 18.1 billion, an increase of two billion krone compared with the same time period in 2017. The level of investment increased significantly in 2018. Higher investment than depreciation has led to an increase in tangible fixed assets of NOK 690 million. As at 31 December 2018 TINE Group had bank deposits and money market instruments totaling NOK 1,380 million, representing an increase of NOK 914 million compared with 2017. This is due financing of planned investment in 2019.

As of 31 December 2018, net interest-bearing liabilities for the TINE Group amounted to NOK 3,079 million, an increase of NOK 252 million since year-end 2017. Interest-bearing liabilities increased by NOK 1,166 million, while bank deposits and money market instruments increased, as we have noted, by NOK 914 million compared with the previous year. The equity ratio in the Group was 46.6 per cent at the end of 2018.

**Cash flow.** Net cash flow from operational activities for the TINE Group contributed with NOK 2,285 million, an increase of NOK 116 million on 2017. Profit before tax improved by NOK 51 million. Working capital increased by NOK 42 million in 2018. Goods in stock increased by NOK 316 million, although reduced accounts receivable and accounts payable compensated for this, leading to tied-up capital remaining at a virtually equivalent level to 2017.

Net cash flow to investment activities was NOK 1.8 billion, an increase of NOK 622 million on 2017. This is explained mainly by structural investment in Bergen and Mogeely in Ireland. The investment in Bergen is associated with the construction of a new and more climate-friendly dairy.

Net cash flow from financing activities amounted to NOK 434 million in 2018, while the 2017 figure was NOK -1,320 million. Long-term interest-bearing liabilities at year-end amounted to NOK 1,153 million more in 2018 than in 2017. Subsequent payments made to the owners in 2018 amounted to NOK 817 million, a reduction of NOK 146 million, compared to 2017.

**Estimates and going concern.** The assessments made in the consolidated and company accounts for 2018 are based on the expectations for future earnings and business structure that existed at the time when the financial statements were submitted. Changes to these expectations could result in value estimates and assessments used as a basis having to be adjusted. No events have occurred after the end of the financial year that are of significance to the assessment of TINE SA or the TINE Group, beyond what is stated in the financial statements and associated notes. The Board of TINE can confirm that the annual accounts are based on the company being a going concern, and that the necessary preconditions for this are present.

**Financial risk in 2018 and beyond.** TINE's financial risk is associated with changes to interest rates, currency rates, energy prices and the credit market. Our objective is to limit financial risk and thus help to achieve stability and predictability in TINE's results over time. A financial policy has been prepared for TINE that provides guidelines on how to manage risks of this type. TINE SA deals with this on behalf of the entire Group

In order to limit exposure to currency exchange rate changes, parts of the Group's liabilities are hedged by using various interest rate hedging instruments in accordance with approved financial policy. The level of hedging has remained stable over the last year. In 2018, market interest rates increased from a historically low level at the end of 2017. Expectations of higher market rates will, in the future, probably contribute to an increase in financial expenses.

At the same time, there has been an increase in credit supplements in the financial markets in the latter half of 2018. When the European Central Bank is no longer a major purchaser in the securities market, and will gradually reduce its balance, there may also be a greater effect on credit supplements in Norway.

TINE's financial statements include a pension fund amount owing via the MP Pensjon pension fund. The assets in the pension fund are placed in shares, bonds and property. TINE's financial statements are therefore also exposed to risk in respect of fluctuations in these asset classes.

As we have previously noted, TINE is exposed to changes in currency exchange rates, mainly in EUR and USD, but also in SEK, DKK, GBP, CAD and CHF. Through its international activities, TINE receives net payments in USD, while the import of various factor inputs and the purchase of machines and equipment entails net disbursements in EUR. A weaker Norwegian krone contributes to increased costs associated with inputs, machinery and equipment – items mainly purchased in EUR. At the same time, a weaker krone is having a positive impact on the value of exported goods and international business. TINE SA enters into forward contracts, mainly in the form of futures and options, in order to reduce the Group's currency risk. TINE also holds assets in SEK, USD, GBP and EUR. These values are hedged completely using currency derivatives or overdraft facilities.

TINE is susceptible to changes in energy prices This is a result of both energy-demanding production and not least extensive distribution. In 2018, energy prices were higher than in 2017, both within production and distribution. This has resulted in an increase in energy costs in 2018 compared with 2017. Price rises were mainly seen in the second half of 2018, and a continuation of the current price level will, therefore result in a significant increase in energy costs again in 2019.

TINE finances current liquidity requirements in the certificate market, and by means of short-term loans as well. A long-term credit facility has been established with recognised banks in order to reduce the refinancing risk when loans mature. This credit facility totals NOK 1.2 billion. This facility matures in 2022 and covers short-term loans maturing within one year. TINE's liquidity is deemed to be good.

TINE's customers include wholesalers and individual customers in all customer segments: Their solvency is considered to be good, as is apparent from the low level of losses on receivables over many years. TINE actively monitors the credit limits of all its customers. In addition, all new customers are subject to credit checks. TINE has not found it necessary to insure against losses from outstanding receivables. Overall, TINE's financial risk is considered moderate.

**Allocation of profit for 2018.** The Board of Directors has approved a subsequent payment policy where the objective is for between 50 and 65 per cent of the Group's net profit to be allocated for subsequent payment to owners.

The annual allocation should be affected by the level of coming years' investments, but the goal of at least 45 per cent equity should have priority ahead of the subsequent payment policy.

As regards 2018, 63 per cent of the Group's net profit has been allocated for subsequent payment to the owners. This gives a subsequent payment of NOK 0,57 per liter of milk received.

TINE SA is the parent company of the TINE Group. TINE SA delivered an annual profit of NOK 1,237 million. Total assets at year-end amounted to NOK 17,589 million, while the equity ratio stood at 45.3 per cent. The cash flow for TINE SA is essentially following the same development as for the TINE Group.

## REGULATORY FRAMEWORK

Work towards strengthening the competitiveness of Norwegian milk and its value chain has been a priority throughout 2018. This work has been undertaken in collaboration with FoodDrinkNorway, the Federation of Norwegian Agricultural Co-operatives, the Norwegian Farmers' Union, Norwegian Farmers' and Smallholders' Union and Grocery Manufacturers of Norway (DLF).

**Climate policy up to 2030.** In the autumn of 2018, the agricultural sector, represented by the Norwegian Farmers' Union and the Norwegian Farmers' and Smallholders' Union, started negotiations with the government with the intention of achieving an agreement concerning the obligations of the agricultural sector for reductions in the emission of greenhouse gases. TINE has contributed to the agricultural sector's preparations for these negotiations and has supported its work in the process. The negotiations are expected to conclude in the spring of 2019. A lot of work has also been devoted to climate measures directed at industry and transport, not least in which the

differentiation  
of charges plays a central part.

**The regulations for market balancing are being reviewed.** Work on reviewing the Sales Council's regulations governing market balancing started in 2018, and TINE participates in four working groups created by the Sales Council. This work is expected to conclude in the spring of 2019. There is also a continual discussion in progress about the price compensation scheme and the share that is used for competition-promoting measures.

**The increase in the sugar tax has been partially reversed.** In collaboration with FoodDrinkNorway, among other parties, TINE has worked towards securing a reversal of the increased sugar tax from the budget settlement in the autumn of 2017. We can see that this has been partially achieved in the draft budget, although the tax increase has been retained for drinks.

**Increase in duty-free import quota.** An agreement was reached in 2017 between Norway and the EU concerning an increase in the duty-free import quota by between 1,200 and 8,400 tonnes. Parts of the increase in the cheese quota from the EU were activated in 2018. This contributed to an increase in the total import of cheese, as well as a reduction in price for the purchase of import quotas for 2019.

In 2018, we registered an increase in trade policy initiatives, the most prominent of which was the return of bilateral negotiations with China. Negotiations under the aegis of EFTA for a trade agreement with MECOSUR have continued in 2018.

**TINE participates in a plastic initiative.** TINE is participating in an initiative begun by Green Point Norway, the Packaging Association and FoodDrinkNorway that intends to secure positive and predictable framework conditions for the use of plastic packaging where this is necessary for food safety reasons. The discussion about disposable plastic products and the work of the EU to develop a regulation for this have also been discussed as part of this initiative.

**Input to the agricultural sector negotiations.** As in previous years, TINE has provided input to the annual agricultural sector negotiations between the government and professional organisations in agriculture. For its input in 2018, TINE emphasised, among other things, the following:

- Caution with target price increases
- Protection of the milk quota scheme
- Prioritisation of investment tools

The challenging dry summer in parts of Norway resulted in supplementary negotiations concerning the agricultural sector agreement that had been concluded, and an extraordinary increase of the milk quotas.

## FUTURE PROSPECTS

TINE's business is mainly based on the Norwegian market. This means that developments in the Norwegian economy are highly significant. The economic analyses from Norway Statistics (SSB) are based on increased wage growth, decreasing unemployment and moderate growth in consumption in the next few years. At the same time, SSB expects that the Norwegian krone will become stronger to a certain extent, which may in turn strengthen import competition to an equivalent degree.

The grocery sector consists of three purchasing groupings which are continuing their efforts to differentiate the various store concepts. It is expected that suppliers will participate in this development. Own brand products sold by chains and groupings will become a greater competitor to traditional brands than they have been in the past. It is one of TINE's ambitions to tackle this development by strengthening our own brands and our ability to respond more quickly to the needs of customers and consumers. We have undertaken a large number of organisational measures and strengthened our skill sets in order to succeed in this.

Norwegian consumers are gradually changing their behaviour. We can see this both in consumption trends within individual segments, and by the increase in on-line shopping for groceries. New sales channels create new challenges, but also new opportunities. Technological change throughout the value chain must help TINE to master the challenges and exploit the opportunities.

Norway is obliged to discontinue all export subsidies for agricultural products from 2021. The change will mean that the need for milk in Norway will decrease in 2020 and 2021. This is a huge challenge. TINE is working actively to find new areas of growth that can provide increased demand for milk, and thereby compensate for some of the loss of export volumes. We place a high priority on this work. In order for such an ambition to succeed, various conditions must be put in place to create growth for Norwegian milk. This includes strengthening the competitive edge of Norwegian milk, and ensuring success for all of the stakeholders running dairy businesses.

Milk production has been characterised by reduction in the number of farms, with greater volumes coming from each unit. So far, we can see no indication that these trends are going to change. TINE places special emphasis on our suppliers working with sustainability and animal welfare, in order to make Norwegian milk into an attractive commodity.

**International business.** Tension and uncertainty still characterise the international situation. This results in trade disturbance and conflicts. The UK will leave the EU on 29 March 2019, and the unclear situation between the Ukraine and Russia sets its mark on Europe.

TINE has operations in the UK and production in Ireland. We base our view on acceptable trade policy solutions being found between the EU and the UK. We also assume that there will be a solution between the UK and Norway, either bilaterally or through EFTA.

TINE also has business in North America. We consider that any changes to NAFTA will not have a negative impact on our business. Our ambitions in international markets will therefore be continued by our overseas subsidiaries and our efforts in selected international markets.

**Sustainability, climate and the environment.** Climate and environmental issues have been high on the agenda and these will have a significant impact on framework conditions for agriculture in years to come. In 2015, the Paris Agreement was adopted as a legally-binding agreement. The agreement sets out that global warming should be kept to well below two degrees. 195 states have ratified this agreement. Norway has signed up to the EU's climate targets, which will involve cutting national emissions by 45 per cent by 2030. The EU has now presented a proposal on how and all EU member states can achieve this target together by also reducing emissions from the non-regulated sector, which primarily includes transport, agriculture, construction and waste. The new government policy declaration has set a goal of 45 per cent reduction in non-quota sectors. TINE is dependent upon a policy that promotes the opportunity to invest in climate-friendly transport solutions, so that we can deliver our ambition for renewable transport fully by 2025. Approx. 85 per cent of greenhouse gas emissions for one litre of milk are related to the farm on which the milk production takes place. TINE has a holistic responsibility for brand delivery in which the dairy farmer is part of the brand. In particular, the environmental requirement for a 40 per cent cut in greenhouse gas emissions from transport and agriculture will affect TINE's business.

In the years to come, TINE will increase its efforts within agronomics, fodder cultivation and fodder in order to create the most climate-friendly milk production possible. Furthermore, it is necessary to develop and obtain new technology and knowledge with regard to how methane gas emissions from milk production on farms can be reduced or captured.

## Board of Directors as of 01 Jan 2019

TROND REIERSTAD, Chair  
NILS A. DOLMSETH, Deputy Chair  
CECILIE BJØRLO  
ELISABETH I. HOKSTAD  
HELGE ARNE ESPELAND  
ELIN JOHANNE AARVIK  
ANDERS JOHANSEN  
TOR ARNE JOHANSEN  
MARIT HAUGEN  
ASKILD EGGEØ  
ROLF ØYVIND THUNE  
SOLVEIG B. RØNNING  
OTTAR RÅD  
JEFFREY THOMAS  
JARLE BOGEN, Chairman of the Council  
GUNNAR HOVLAND, CEO

## Group executive as of 01 Jan 2019

**GUNNAR HOVLAND, CEO**

**Professional experience:** Held several executive positions in TINE from 1996 to 2008, most recently as Group Director for sales, export and marine business. From 2008–2011 he held the position of CEO at Trondheim Kraft, and after its merger with Fjordkraft in 2010 he was also deputy CEO at Fjordkraft. From 2011 CEO of BN Bank.

**Qualifications:** Masters in agricultural science from Norges Landbrukshøgskole (now the Norwegian University of Life Sciences), has an MBA from the Norwegian School of Economics (NHH), Executive Management Programme from Insead and Artificial Intelligence: Implications on Business Strategy from MIT Management Sloan School.

**Other positions held:** Broad experience as Board member and Board Chairman across a number of different companies. Board member at BN Bolig AS and Huseiernes Landsforbund.

**KATHRINE MO, Group Director Innovation and Markets**

**Professional experience:** Worked in marketing and brand building in Norwegian and foreign companies, including Procter & Gamble Inc., Ringnes AS, Telenor ASA and Statoil ASA.

**Qualifications:** Mo studied at Ecole des Hautes Etudes Commerciales (HEC) in Lausanne, Switzerland.

**Other positions held:** Board Chair of Ostecompagniet AS and Board member of Norseland Inc. and Melk.no (Opplysningskontoret for meieriprodukter).

**LISE FALKFJELL, Group Director, HR and HSE**

**Professional experience:** 17 years at TINE in positions that have included Acting General Manager for Sunniva Drikker AS and Group Development Director, as well as being responsible for the management of numerous strategic projects.

**Qualifications:** Degree in Psychology from the Norwegian University of Science and Technology and MA in finance, administration and management from ESCP/EAP and BI Norwegian Business School.

**Other positions held:** Chair of Diplom-Is AS and Board member of MP Pensjon.

**JØRN SPAKRUD, CFO**

**Professional experience:** Various positions involving economy and finance, including Yara International ASA/Norsk Hydro ASA and Deloitte.

**Qualifications:** Master of Business and Economics and a government-authorized accountant from the Norwegian School of Economics and Business Administration.

**Other positions held:** Chairman of TINE's MP Pensjon pension scheme and subsidiary Fjordland AS, as well as being a Board member at Skala AS.

**PER IVAR BERG**, Group Director Production, Purchasing and Milk Supplies Management

**Professional experience:** More than 25 years as a manager in Norwegian and international industrial production, including Norske Skogindustrier SA, Norske Skog, Parenco BV in the Netherlands and Skala AS.

**Qualifications:** Chartered engineer, graduating from the Institute of Chemical Engineering at the Norwegian University of Science and Technology in Trondheim.

**LARS GALTUNG**, Group Director, Communication and sustainability

**Professional experience:** Has worked with corporate communication, consultancy services and positioning for most of his professional life, and has also worked in the media and held communications positions in finance, energy, IT, consultancy services and branded goods.

**Qualifications:** Norwegian Military Academy and the Norwegian School of Economics (NHH).

**JOHNNY ØDEGÅRD**, Group Director, Consultancy and membership services

**Professional experience:** Has worked with business policy at companies that include Norske Felleskjøp SA and the Norwegian Farmer's and Smallholder's Union.

**Qualifications:** Degree from Norges Landbrukshøgskole (now the Norwegian University of Life Sciences), specialising in agricultural economics.

**ATLE JACOBSEN**, Group Director TINE Internasjonal

**Professional experience:** Various positions in FMCG (fast moving consumer goods) companies and PepsiCo Nordic, Global Sales & Marketing Director at GC Rieber Oils.

**Qualifications:** B.Sc. (Business/Managerial Economics) University of Strathclyde in Glasgow.

**VEGARD GILLEBO**, Group Director, Sales, Retail products and KBS

**Professional experience:** 15 years' experience at Coca-Cola European Partners Norway, and has held positions such as KAM at DV and KBS, Channel Director at KBS and Director DV and KBS. He has also played an important part in several change projects while at Coca-Cola European Partners Norway.

**Qualifications:** M.Sc. in Business Administration and Economics from Business School at the University of Umeå University and the University of Seville.

**ANIELA GJØ**, Group Director Logistics

**Professional experience:** Has specialised in logistics for her entire working life, working for companies such as Ontime Logistics AS, Ringnes AS and Posten Norge AS.

**Qualifications:** Graduated as a chartered engineer from the Silesian University of Technology and as a business economist from BI Norwegian Business School, and continued her education at Stanford University and Insead.

**Other positions held:** Board member at Tomra Systems ASA.

**TERJE DØSRØNNINGEN**, Group Director TINE Partner

**Professional experience:** Worked with food and food production as a chef and cook. Døsrønningen began working for TINE in 1997 and has held various positions in R&D, Fjordland AS and Sales as, among other things, product developer, KAM, sales manager and sales director.

**Qualifications:** Chef, Dietary economist

**Other positions held:** Board member at OsteCompagniet AS.