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ArcusGruppen

THINK BEFORE
YOU DRINK. MAKE
GREAT MOMENTS
EVEN BETTER.



ANNUAL REPORT 2017





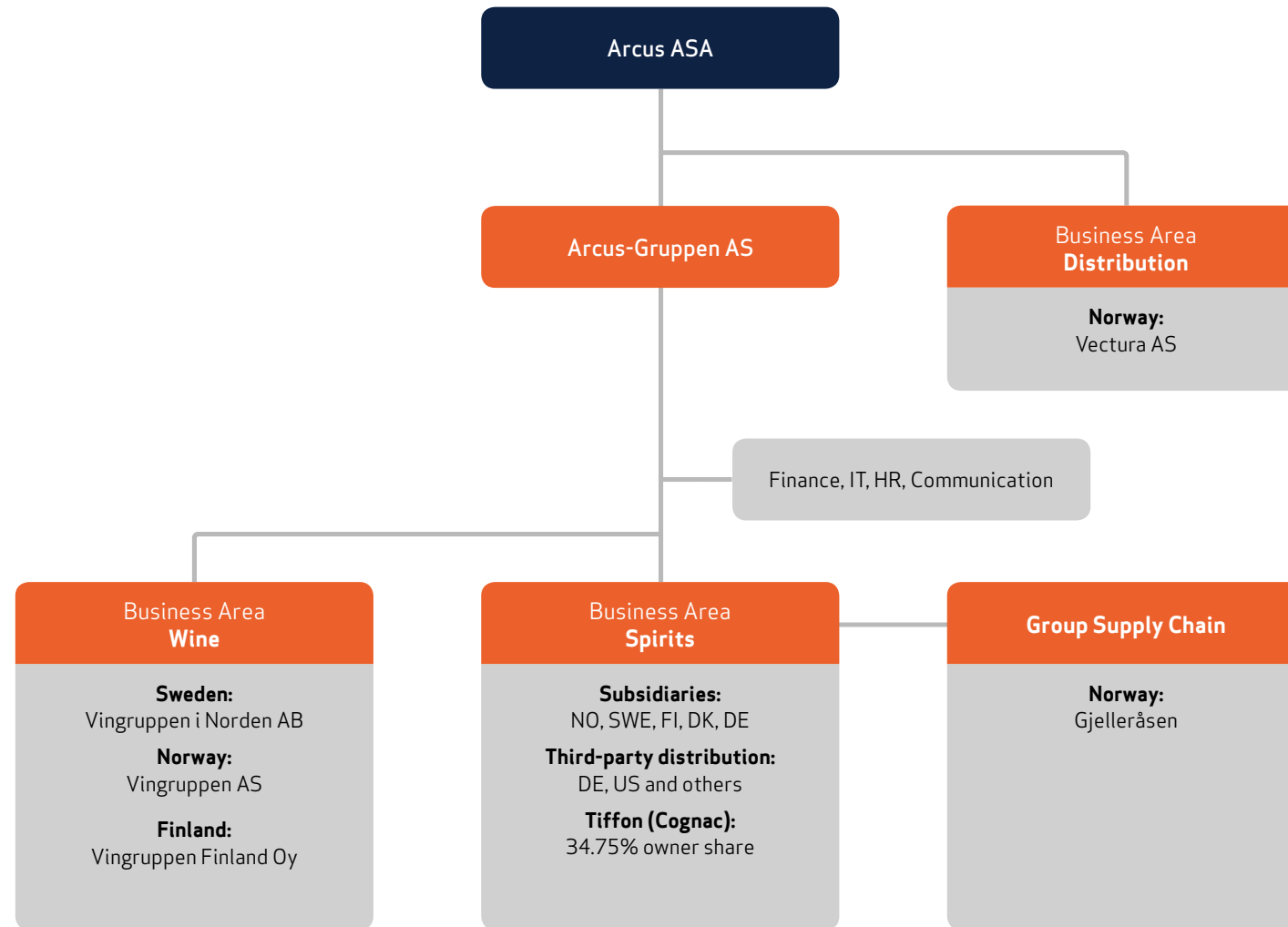
THINK BEFORE
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IN BRIEF

- Business Structure
- A Leading Nordic Brand Company
- Key Figures 2017
- Strategy and Key Information
- Group CEO

BUSINESS STRUCTURE



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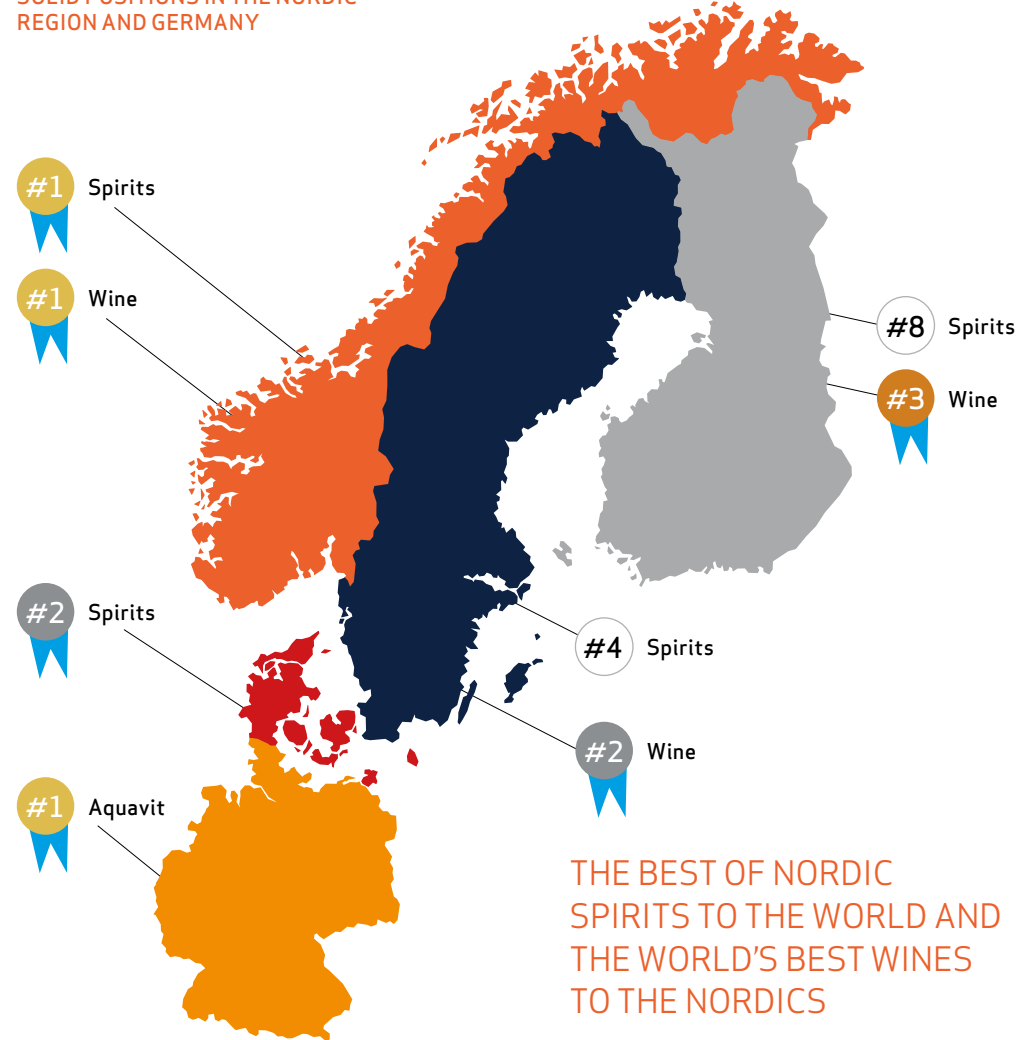
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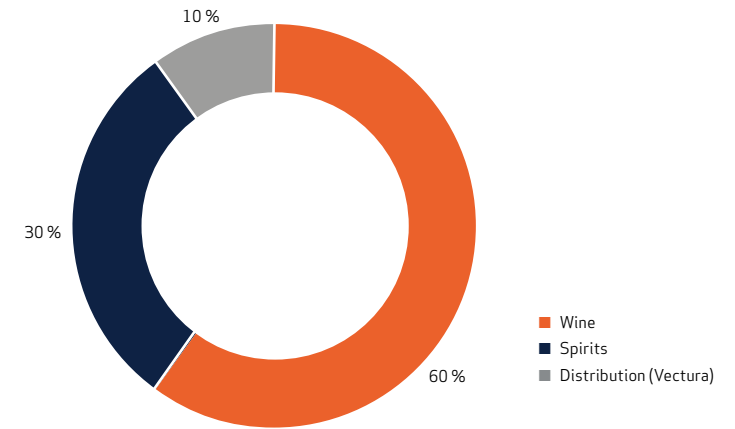
A LEADING NORDIC BRAND COMPANY

SOLID POSITIONS IN THE NORDIC REGION AND GERMANY

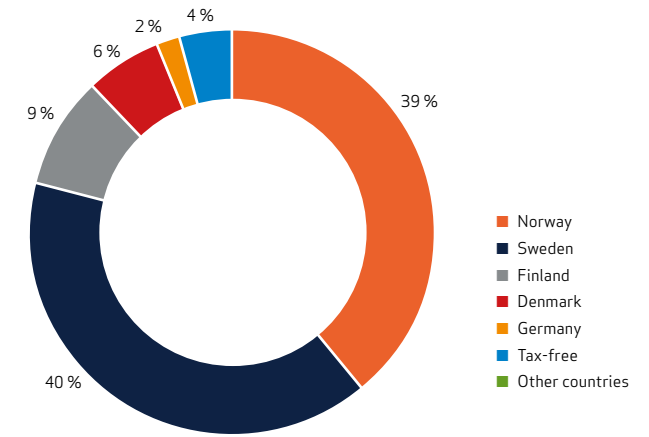


THE BEST OF NORDIC SPIRITS TO THE WORLD AND THE WORLD'S BEST WINES TO THE NORDICS

SALES REVENUE BY BUSINESS AREA IN 2017



SALES REVENUE BY COUNTRY IN 2017



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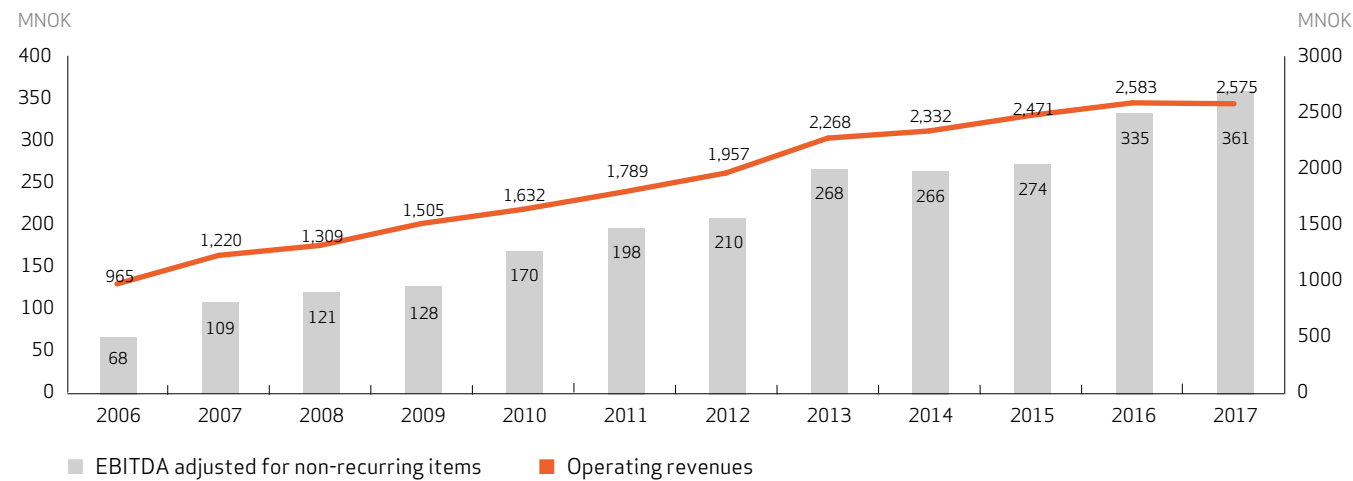
KEY FIGURES 2017

Arcus ASA Group		2017	2016	2015	2014	2013
Operating revenues	NOK million	2,575.1	2,582.5	2,470.9	2,332.4	2,268.2
Of which operating revenues outside Norway	NOK million	1,554.4	1,567.7	1,479.5	1,288.5	1,255.9
EBITDA	NOK million	347.6	290.5	257.8	272.1	259.0
EBITDA adjusted for non-recurring items	NOK million	360.7	335.3	274.4	266.3	268.0
EBITDA margin adjusted for non-recurring items	(%)	14.0 %	13.0 %	11.1 %	11.4 %	11.8 %
Number of FTEs, 31.12	Persons	426	409	422	448	441

OPERATING REVENUES
 NOK million

2,575

GROWTH 2006-2017



EBITDA adjusted for non-recurring items
 NOK million

361

NUMBER OF
 EMPLOYEES

426

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STRATEGY AND KEY INFORMATION

ARCUS' GROWTH STRATEGY SUMMARISED AS 10 POINTS:

SPIRITS

- Growth in the core categories of aquavit and bitters
- Strengthen position in the Nordic region, revitalise Germany
- Strengthened innovation work: New occasions, categories and consumer groups

WINE

- Win tenders in monopoly markets and further develop today's range
- Attract new and complementary agencies
- Strengthen and further develop sales of own brands
- Use the entrepreneurial model, attracting the best to start up new wine companies

DISTRIBUTION

- Sustained focus on cost optimisation
- Increase revenue with new distribution agreements

M&A

- Selective acquisitions

FINANCIAL TARGETS

Revenue:

Organic growth of 3-5 per cent per annum, including minor bolt-on acquisitions.

EBITDA:

Growth of 6-9 per cent per annum during the next 3-5 years.

DIVIDEND POLICY

Arcus' ambition is to pay annual dividend of approximately 50-70 per cent of the net annual profit. The proposal to pay dividend and the dividend rate were presented by the Board of Directors and adopted by the Annual General Meeting on 11 April.

FINANCIAL CALENDAR 2018

11 April: Annual General Meeting
 12 April: Share listing ex dividend
 24 May: Result, Q1
 29 May: Payment of dividend¹
 16 August: Result, Q2
 16 November: Result, Q3

1. Provided that the dividend proposal is adopted by the Annual General Meeting.

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LIST OF SHAREHOLDERS AS OF 31 DECEMBER 2017

Arcus ASA has issued 68,023,255 shares, distributed to 2,622 shareholders.

Shareholder	Number of shares	Ownership interest
1 Canica AS	22,670,000	33.3%
2 Geveran Trading Co Ltd	6,750,000	9.9%
3 Verdipapirfondet DNB Norge (IV)	3,577,915	5.3%
4 Hoff SA	3,297,000	4.8%
5 Sundt AS	3,234,957	4.8%
6 Folketrygdfondet	1,800,000	2.6%
7 Danske Invest Norske Instit. (II)	1,725,100	2.5%
8 KLP Aksjenorge	1,266,494	1.9%
9 Verdipapirfondet DNB Norden (III)	1,222,178	1.8%
10 Centra Invest AS	1,169,846	1.7%
11 Ilmarinen Mutual Pens Ins Comp	1,000,000	1.5%
12 Holta Invest AS	1,000,000	1.5%
13 Verdipapirfondet DNB Norge Selektiv	936,616	1.4%
14 Goldman Sachs International	900,000	1.3%
15 Skandinaviska Enskilda Banken AB	862,000	1.3%
16 Danske Invest Norske Aksjer Inst	855,400	1.3%
17 Landkreditt Utbytte	850,000	1.2%
18 Kommunal Landspensjonskasse	809,707	1.2%
19 Skandinaviska Enskilda Banken AB	795,113	1.2%
20 Citibank Europe Plc	794,127	1.2%

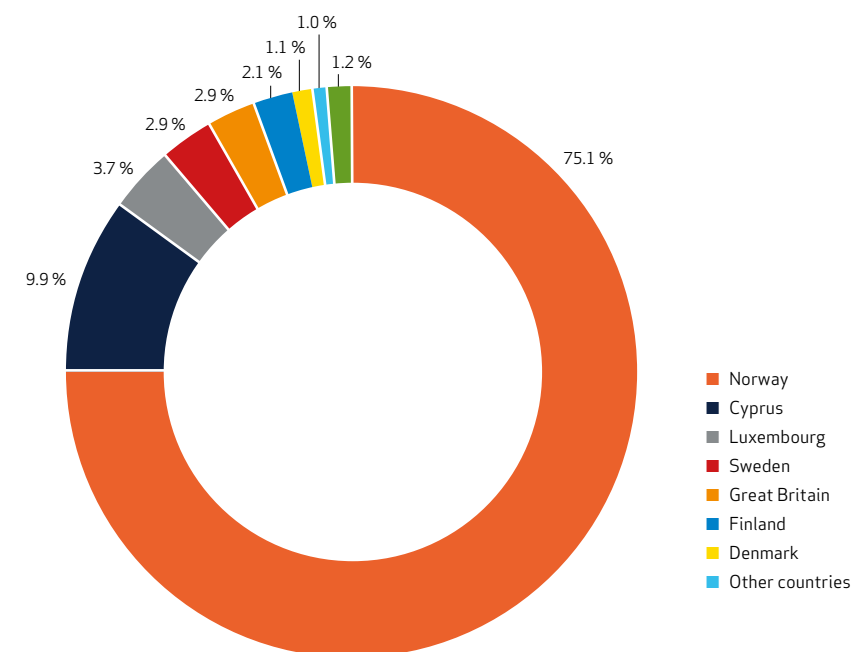
NEWS AND STOCK-EXCHANGE ANNOUNCEMENTS

You can subscribe for stock-exchange announcements and quarterly reports from Arcus via this link:

<https://www.arcus.no/en/subscribe>

Remember to click on "Information type" on the right-hand side.

GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS AS OF 31 DECEMBER 2017



YIELD INCLUDING DIVIDEND FROM ARCUS' STOCK-EXCHANGE LISTING ON 1 DEC. 2016

	Arcus	Oslo Stock Exchange Consumer Index	Oslo Stock Exchange Main Index
01.12.2016–29.12.2017	11.6%	6.1%	22.9%

Source: Oslo Stock Exchange

2016 DIVIDEND PAID 2017

NOK 1.47 per share.

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KENNETH HAMNES

Group CEO

MY RECOMMENDATIONS



OPLAND EDEL MADEIRA

The world's best aquavit naturally comes from Arcus. It's called Opland Edel Madeira. Perfect for everything, all year! Now with new design and new attractive bottles.

NERVI GATTINARA

It's nearly impossible to pick a favourite wine, as we have so many fantastic products. But I have a weakness for Nervi's lovely wines, and it's interesting that the successful vineyard in Piemonte is owned by Norwegians.

LA PARRA

My seafood favourite is our own La Parra, which can be enjoyed from a bottle or bag-in-box. It's fresh and balanced, at a very good price. Lots of good taste for your money!

2017: RECORD RESULT FOR ARCUS

Arcus achieved its best result ever in 2017. Operating profit (adjusted EBITDA) was NOK 361 million, an increase of 8 per cent from 2016. Revenue was NOK 2,575 million, compared to NOK 2,582 million last year.

The basis for this development is continuous improvement. Nonetheless, revenue is under pressure from increasing foreign travel and strong growth in border trade. Negative exchange rate development has also proved to be challenging, but overall the result is very satisfactory.

Based on the Group's financial results, Arcus' Board of Directors recommends a dividend of NOK 1.66 per share, an increase of 13 per cent from the previous year. The dividend rate will be approved by the annual general meeting on 11 April 2018.

High innovation rate and continued good operations contributed to the good result. In addition, Vectura, the logistics and distribution company, is now profitable and has won market shares.

The growth plans for 2018 are in place. Activities in countries without monopolies will be strengthened. Early in the year, Gammel Opland, Norway's most popular aquavit, will be relaunched with a new bottle and design, aimed to strengthen sales in Norway and abroad. Our wine portfolio is continuously being renewed, to meet current and future trends.

Kenneth Hamnes
Group CEO

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Arcus

The Company in Brief

Arcus is one of the Nordic region's largest brand companies within wine and spirits. Sweden, Denmark, Norway, Finland and Germany constitute the home market. Vectura is Norway's leading logistics business for alcoholic beverages.

Arcus ASA owns the brand company Arcus-Gruppen AS and the distribution company Vectura AS. The Group's operational activities are run via the Spirits, Wine and Distribution business segments. Group Supply Chain (GSC) is reported as part of the Spirits business segments.

The Spirits and Wine business areas handle product development, imports, sales and marketing within their respective product categories. GSC is responsible for purchasing, production, storage and bottling. Vectura

handles all distribution operations in Norway. In other countries, this function is handled by external partners.

Vectura offers logistics services for producers, agents and importers of wine, spirits, beer and other beverages, delivering their goods to Vinmonopolet's shops, as well as to hotels, restaurants and cafés throughout Norway.

AGENCIES, PRODUCTION AND BRANDS

Arcus is the world's largest producer of aquavit

and one of the major players for production and sale of spirits in the Nordic region. The company has an extensive brand portfolio and a modern, efficient production facility at Gjelleråsen outside Oslo. The well-known Norwegian aquavit brands are produced here, and also the traditional Danish spirits, such as Aalborg Akvavit and Gammel Dansk. Considerable volumes of vodka are also bottled, including Vikingfjord and the popular Dvorek vodka, which Arcus took over in 2016. As from 2018, the vodka shot Hot n'Sweet is also bottled here, after the acquisition on 31 December 2017. Arcus owns 34.75 per cent of the French cognac house, Tiffon, the producer of Braastad Cognac. Arcus has the sole rights to sell Braastad in the Nordic region. In addition, Arcus has significant sales of its own brands, blended and bottled according to local consumer preferences.

Arcus is the largest importer of wine in Norway, the second largest in Sweden and the third largest in Finland. The Group's wine-related operations cover a wide range of agencies, representing all categories in all the important wine producing countries. In addition, Arcus has significant sales of its own brands, produced according to tailor-made specifications for each market. These products are imported in bulk and bottled at Gjelleråsen.

HISTORY

Arcus, including Vectura, was established as a state-owned enterprise on 1 January 1996. As part of Norway's adaptation to the EEA rules, the operations of Vinmonopolet AS were split. Sales to Norwegian consumers remained the responsibility of the state monopoly, while the

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newly established commercial enterprise took over the activities related to imports, production, distribution and exports. The traditional distilleries and recipes, and the rights to the extensive brand portfolio with an emphasis on aquavit, were also included in the commercial enterprise. The company was partly privatised in 2001 and fully privatised in 2003. As from 2005, the investment company Ratos was the largest owner, with an interest of 83.4 per cent, and Hoff was the next largest owner with an interest of 9.9 per cent. On 1 December 2016, Arcus ASA was listed on the Oslo Stock Exchange, and by year-end had 2,622 shareholders.

THE NORDIC ALCOHOL MARKET

The Nordic alcohol market is complex, with significant variations in each market. The structure, regulatory regimes, advertising opportunities and pricing mechanisms differ greatly from country to country. Vinmonopolet in Norway, Systembolaget in Sweden and Alko in Finland all have a monopoly on consumer sales. The monopolies are the consequence of health policy considerations designed to regulate and restrict access to alcohol by means of availability, pricing and responsible trading practices. Apart from the monopoly outlets, importers and producers can sell directly to hotels, restaurants and cafés, usually referred to as the HORECA market, as well as to tax-free outlets. Around 90 per cent of the respective domestic volume is sold via monopolies in countries with a monopoly structure.

The remaining approximately 10 per cent is sales to hotels, cafés and restaurants.

SALES THROUGH MONOPOLIES

Arcus' companies in Norway, Sweden and Finland each have years of experience from interacting with the retail monopolies in their respective countries, and are highly knowledgeable about how the monopolies

work. This creates an important competitive advantage.

Sales to the monopolies consist of popular, listed products. In many cases, the monopolies add new products by obtaining bids from several suppliers, where they specify the price level and characteristics in detail. Finally, blind taste tests are run by the monopoly to determine which bids to accept.

Based on their own assessments of market potential, wine and spirits companies may also introduce products through the catalogues of the monopolies. The sales figures then determine whether a product may be added to the inventory of the monopolies' stores, and in how many stores, dependent on each individual store's size and customer base. The wine and spirits companies indirectly set the price to the consumers.

The suppliers' wine and spirits knowledge, as well as their insight into the taste preferences of the target customers, are crucial, both in relation to invitations to tender and self-initiated product launches. Arcus' size, its longstanding experience and the systematically accumulated knowledge, have proved highly valuable.

CROSS-BORDER SHOPPING AND TAX-FREE

The cross-border retail trade is a factor influencing all the Nordic markets, particularly Norway, Sweden and Finland, where taxation policies lead to significantly higher prices than in their respective neighbouring countries such as Sweden, Germany/Denmark and Estonia.

The volume of tax-free sales is also substantial in the Nordic countries. The tax-free retailers primarily purchase their goods directly from the producer. They are therefore an important customer group for the Spirits business area, while the wine companies have limited sales to this customer segment.



Rosé wine in a pouch, in 1.5-litre packaging, soon became a success in the spring and summer of 2017. Easy to take with you, in eco-friendly packaging – and a great taste!

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Business Segment

SPIRITS

Arcus is the world's largest producer of aquavit and a leading player in the Nordic spirits market. Aquavit is the largest category, but we also sell a lot of proprietary vodka and bitters, and other spirits.

The primary focus of the Spirits business segment is to develop and market spirits brands, primarily Nordic spirits. The business segment has its own brands within all important spirits categories, as well as extensive agency operations for foreign products.

The operations of the Spirits business segment include product development, marketing and sales.

THE NORDIC MARKETS

Norway, Sweden and Finland are characterised by the three major state-owned retail monopolies, Vinmonopolet, Systembolaget and Alko, respectively.

In Denmark, spirits sales are unrestricted and spirits are primarily sold to consumers via supermarket chains. Sales are subject to highly competitive pricing, and participation in campaigns run by the chains is essential to promote sales. In Denmark, all alcohol advertising is

permitted. Spirits advertising is not permitted in Sweden and Finland, although some advertising of alcohol with a lower alcohol content is permitted.

Arcus has an important competitive advantage over its international competitors, due to the distinctive market situation in the countries with state-run alcohol monopolies. Arcus has local sales companies that have many years' experience from selling to the retail monopolies in their respective countries, and detailed knowledge of how these monopolies work.

GERMANY

In Germany, which together with the Nordic countries constitutes Arcus' domestic market, there are no restrictions on the sale of spirits. For Arcus, aquavit is the largest export category, and both German, Norwegian and Danish brands are well-represented. Malteser Aquavit is a German aquavit from Berlin with a long



Arcus' expertise from working with the alcohol monopolies is an important competitive advantage.

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BUSINESS AREA SPIRITS	2017	2016	2015	2014	2013
Total operating revenue (NOK million)	913.3	904.0	855.0	903.2	887.5
EBITDA (NOK million)	175.6	158.7	112.2	154.3	163.8
EBITDA adjusted for non-recurring items (NOK million)	182.8	162.6	113.0	142.0	166.3
EBITDA margin adjusted for non-recurring items	20.0 %	18.0 %	13.2 %	15.7 %	18.7 %

tradition in the German market. LINIE Aquavit and Aalborg Jubilæum are also popular. Sales and marketing in Germany take place via a local importer, supported by Arcus' own staff.

TAX-FREE

Tax-free retailers mainly purchase their goods directly from the producer. Due to its significant portfolio of own products and popular brands, the Spirits business segment is a significant supplier in the Nordic region. The most important categories are Norwegian and Danish aquavit, although cognac and vodka also hold a strong position.

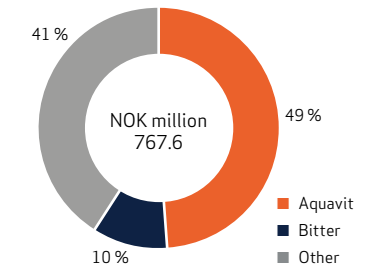
BRANDS AND AGENCY BRANDS

The largest proportion of brands produced in-house are Norwegian, Danish and German aquavits, although considerable volumes of such categories as vodka, bitters and gin are also produced. In addition, Arcus offers its own brands of whisky and grape spirits, based on imported spirits, bottled at the Gjelleråsen facility. The company owns a 34.75 per cent stake in the French cognac house, Tiffon SA, the producer of Braastad Cognac. Arcus has the sole rights to sell Braastad Cognac in the Nordic region.

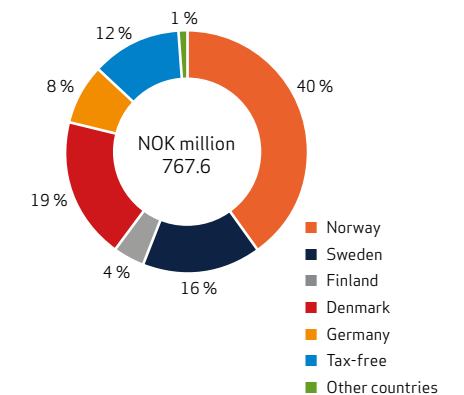
Arcus manages agencies for producers in several countries, the largest of which are the USA, the UK and France. When competing for the most attractive agencies, the Spirits business segment's expertise, consumer insight and close cooperation with the Swedish, Norwegian and Finnish alcohol monopolies are important competitive advantages.

Another advantage is the fact that Arcus is one of only a few players in the industry who are able to operate through-

External sales revenue by category



External sales revenue by country



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out the Nordic region. Even though the Nordic countries individually represent small markets for major international suppliers, the Nordic region in total generates a large customer base.

ACQUISITIONS

Arcus shall grow through organic growth, as well as small bolt-on acquisitions. Three acquisitions took place in 2017.

In January 2017, Arcus acquired the remaining 50 per cent of the Danish sales company, Det Danske Spiritus Kompagni. This ensures that Arcus can use this important sales organisation in full, and in accordance with its own business plan.

In August 2017, Arcus took over the Norwegian company, Bevco, a niche producer best known for its Dooley's Toffee Liqueur.

In the autumn of 2017, Arcus acquired the Hot n'Sweet brand, a very popular vodka shot. Hot n'Sweet has been sold in Denmark since 1992. There is potential for additional sales of this popular product, not only in Denmark, but



also in Norway and Sweden. Production of Hot n'Sweet has been transferred to Arcus' facility.

In the autumn of 2017, Arcus also took over the Swedish low-price brands Vanlig Vodka and Vanlig Gin. This gives Arcus a stronger footing in the important Swedish market, and the market share is increasing. Production of both vodka and gin have been moved to Arcus' production facility.

PREFERENCES AND TRENDS

For several years now, there has been an international trend for growth in the premium segment for the most important spirits categories, with increasing interest in specialised whiskey and exclusive aquavits, for example. In parallel, a growth in the low price segment indicates a degree of polarisation in the market.

Vodka is the best-selling category in the western world, and the Nordic region is no exception. There is a key trend for whisky to gain market shares over time, while cognac and grape spirits are losing ground, despite fluctuations from year to year and between markets. The bitters category is relatively stable. The aquavit category grew particularly in Norway. Low alcohol products are also gaining ground.

Small niche manufacturers of spirits are found in all the Nordic countries, producing primarily gin, aquavit and whisky. The number of micro distilleries is increasing, showing how the local production of spirits is following the same trend as microbreweries and a growing interest for local food traditions. Arcus is capitalising on this trend through its broad selection of regional aquavits and other locally-distilled spirits. With the small-scale craft beer operations at Atlungstad Brenneri in Stange, Norway, and the Snällersöds brewery in Ljungbyhed in Skåne, Sweden, Arcus has created excellent conditions for enhancing its position in the craft spirits market.

LEARN MORE ABOUT SPIRITS

Welcome to a tour of our production!

See arcus.no/om-oss/besok-vart-destilleri for a programme, tastings and menus, or contact oplevelse@arcus.no

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WHAT IS THE DIFFERENCE BETWEEN COGNAC VS, VSOP AND COGNAC XO?



1.6 million Norwegians like cognac, but an Arcus survey shows that many do not know much about it, and would like to learn more.

50 per cent of all cognac buyers do not know what VS, VSOP or XO signify. These are quality designations to indicate how long the youngest element of the blend may be matured.

Even though the minimum age requirement may be two, four and six years, respectively, the average age is usually much higher. An XO cognac may have elements that go 20-30 years back, or even longer.

Cognac is actually a highly versatile drink. If you go to Cognac in France in the summer, you would probably be served a cognac with tonic – neat – or garnished with ginger, lime and/or a slice of cucumber. The youngest qualities are best in cocktails, and an extra special drink is a couple of centilitres of cognac topped with champagne. Enjoy!

VS = Very Special: The youngest element must have matured for at least two years.

VSOP = Very Superior Old Pale: The youngest element must have matured for at least four years.

XO = Extra Old: The youngest element must have matured for at least six years. For XO, the producers have decided that as from 2018 the youngest age must increase to at least ten years. This is to enhance the quality experience for this exclusive variety.

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LINIE – A STORY OF GOOD TASTE

In 1805, the vessel *Trondhjems Prøve* was sent to the East Indies (Batavia) with dried, salted fish, stockfish and other items to barter for more exotic goods. Five barrels of spirits were also on the vessel.



Trondhjems Prøve arrived safely in Batavia, which the Dutch had colonised. Yet the Norwegian spirits could not compete with the local Batavia Arrack, so they had to carry it home again. Back in Trondheim, they discovered that the spirits carried on both the outward and return voyages had changed character significantly – it had become quite extraordinarily tasty. This was the first “Equator line” aquavit.

Today, all **LINIE aquavit is still transported in 500-litre sherry casks**. The aquavit matures in the casks and crosses the Equator twice on board the Wallenius Wilhelmsen ships. Each journey takes four months. The voyage through different climate zones, with varying humidity, waves and temperature differences, extracts flavour from the oak staves, as well as sherry left over from the earlier sherry production. The LINIE

aquavit’s voyage is an advanced form of accelerated maturation. Arcus always has around 1,000 casks en route on the high seas.

If you visit Arcus you can see the cask warehouse, with more than 8,000 aquavit casks. All of the sherry casks are purchased from sherry producers in Spain, and port and madeira casks can also be used to mature the aquavit. The casks are used time and time again, and the oldest casks can be up to a century old.

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Masi Agricola was named as "Winery of the year" in the Three-Glass Italian Wines Guide 2018.

Business Area

WINE

Arcus is the largest player in the Norwegian wine market and the second largest in Sweden. In Finland, Arcus has grown to be the third largest. In 2017, wines sales accounted for 60 per cent of Arcus' total sales.

The Wine business area covers imports, marketing and sales of wine in Sweden, Norway and Finland. Operations are mainly based on agencies, which are managed by Arcus' own wine import companies in each country, but also include in-house brands, produced according to specifications from the wine companies, and bottled in Arcus' facilities at Gjelleråsen.

THE NORDIC MARKETS

In Sweden, Norway and Finland, all wine sales to consumers are channelled through state retail monopolies.

The situation in Denmark is different, where consumers are free to buy wine in grocery stores and supermarkets.

The Danish market is subject to fiercely competitive pricing and competition from the stores' own brands, and profit margins are low. So far, Arcus has chosen to concentrate its Danish operations on spirits.

Marketing and advertising opportunities also vary between the countries. In Norway,

mass-market advertising is not permitted, while it is possible to advertise wine in both Sweden and Finland.

TAX-FREE

Tax-free players make the bulk of their wine purchases directly from the producers, and therefore their contribution to Arcus' wine revenue growth is minimal. In the autumn of 2016, Heinemann at Gardermoen Airport began to sell Ruby Zin red wine in bag-in-box, and in 2017, Color Line to sell the popular Falling Feather red wine.

AGENCIES AND BRANDS

Most of Arcus' wine sales in Sweden, Norway and Finland take place through national import companies in each country. These companies manage agencies for overseas producers' established brands.

Arcus will strengthen sales by maintaining and developing the agencies. This requires a strong network of contacts, in addition to professional wine expertise. The industry is



After just two months, Camillac was Vinmonopolet's 5th most sold Bordeaux wine.



Arcus' wine companies have substantial consumer insights in the Nordic wine market.

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BUSINESS AREA WINE	2017	2016	2015	2014	2013
Total operating revenue (NOK million)	1,540.9	1,552.4	1,466.6	1,281.3	1,177.1
EBITDA (NOK million)	186.5	194.2	197.1	180.3	192.8
EBITDA adjusted for non-recurring items (NOK million)	191.7	194.2	197.5	179.4	195.6
EBITDA margin adjusted for non-recurring items	12.4 %	12.5 %	13.5 %	14.0 %	16.6 %

characterised by personal relationships between producers and agents. That is why Arcus' import operations are organised into a number of smaller companies, several of which are owned by founders or key people with strong relationships to attractive suppliers. This model also encourages the continuation of an entrepreneurial approach and the continued development of the business.

There is a clear trend towards closer cooperation between producers and importers to develop products adapted to local preferences. Wines blended and bottled on special order from Arcus is one manifestation of this trend. Arcus holds a leading position in this segment.

BAG-IN-BOX

Both Norwegians and Swedes are major consumers of wine as bag-in-box. In both countries, bag-in-box red wine accounts for 58 per cent of all consumption, while for white wine the figure is 54 per cent. Arcus' fully-owned company, Arcus Wine Brands, imports wine which is filled as bag-in-box in Arcus' facility at Gjelleråsen. Both product development and branding are undertaken by Arcus Wine Brands, which gives the company a lot of flexibility and the ability to quickly adjust to market demand. At year-end 2017/18, 17 of the company's wines were listed permanently at Vinmonopolet (Norway), four at Systembolaget (Sweden) and one at Alko (Finland) – where sale had just commenced.

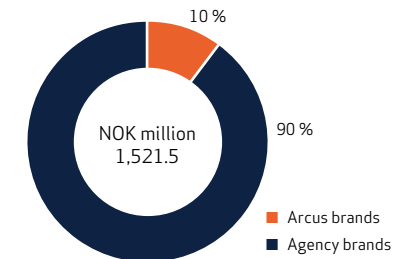
PREFERENCES AND TRENDS

There are differences in the taste preferences of consumers in Sweden, Norway and Finland, and with Arcus' expertise, this gives opportunities. The differences apply to grape varieties and

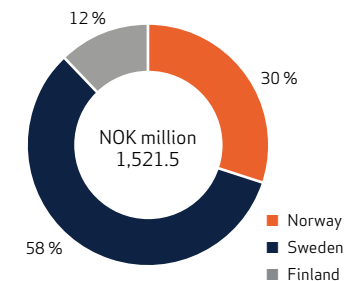
country of origin, as well as brands. In both Sweden and Norway, Italian, French and Spanish wine is most popular, but in Sweden new wine countries such as South Africa, Chile and Australia are relatively strong. Chile, Spain, France and Italy are the most popular wine producing countries in the Finnish market.

The wine market is focused on new products and all three countries experience high product turnover. Brand loyalty is low and wine brands have shorter life cycles than spirits brands. Consumer insight and the ability to innovate, in combination with market knowledge, are therefore crucial for maintaining a product portfolio that can be quickly adapted to meet new customer preferences.

External sales revenue by brands



External sales revenue by country



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Bag-in-box is popular in both Sweden and Norway, and in both countries it accounts for 58 per cent of red wine sales. Portuguese Periquita has become very popular in Sweden. Norwegians still love Italian wine, and Miopasso is one of Arcus' successes in this segment.

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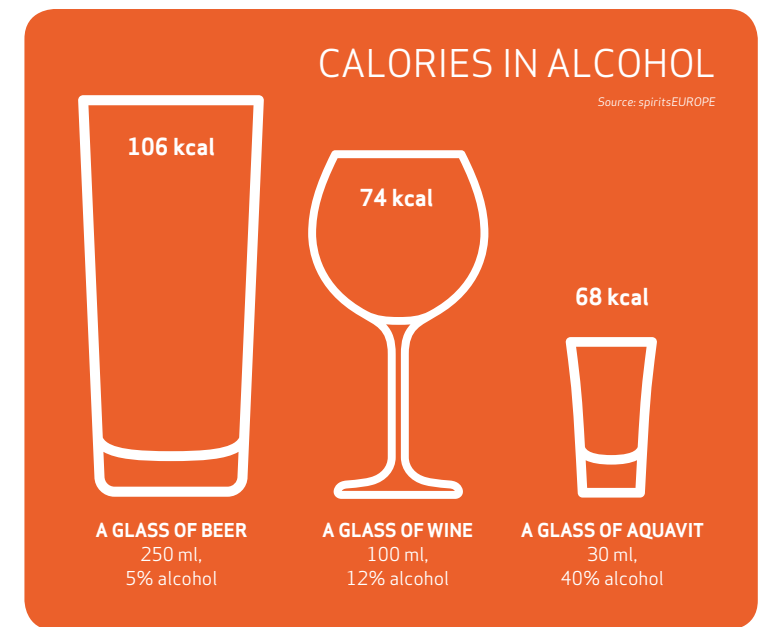
Doppio Passo is one of Arcus' most popular wines, and the amount of sugar has been reduced. Now there is only 9 grammes of sugar per 100 ml.

CALORIES IN ALCOHOL ARE NOT JUST ABOUT SUGAR

Many of us only count calories, and in alcoholic beverages sugar is not the only source of calories. Most red and white wines have far more calories from alcohol than from sugar.

Both the amount we drink and the alcohol content are important. For example, a glass of beer has around 40 per cent more calories than a glass of wine.

As a rule, sugar gives fewer calories than alcohol: in a medium-sweet white wine with 10 per cent alcohol and 28 grammes of sugar per litre, sugar accounts for only around 16 per cent of the calorie content, while alcohol accounts for around 84 per cent.



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WHY IS CHABLIS SO POPULAR?

No-one drinks more Chablis than Norwegians, and Chablis wines are quite unique. They are characterised by good acidity, freshness and a distinct minerality. Chablis is quite simply a perfect match for seafood, which may be the explanation for its popularity. A lot of Chablis is drunk in the world, but on a per capita basis, no country drinks as much as the Norwegians.

Chablis lies in the northernmost district of the Burgundy wine region, around two hours' drive south-east of Paris. It is a wonderful small

village, especially if you like rustic French cuisine, shellfish, peace and quiet, and good white wine.

Domaine Laroche is one of the oldest and best preserved properties in the heart of Chablis, and is where Arcus sources its wine. The vineyard is run by a dynamic young team who are passionate about quality. The wine grower, Gregory Viennois, works in harmony with nature and swears by natural organic production of outstanding wines.



The best Chablis wines are considered to be among the very best white wines.



Chablis is the northernmost district in the Burgundy wine region in France. The vines are planted around the village of Chablis, and are almost exclusively Chardonnay grape varieties.

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GROUP SUPPLY CHAIN

Group Supply Chain ensures the efficient flow of goods across business areas and national borders. At its advanced production facilities at Gjelleråsen, outside Oslo, Arcus' Norwegian and Danish aquavit brands are produced, besides a lot of vodka, and large volumes of wine are bottled.

Group Supply Chain (GSC) is responsible for purchasing, production, storage, bottling, distribution, logistics and warehousing across the business areas. GSC's financial figures are reported together with the accounts of the Spirits business area.

Based on their own sales forecasts and other underlying material, the Wine and Spirits business areas place orders with GSC, which then plans the purchasing, production and stock levels. The purchase of finished goods, as part of the agency operations, is handled by the Wine and Spirits business areas themselves.

PRODUCTION FACILITIES

At Gjelleråsen outside Oslo, GSC is responsible for operating the process, the raw materials warehouse and the cask warehouse, the latter consisting of more than 8,000 casks for the maturing of aquavit and other spirits. At all times there are always around 1,000 casks of aquavit on board the Wallenius Wilhelmsen ships, a four-month voyage during which the Equator is crossed twice. GSC is also responsible for the operation and maintenance of the

spirits production facility, and the spirits and wine bottling facility.

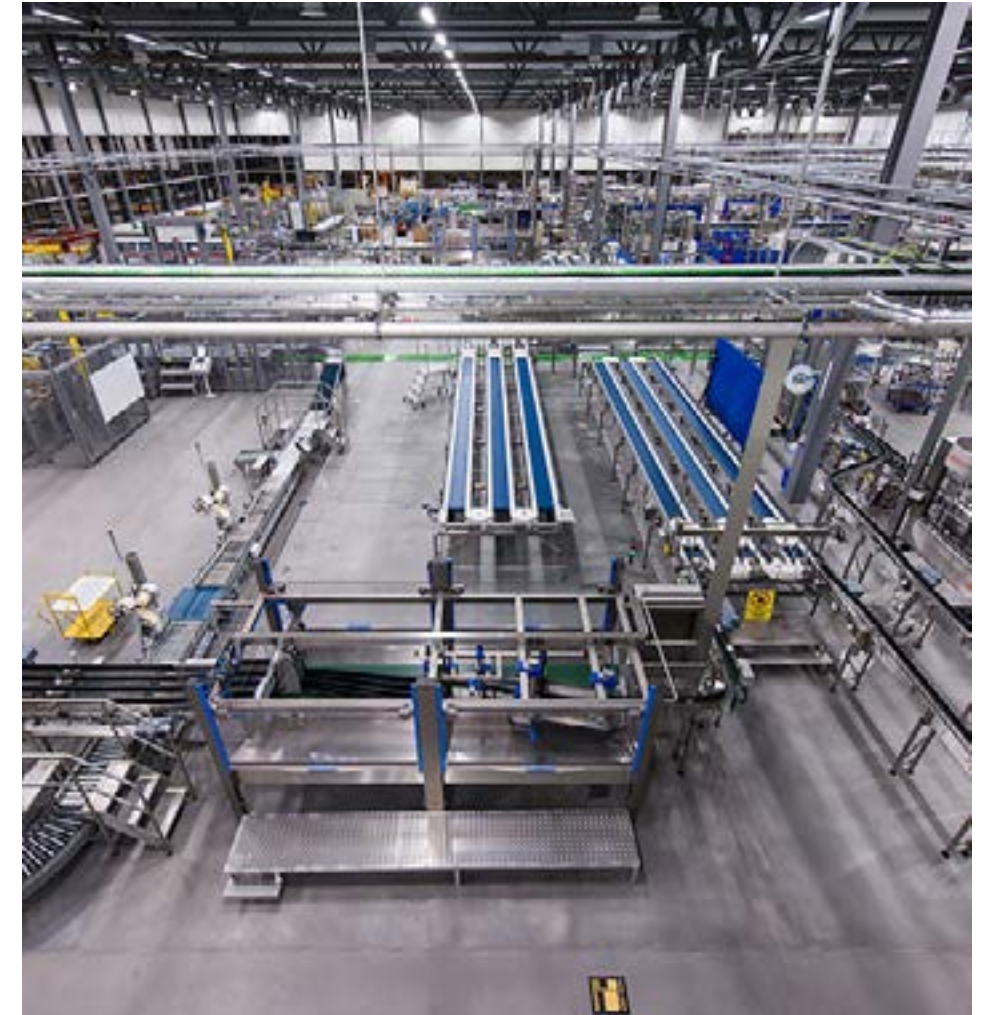
The facilities at Gjelleråsen are one of Europe's newest and most advanced, and one of very few with their own accredited laboratory for quality assurance and monitoring. The laboratory carries out chemical, microbiological and sensory tests. All products to be bottled at the facilities in Gjelleråsen are checked and approved by the laboratory prior to bottling. The laboratory also sells its services externally.

The facilities offer extensive capacity and one of GSC's strategic goals is to achieve the highest possible degree of utilisation.

RESTRUCTURING AND INNOVATION

With modern facilities GSC now performs large bottling assignments for external companies.

Finished goods warehousing and distribution are part of GSC's responsibility. In Norway, these functions are outsourced to Vectura, who distribute directly to Vinmonopolet and hotels and restaurants. In other countries, distribution takes place via partners and wholesalers under agreements with GSC.



The facility at Gjelleråsen near Oslo is one of Europe's newest and most advanced.

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Business Area

DISTRIBUTION

Vectura AS delivers alcoholic drinks from the entire world to the whole of Norway. The company has a market share of 47 per cent for deliveries to Vinmonopolet. 2/3 of revenue concerns other customers besides Arcus. Vectura has a modern logistics facility at Gjelleråsen, outside Oslo.

Vectura delivers a full range of inbound logistics services, storage and product distribution. Vinmonopolet, the hotel and restaurant industry and wholesalers are the main customers. Its partners include well over a hundred producers/importers of alcoholic beverages, covering the entire range from the largest industry players to small crafts producers. The products handled originate from more than 40 countries.

Vectura AS was established in 1996 and is owned by Arcus ASA. The company is located at Gjelleråsen, outside Oslo, in the same facilities as Arcus, and is closely integrated with this operation. Vectura has state-of-the-art logistics facilities, and handles approximately 10,000 different products.

Vectura has 160 employees in total and turnover of NOK 284 million in 2017.

PURCHASING AND WHOLESALE SERVICES

Vectura's purchasing department is made up of experienced buyers. Proactive advisory services to importers, as well as digital collaboration, help these importers to ensure deliveries of the right quantities at the right time and cost. This provides excellent, consistent results for purchasing portfolios managed by Vectura: increased delivery precision, reduced stocks, low costs,

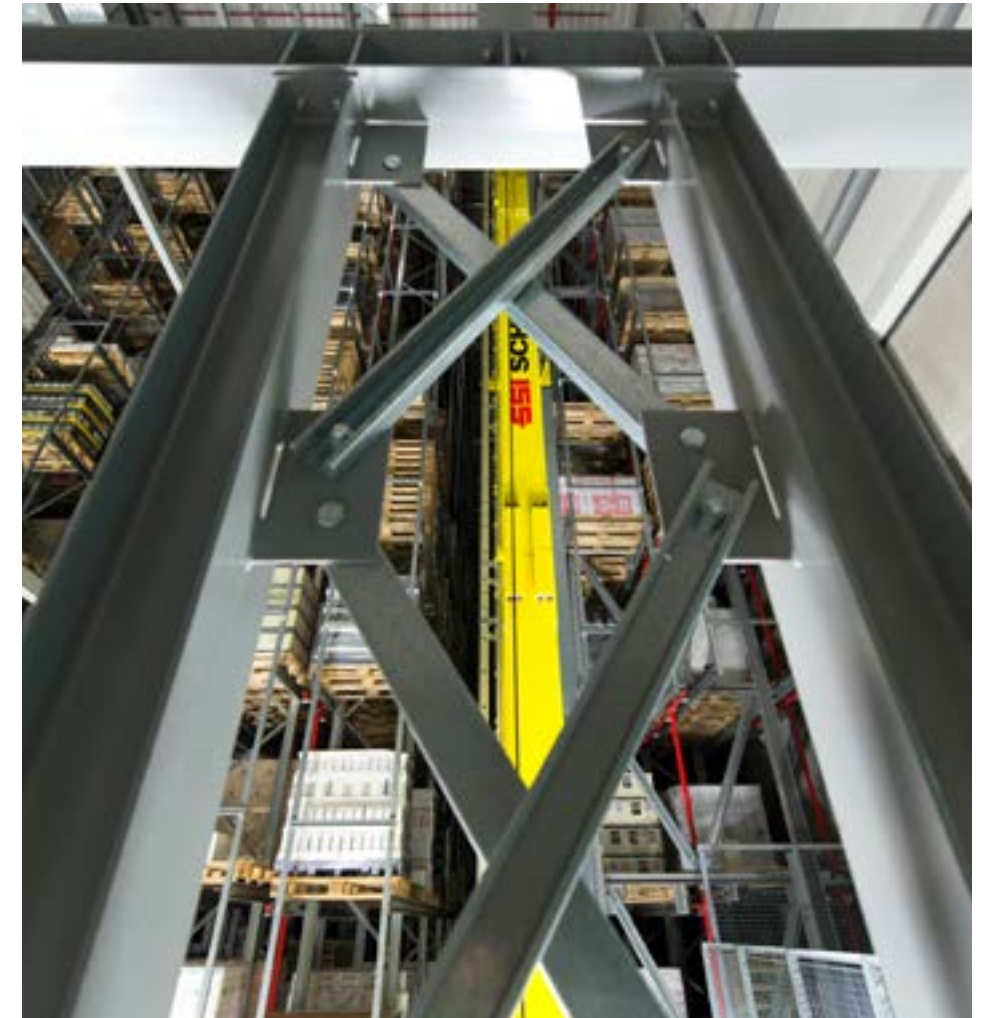
high stability and a high degree of predictability. Vectura also offers purchasing forecasts, extensive advisory services and various key performance reports that measure delivery services, circulation and forecasting accuracy. The portfolios of all importers with logistics agreements with Vectura are automatically available to all customers in the hotel and restaurant segment (HORECA customers).

SALES FORCE

The Vectura sales force is the company's point of contact with customers in the HORECA segment, in the purchasing chains and Vinmonopolet. The primary task of the sales force is to meet the customer's wishes and needs, in line with the Vectura business model. The customers are also free to make their purchases through Vectura's online store.

SHIPPING AND CUSTOMS

Through its network, Vectura offers shipments to Norway from more than 800 suppliers. The size of its network makes it possible to be competitive, both with fully loaded cargoes and singular transports. Vectura has its own customs service for all goods imported via the company's warehouse.



Vectura has one of the most modern logistics facilities in the industry.

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WAREHOUSING SERVICES

Vectura's modern warehousing facilities at Gjelleråsen can hold a total of 36,000 pallets. The facilities are temperature-controlled and fully automated. A monorail transport system is used for goods restocking from the raised storage platforms to the picking stations. There is also an automated weight control station for pallets with picked goods. This will detect potential errors in the shipment before the goods are transported to the customer.

DISTRIBUTION

Vectura has country-wide distribution to both the HORECA market and all of Vinmonopolet's stores. In the regions close to Oslo (Østlandet), this service is provided via an in-house fleet of trucks. For the rest of the country, distribution is handled via a partnership agreement with postal services, Bring.

ENVIRONMENT

Arcus must be an active contributor to a better environment. One of the goals is to reduce carbon dioxide emissions. Vectura uses lorries to transport goods, and it has been decided to reduce carbon dioxide emissions by 30 per cent from 2017 to 2020. This will be achieved with new and more environmentally-friendly engines in new vehicles, and by ensuring that important subsuppliers such as Bring also reduce their emissions on at least the same scale.

Vectura sorts its waste at source, ensuring that bottles, plastic, paper and aluminium are sorted. The remaining waste fractions that are not sorted at source must be reduced by 30 per cent during 2017-2020.

BUSINESS AREA DISTRIBUTION

	2017	2016	2015	2014	2013
Volume (millions of litres)	44.9	43.5	40.6	45.0	48.0
Total operating revenue (NOK million)	284.4	262.9	250.1	272.0	286.7
EBITDA (NOK million)	13.5	2.2	-19.2	-37.2	-68.9
EBITDA adjusted for non-recurring items (NOK million)	14.1	2.6	-15.7	-34.6	-63.1
EBITDA margin adjusted for non-recurring items	5.0 %	1.0 %	-6.3 %	-12.7 %	-22.0 %



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EMPLOYEES AND EXPERTISE

At year-end, the Group had 420.9 FTEs (full-time equivalents), distributed as 427 permanent employees, compared to 409 one year before. The key reason for the increase is additional employees in Denmark. Committed employees are crucial to the success of each business area. Research shows that increased mastery encourages greater commitment, improved performance and increased work quality. The Group, therefore, invests in competence development and measures to increase the mastery of those skills.

To strengthen leadership within Arcus, a leadership programme, ArcusAcademy, was launched in January 2015. The aims are to

enthuse customers, make change happen, and inspire teams and employees.

ArcusAcademy is developing and has now been defined as a programme to offer training and programmes which contribute to implementing Arcus' strategy. Arcus employees can also attend Canica's brand school, held by Orkla's brand school.

Twice a year, a survey is conducted to assess the commitment of Arcus-Gruppen and Vectura employees. The survey in 2017 showed a small increase from the survey in 2016, but the results vary from department to department, and between business areas.

On a scale of 1-5, where 5 is the best, the result of the survey for Arcus-Gruppen AS with

subsidiary was 3.9 in November 2017. The result for Vectura AS was 3.8, an increase of 0.3 since 2016. The target for 2020 is 4.1 for the entire Group and will place Arcus among the best 10 per cent Norwegian companies.

Arcus has established tools and processes for performance management. The purpose is to set clear goals for the Group's employees, and to create an understanding of how they relate to the Group's overall objectives and priorities. Performance evaluation in addition to career and succession planning are important elements.

An annual Management Audit report is submitted to the Board of Directors, with special focus on a succession plan.

HEALTH, SAFETY AND THE ENVIRONMENT

Arcus is strongly focused on health, safety and the environment (HSE).

Great emphasis is placed on avoiding accidents and injuries. Risk assessments, job safety analyses and root cause analyses are therefore performed on a regular basis at our facilities in Norway.

Arcus is a company that handles flammable liquids. In addition to the high degree of safety embedded in the buildings, production processes and procedures, comprehensive emergency measures are in place for dealing with adverse incidents. Employees take part in annual courses and training on how to best handle accidents. A separate rescue staff team

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undergoes annual training in a hypothetical, but comprehensive emergency situation. This training is conducted with police, fire brigade and ambulance personnel present.

Arcus ASA is an IA (inclusive working life) company in Norway, and works closely with occupational health services and NAV

(Norwegian Labour and Welfare Administration) to reduce sick leave. Individual follow-up and facilitation are important tools in this work. For Arcus-Gruppen with subsidiaries in Norway, sick leave amounted to 4.5 per cent in 2017, and the target for 2018 is sick leave no higher than 4.2 per cent. In Vectura AS, sick leave was

8.9 per cent in 2017, and the target for 2018 is sick leave no higher than 7.5 per cent. Sick leave varies between departments and business areas. For the Arcus ASA Group in Norway, total sick leave amounted to 6.6 per cent in 2017, which is an improvement of 0.1 percentage point from 2016. For comparison,

NHO's sick leave statistics for beverage production in 2017 show total sick leave of 6.7 per cent.

Sick leave statistics and HSE incidents are presented each month at departmental meetings and on bulletin boards.

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Arcus' production facility outside Oslo, inaugurated in 2012, is as large as six soccer pitches.

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GROUP MANAGEMENT



Kenneth Hamnes
Group CEO of Arcus ASA

Master of Business Administration
Group CEO since August 2015.
CEO Maarud 2009-15, Sales Director at Orkla-owned Stabburet 2006-09 and Bakers 2004-06. Consultant/Project Manager, Boston Consulting Group, 2000-04 and Brand Manager/Key Account Manager, Lilleborg (Orkla), 1997-2000.



Erik Bern
Group Director, Group Supply Chain, Purchasing and Property Management

Master in Engineering
Member of the Group Management since 2012. Project Director, Arcus-Gruppen, 2008-13, Managing Director, Vectura AS, 2012-13, Factory Manager, 2000-03, Technical Director, Ringnes, 1999-08, and Sales Manager, project/process design Landteknikk 1986-99.



Erlend Stefansson
Group Director Spirits

Master of Business Administration
Member of the Group Management since 2012. Sales Director, Ringnes, 2008-12, CEO Spits ASA, 2006-08, CEO Virtual Garden/Staal, 2003-06, between 1993 and 2003 various roles within sales, marketing and consulting (including McKinsey 1993-1996).



Christian Granlund
CEO Vectura AS

Master of Business Administration
VP Sales, Uteliv Ringnes 2015-2017. Logistics Director, Ringnes 2012-2015. Factory Director, Farris/Imsdal 2010-2012. Planning Director, Ringnes 2008-2010. Prognosis & Planning, TINE 2003-2008.



Thomas Patay
Group Director Wine Norway

Bachelor of Arts, Major in Marketing
Member of the Group Management since 2008. Managing Director of Bibendum, 2003-08. Previously held management positions within sales and marketing of FMCG in Norway and internationally, including as Marketing Director of Steen & Strøm ASA.



Per Bjørkum
Group Director IR and Communications

Bachelor of Commerce, Master of Business Administration
Member of the Group Management since January 2013. Partner in First House, 2009-12, Director of Trolltind Kommunikasjon, 2003-09, GCI Monsen, 2000-03, VP Communications NetCom, 1996-00, journalist and editor, Reuters Norge, 1992-96.



Svante Selling
CEO Vingruppen i Norden AB (Wine Sweden and Finland) Sommelier

Member of the Group Management since February 2018. Nordic Sales Director, Arcus Brennevin, 2016-17, Country Manager, Arcus Norge (Brennevin), 2015, Country Manager Arcus Sweden, 2008-15, Key Account Manager for Systembolaget, at Pernod Ricard 2005-08.



Bjørn Delbæk
Group Director HR

Military Academy and Master's Programme in HR & Change Management
Member of the Group Management since June 2015. HR Director Vectura and Director Change programme in Arcus, Program Director NHO, Partner and Advisor, HR Director/Vice President Ringnes/Carlsberg 1995-2008. Head of Negotiation YS 82-94, and army officer 1971-80.



Sigmund Toth
CFO, Group Director FinanceIT

Master, Business Administration (Diplôme ESSEC), ESSEC, France
Member of the Group Management since 2016. Head of Business Controlling & Treasury, Arcus-Gruppen, 2015-16, Associate and Engagement Manager, McKinsey, 2012-15, Head of Sales Controlling, Procter & Gamble (P&G), 2010-11, Head of Corporate Finance, P&G, 2008-09, Business Controller, P&G, 2002-08.

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- Goals and obligations
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- Bag-in-Box is environmentally smart



Corporate Social Responsibility

Arcus has two overall obligations in its CSR work: to continue to work to reduce the environmental impact of the entire value chain, and to work continuously to ensure responsible alcohol consumption. In 2017, Arcus set concrete and ambitious goals for how the Group will continue the good work of contributing to a better society.

ENTIRE VALUE CHAIN

The Group will continue recent years' successful efforts to reduce its environmental impact and create a sustainable society. The new aspect from 2017 is that the goals are no longer selective, but cover the entire value chain. Arcus' four goals for 2012-2016 have been replaced by 11 new goals. They apply to the 2017-2020 period. The goals concern all three business areas, and thereby the entire Group.

RESPONSIBLE ALCOHOL CONSUMPTION

As a major spirits producer and wine importer, Arcus has a special responsibility for contributing to responsible alcohol consumption. Arcus has assumed the active role of promoting responsible alcohol consumption. Every year, since its launch in 2015, the "Think before you drink" campaign has increased in scope. Responsible alcohol consumption and "Think before you drink" are an important part of the 11 new goals set for 2017-2020.

ARCUS' ENVIRONMENTAL GOALS AND RESULTS, 2012-2016

Goal	Result
Use more renewable energy for heating	Increased to 100 per cent
Reduce our energy consumption in production	Reduced by 13 per cent
Reduce our water consumption in production	Reduced by 8 per cent
Reduce waste of wine in production	Reduced by 40 per cent

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GUIDELINES FOR ARCUS' CORPORATE SOCIAL RESPONSIBILITY

To preserve competitiveness and realise its ambitions, Arcus must have a relationship of trust with its most important stakeholders: employees, customers, suppliers, owners, politicians and government authorities. This involves integrating a responsible approach to alcohol consumption, workers' rights, social issues, the environment and anti-corruption in the day-to-day operations of the company. An annual assessment of the corporate social responsibility report, prepared by management, is evaluated by the Board of Directors.

CODE OF CONDUCT

Arcus supports and participates actively in the Nordic alcohol monopolies' (NAM) CSR initiative and complies with all requirements of the NAM Code of Conduct. The Group expects the same from all our suppliers and partners. This work is monitored through established follow-up systems. Arcus' Code of Conduct must be part of all purchasing contracts and agreements entered into by Arcus.

UN GLOBAL COMPACT

Arcus supports the UN Global Compact initiative for social responsibility work. The Group adheres to the ten principles laid down in the Global Compact for the environment, human rights, standards for working life and anti-corruption. Arcus' annual Global Compact reports are available at www.unglobalcompact.org

ETHICAL GUIDELINES

The Group's ethical guidelines define, clarify and ensure a common business ethics framework to outline the expectations for the ethical and appropriate behaviour of all employees.

The Group's ethical guidelines stipulate that Arcus has zero tolerance for discrimination,

harassment and corruption. All employees are required to sign a declaration stating that they are familiar with the CSR policy and the company's ethical guidelines, and that they understand what it means to comply with these. All managers with staff responsibility are required to discuss the ethical guidelines with their employees on an annual basis. This will strengthen compliance with the guidelines.

As part of the ethical guidelines, provision is also made for the notification of any misconduct within the Group. Whistle-blowers can use a designated phone number, established for this purpose. All employees have been made aware of this, and the fact that their anonymity is guaranteed. There were no reported cases of whistle-blowing in 2017.

DRUGS AND ALCOHOL POLICY

Arcus has its own drugs and alcohol policy, aiming to combat alcohol abuse among its own employees. All employees are expected to comply with the Group's drugs and alcohol policy. The Group has its own committee (AKAN) to prevent gaming and/or substance abuse, and to help those who already have an addiction to quit.

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2017-2020:
**PRIORITIES FOR
 SUSTAINABLE
 DEVELOPMENT**

- 1 Reduce Arcus' environmental impact ▶
 - 2 Increase the number of environmentally-friendly products ▶
 - 3 Promote responsible alcohol consumption ▶
 - 4 Achieve a high level of safety in the workplace ▶
- Read more about the Group's priorities and 11 new goals** ▶

THINK BEFORE YOU DRINK. MAKE GREAT MOMENTS EVEN BETTER.

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**2017-2020:
PRIORITIES FOR SUSTAINABLE DEVELOPMENT**

1

Reduce Arcus' environmental impact

EXPECTATIONS OF ARCUS

OUR MISSION

We must continue the work to reduce our environmental impact.

GOOD RESULTS

In 2012-2016 Arcus achieved important and permanent environmental adjustments:

- Our water consumption in production has been reduced by 8 per cent.
- Waste of wine in production of wine has been reduced by 40 per cent.
- Use of renewable energy for heating has increased to 100 per cent.

ARCUS' GOALS 2017-2020

1. EMISSIONS

In 2020, Vectura's CO₂ emissions must be reduced by 30 per cent from the 2017 level.

2. RECIRCULATION

In 2020, the volume of waste that cannot be recirculated must be reduced by 30 per cent from 2017.

3. ENERGY

In 2020, energy consumption in the production process must be reduced by 20 per cent from 2017.



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**2017-2020:
PRIORITIES FOR SUSTAINABLE DEVELOPMENT****2****Increase the number of
environmentally-friendly products****EXPECTATIONS OF ARCUS****OUR MISSION**

As a major producer, we are aware of our environmental impact. The packaging we use is one of the most important factors, so that we must continue our systematic efforts to use more environmentally-friendly packaging.

Arcus will also work to increase its ecologically and organically developed products, thereby contributing to environmentally-friendly production.

ARCUS' GOALS 2017–2020**1. PACKAGING**

In 2020, 35 per cent of our own bottling will be in recirculated plastic bottles.

2. PRODUCTS

In 2020, 15 per cent of all items sold must be produced on an environmentally-friendly basis.



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**2017-2020:
PRIORITIES FOR SUSTAINABLE DEVELOPMENT****3****Promote responsible alcohol consumption****EXPECTATIONS OF ARCUS****OUR MISSION**

We take a serious view of the problems related to alcohol abuse.

PROACTIVE

We will continuously market the "Think before you drink" campaign towards consumers, employees and other groups in contact with Arcus.

2017 was a test year for marketing "Think before you drink" to high school graduates, as a public awareness campaign without identifying Arcus as the originator. This campaign was well-received by school-leavers, and will continue in 2018.

ARCUS' GOALS 2017-2020**1. FOR PRODUCTS**

In 2020, "Think before you drink" will be included on 75 per cent of the products bottled by Arcus.

2. EMPLOYEES AS AMBASSADORS

During this period, all employees must be aware of Arcus' attitude to responsible alcohol consumption.

3. PROFILING

During this period, Arcus will promote "Think before you drink" in all relevant profiling.

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**2017-2020:
PRIORITIES FOR SUSTAINABLE DEVELOPMENT****4****Achieve a high level of safety in
the workplace****EXPECTATIONS OF ARCUS****OUR MISSION**

Our employees are vital to our success. We must have sustained high focus on health, safety and the environment in the workplace, and make a targeted effort to avoid injuries and accidents.

We must have an inclusive workplace where people with special challenges can also succeed.

ARCUS' GOALS 2017–2020**1. INJURIES**

Zero absence related to injuries.

2. SICK LEAVE

Arcus must have sick leave below 5.8 per cent, compared to the Norwegian industry average of 6.0 per cent (2016, NHO Mat og Drikke).

3. SOCIAL RESPONSIBILITY

Arcus must have at least four employees with special challenges, who are people who need assistance to be part of the workforce.



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ARCUS DONATED 6,000 BOTTLES OF WATER TO HIGH SCHOOL GRADUATES

High school graduates celebrations are a time when many young people consume a lot of alcohol. Many of them have little experience with drinking alcohol, and are often under a lot of pressure to drink. School-leavers also have a big influence on other young people and many look up to them. This is the background to Arcus' "Think before you drink" campaign targeted at high school graduates in the spring of 2017. The campaign is repeated in 2018.

ACTIVITIES FOR THE 2017 SCHOOL-LEAVING CAMPAIGN

- "Think before you drink" on the school-leavers' popular ID wristband, together with Amnesty's "No is no. Rape = Sex without consent".
- The "Think before you drink" message on school-leavers' social media.
- Evening before the celebrations: Text message with the "Think before you drink" message to around half of Norway's 45,000 school-leavers.
- No promotion of Arcus. The sender of the message was "Think before you drink".

CAMPAIGN AT THE TRYVANN FESTIVAL

- Distribution of 6,000 filled water bottles: easy to attach to your school-leaver outfit.
- Water stations for easy filling of empty bottles.
- Free water reduced alcohol sales, especially during the last two hours.
- Very good feedback from the police, medical teams, Oslo municipality, parents and, not least, school-leavers themselves.



Text messages are sent to school-leavers on the evening that the celebrations begin.

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Tryvann, Oslo May 2017: Busy queues all night to fill empty water bottles.

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COLD OUTDOORS, GROUND HEATING INDOORS

Arcus' head office and production facilities cover an area equivalent to six soccer pitches. This entire area is heated with ground heating, or geothermal heating. This geothermal heating is surplus heat from the ground. This is clean, non-polluting, energy that keeps heating costs down.

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BAG-IN-BOX IS ENVIRONMENTALLY SMART

A lightweight packaging type is an environmentally-smart choice. Choosing environmentally-smart packaging means choosing products with a small CO₂ footprint. The less the packaging weighs, the less energy transport will require. Glass production also requires a lot more energy.

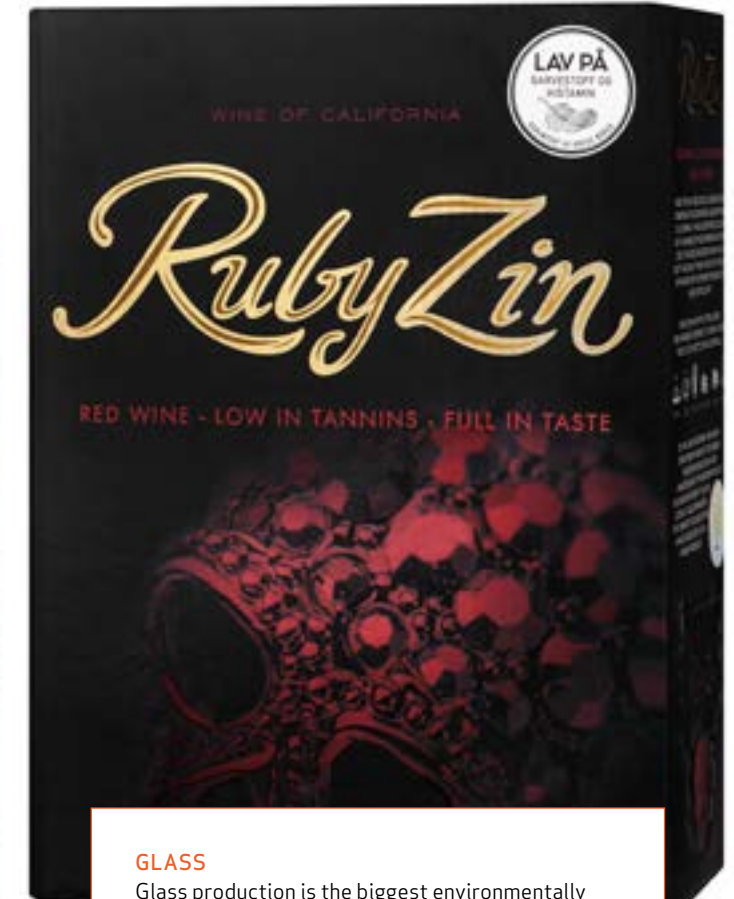
At both Systembolaget and Vinmonopolet the “environmentally-smart packaging” label can be picked out. All products with packaging weighing less than 450 grammes are defined as environmentally-smart. This makes it easy to pick a green solution.

Bag-in-box wine, bottled at Arcus in Norway, has two clear advantages to reduce the CO₂ footprint:

1. Wine is shipped from foreign producers in 25,000-litre tanks, before bottling at Arcus. This eliminates unnecessary packaging.
2. The wine is bottled in environmentally-smart, lightweight packaging. Bag-in-box packaging requires little energy for production and for recirculation.

The bottled products' short route to the consumer has a third advantage: the wine stays fresh, which safeguards the good taste.

Did you know that 58 per cent of all red wine consumed in Norway and Sweden comes from bag-in-box?



GLASS

Glass production is the biggest environmentally adverse factor in the alcohol monopolies' activities. This was shown in a study from 2016, commissioned by the Nordic alcohol monopolies. Read more about the study here: goo.gl/aM2PNy

CORPORATE GOVERNANCE

Arcus ASA ("Arcus" or the "Company") considers good corporate governance to be a prerequisite for value creation and trustworthiness and for access to capital. In order to secure strong and sustainable corporate governance, it is important that the Company ensures good and healthy business practices, reliable financial reporting and an environment of compliance with legislation and regulations. Arcus' Board of Directors (the "Board") actively adheres to good corporate governance standards and will at all times ensure that Arcus complies with "The Norwegian Code of Practice for Corporate Governance" most recently revised on 30 October 2014 (the "Code") as issued by the Norwegian Corporate Governance Policy Board, or explain possible deviations from the Code. The Code can be found at www.nues.no. Arcus has governance documents setting out principles for how business should be conducted, and these also apply to Arcus' subsidiaries (together with Arcus, the "Group"). The Code covers 15 topics, and this statement covers each of these topics. Information concerning corporate governance pursuant to section 3-3 b of the Norwegian Accounting Standard Act is included in the section below.

Arcus holds the view that its current policies for corporate governance are in line with the latest version of the Code. The following section explain how Arcus has addressed the various issues covered by the Code.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

A corporate governance policy was adopted by the Board on 10 October 2016 for and on behalf of the Company and is, in all material

respects based on the Code, to which the board has resolved that the company shall adhere. The Board will ensure that the Company at all times has sound corporate governance.

Arcus works continuously to develop attitudes and monitoring systems which live up to the expectations set for a significant Nordic player in the wine and spirits. The Group defines its social responsibility through its corporate social responsibility policy which is available at www.arcus.no/investor. The company also sets clear standards for itself and its employees through its ethical standards, environmental policy, workplace regulations and other internal guidelines. Arcus' values are *Market Focused, Determined and Collective*.

Deviations from the Code: None

2. BUSINESS

Arcus is involved in the production, bottling, import, marketing, sale and distribution of wine and spirits. The Group is represented in all Nordic countries, with subsidiary companies in Norway, Sweden, Denmark and Finland, as well as in Germany. The Group has further exports of spirits to markets outside the Nordic region and Germany, most importantly to the United States.

Arcus' business is defined in the Company's articles of association as follows:

The company's business shall entail the import, export, production, storage and distribution of alcoholic beverages and other goods, and other activities related to this business, as well as the ownership of participations in other companies that conduct such business.

The articles of association are available on the Company's website: www.arcus.no/investor. To achieve the objective set forth in the articles of association, the Company has established a strategy for profitable growth, primarily in the Group's home markets, the Nordic countries and Germany, based on its own brands and agency brands within wine and spirits, as well as logistics and distribution in the Nordic region.

Deviations from the Code: None

3. EQUITY AND DIVIDENDS

The shareholder's equity as of 31 December 2017 was NOK 1,669,415, which represents 37 per cent of the Company's total assets. In the opinion of the Board, Arcus' equity capital is appropriate for its objectives, strategy and risk profile.

The Board has resolved to target a dividend pay-out ratio of 50-70 per cent of the Company's net profit for each year going forward.

The Board may obtain authorisation from the general meeting of shareholders to buy back Arcus shares in the market. In such cases, the Board will normally request that the shares be acquired in the open market, and that the authority lasts no longer than until the next general meeting. At the extraordinary general meeting on 3 May 2017, the Board was given an authorization to acquire own shares in the Company on behalf of the Company with an aggregate nominal value of up to NOK 136,000. The authorisation expires at the annual general meeting in 2018.

When the general meeting of shareholders considers whether or not to authorise the Board to carry out share capital increases for multiple purposes, each purpose must be considered separately by the meeting. Such authorisation will be limited in time, and will last no longer than until the date of the next general meeting. Authorisation granted to the board of directors is restricted to specific purposes.

At the extraordinary general meeting on 3 May 2017, the Board was given an authorisation to increase the share capital of the Company by up to NOK 136,000. The authorisation may only be used to finance further growth and to issues shares as consideration on the acquisition of other companies/activities/assets, or to finance such acquisitions. The authorisation expires at the annual general meeting in 2018.

Deviations from the Code: None

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Arcus has only one class of shares. Each share in the Company carries one vote, and all shares carry equal rights, including the right to participate at general meetings of the Company. The nominal value of each share is NOK 0.02.

If the board resolves to propose to the general meeting a share issue without pre-emption rights for existing shareholders, the justification shall be publicly disclosed in the notice to the relevant general meeting.

In the event that the Board decides to use its current authorisation to re-purchase its own shares, the transactions will be carried out through the stock exchange or at prevailing stock exchange prices if carried out in any other way.

The Board is currently authorised to set aside the pre-emption rights of existing shareholders in capital increases if it exercises its authority to issue new shares. This is to simplify the procedure in connection with capital increases with the intention to finance further growth and/or the offering of shares as consideration in acquisitions where this is deemed a favourable term of settlement. If the Board resolves to carry out a share issue without pre-emption rights for existing shareholders based on its authorisation, then the justification shall be publicly disclosed in a

CORPORATE GOVERNANCE

stock exchange announcement issued in connection with the share issue.

The Board will arrange for a valuation to be obtained from an independent third party, in the event of a not immaterial transaction between the company and its shareholders, a shareholder's parent company, members of the board, executive management or closely-related parties of any such parties.

Members of the Board and executive management are obliged to notify the Board if they have a significant, direct or indirect, interest in any transaction carried out by the Company other than by virtue of their position within the Company. The Board will report in the annual report any transactions with related parties.

The Company has implemented rules of procedure which state that the members of the Board and the Company's chief executive officer may not participate in discussions or decision of issues of significant importance to the relevant person or anyone affiliated with him/her.

Deviations from the Code: None

5. FREELY NEGOTIABLE SHARES

All shares are freely negotiable with no form of restriction on negotiability.

Deviations from the Code: None

6. GENERAL MEETING

The interests of the Company's shareholders are primarily exercised at the Company's general meetings. It is the Company's goal that as many shareholders as possible are given the opportunity to participate in its general meetings and that the general meetings are organized so as to ensure that they represent an effective forum for the Company's shareholders to express their views.

Notices of general meetings are made available on the Company's website, www.arcus.no/investor, and through a separate notice to the Oslo Stock Exchange at least 21 days in advance of the general meeting.

The notice contains detailed information on the resolutions proposed and matters to be considered at the general meeting. It includes the deadline for shareholders to register their intention to attend the general meeting, as well as instructions on how they can cast their votes by proxy. The deadline for registration is set as close to the date of the general meeting as possible. The notice shall also include information regarding the right of shareholders to propose resolutions for consideration by the general meeting.

The general meeting votes for each candidate nominated for election to the company's corporate bodies. To the extent possible, the form of proxy will facilitate separate voting instructions for each matter to be considered by the meeting and for each of the candidates nominated for election. It is possible to vote in advance.

When documents concerning matters that are to be dealt with at a general meeting have been made accessible to the shareholders on the Company's website, the Board may decide that the documents shall not be sent to shareholders by ordinary mail. This also applies to documents which, according to law, shall be included in or enclosed with the notice of a general meeting. A shareholder can, however, demand that documents concerning matters that are to be dealt with at a general meeting be sent to him or her by ordinary mail.

The notice of a general meeting contains a reference to the Company's website, where shareholders can access relevant documents and, if appropriate, any other information that shareholders may need to gain access to such documents.

The annual general meeting elects a chair to preside over the meeting and one person to sign the minutes of the meeting together with the elected chair. The minutes are published on the Company's website.

The annual general meeting approves the annual accounts and annual report, and any proposed dividend. The annual general meeting also approves the remuneration to be paid to the members of the Board, the nomination committee (as defined below) and the external auditor.

All shares carry an equal right to vote at general meetings. Resolutions at the annual general meeting are normally passed by simple majority unless otherwise required by Norwegian law.

The chairperson of the board of directors, the nomination committee representative and the auditor attend the general meeting.

Deviations from the Code: None

7. NOMINATION COMMITTEE

In accordance with Arcus' articles of association, the Company shall have a nomination committee consisting of three members. The current members of the nomination committee are Sverre R. Kjær (head of the nomination committee), Karin Bing Orgland and Nils Selte. Kjær and Orgland were elected at the extraordinary general meeting on 2 March 2017, while Selte was elected as a new member of the nomination committee at the general meeting on 3 May 2017.

The members of the nomination committee shall be shareholders or representatives of shareholders. The members of the nomination committee, including its chairman, are elected by the general meeting. The members of the nomination committee's period of service shall be two years unless the general meeting decides otherwise. The members of the nomination committee's fees shall be determined by the general meeting.

The majority of the nomination committee will be independent of the Board and the Company's executive management.

The nomination committee will submit its recommendations to the annual general meeting regarding the election of members to the Board

and the nomination committee and their respective remuneration. The nomination committee should have contact with shareholders, the board of directors and the company's executive personnel as part of its work on proposing candidates for election to the board. The nomination committee shall justify its recommendations.

On 21 October 2016, the general meeting approved a set of instructions defining the responsibilities of the nomination committee. All shareholders are invited to propose candidates to the Board and the nomination committee through the Company's website.

Deviations from the Code: None

8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

The Company does not have a corporate assembly.

According to the Company's articles of association, the Company shall have a Board consisting of a minimum of three and a maximum of eight shareholder-elected board members. The chairman of the Board is elected by the general meeting based on a proposal from the nomination committee, as are the other members representing the shareholders. In addition, board members are elected by and among the employees in accordance with applicable company legislation.

Board members are elected for a period of two years at a time.

The Board consists of ten members, of whom seven are elected by the general meeting and three are representatives of the employees. The Group leases buildings and the property at Gjelleråsen from Gjelleråsen Eiendom AS, a company owned by Canica AS, which is controlled by Stein Erik Hagen and his related parties. HOFF SA is the sole provider of Norwegian potato spirit to the Group, and Eilif Due is Chairman of the Board of Directors. With the exception of these two members of the Board of Directors, all

CORPORATE GOVERNANCE

members are deemed to be independent of the company's executive management and significant business partners. No managers are also members of the Board of Directors.

The employee-elected board members have seven deputy members. The shareholder-elected board members have one deputy member.

The members of the Board, including their CVs, are presented on the Company website. The shareholdings of Board members are listed in Note 8 in the Annual Report 2017. The Board is of the opinion that it has sufficient expertise and capacity to perform its duties in a satisfactory manner. Board members possess strong experience from finance, distribution and retail in general, and wine and spirits in particular.

The Board has conducted a total of nine ordinary board meetings, of which two by conference call.

Participation in the Board meetings for the present Board in 2017 is summarised below:

Name	Number of meetings attended
Michael Holm Johansen	9/9
Mikael Norlander (until 3 May)	3/3
Stein Erik Hagen (from 3 May)	5/6
Hanne Refsholt	8/9
Eilif Due	9/9
Leena Maria Saarinen	9/9
Ann-Beth Nina Johannesen Freuchen (from 3 May)	3/6
Trond Berger	8/9
Erik Hagen	8/9
Kjell Arne Greni	8/9
Ingrid Elisabeth Skistad	9/9
Arne Larsen (deputy for Erik Hagen)	1
Torbjørn Hjelle (deputy for Kjell Arne Greni)	1

Deviations from the Code: None

9. THE WORK OF THE BOARD

The Board has an overall responsibility to oversee the management of the Company, while the chief executive officer is responsible for day-to-day management. The Board is responsible for ensuring that the Group's activities are soundly organised and for approving all plans and budgets for the activities of the Group. The Board approves a statement of the chief executive officer's duties, responsibilities and authorisations.

The Board keeps itself informed about the Group's activities and financial situation, and is under an obligation to ensure that its activities, financial statements and asset management are subject to adequate control through the review and approval of the Group's monthly and quarterly reports and financial statements. The Board shall also ensure that the Group has satisfactory internal control systems.

The Board establishes annual plans for its work with particular emphasis on business objectives, strategy and implementation. The Board has established instructions for its own work as well as for the executive management with particular emphasis on clear allocation of responsibilities and duties.

If the chairperson of the board is or has been actively involved in a given case, for example in negotiations on mergers, acquisitions etc., another board director will normally lead discussions concerning that particular case.

The chief executive officer is in charge of the day-to-day management of the Group, and is responsible for ensuring that the Group is organised in accordance with applicable laws, the Company's articles of association and the decisions adopted by the Board and the Company's general meeting. The chief executive officer has particular responsibility for ensuring that the Board receives accurate, relevant

and timely information in order to enable it to carry out its duties. The chief executive officer shall also ensure that the Group's financial statements comply with Norwegian legislation and regulations and that the assets of the company are soundly managed.

The Board has elected an audit committee amongst the members of the Board. The committee currently comprises two members: Trond Berger as the chair person and Leena Maria Saarinen as member. The two members of the audit committee are independent of the Company's largest shareholders.

Pursuant to section 6-43 of the Norwegian Public Limited Liability Companies Act, the audit committee shall:

- prepare the Board's supervision of the Group's financial reporting process;
- monitor the systems for internal control and risk management;
- have continuous contact with the Group's auditor regarding the audit of the annual accounts; and
- review and monitor the independence of the Group's auditor, including in particular the extent to which services other than auditing provided by the auditor or the audit firm represent a threat to the independence of the auditor.

The Board has established a remuneration committee that consists of two members of the Board. The members of the remuneration committee are and shall be independent of the Group's executive management. The committee currently consists of Michael Holm Johansen as the leader and Hanne Refsholt as member.

The Company has adopted guidelines that describe the responsibility and tasks of the remuneration committee. The remuneration committee shall ensure that the Company has a remuneration scheme that contributes to

promote and grant incentives for governance of and control with the Company's risks, counteract a high degree of risk taking and avoid conflicts of interest.

Deviations from the Code: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

Management is responsible for risk management and internal control in the Company and ensures that business opportunities are used through safe and efficient operations with reliable reporting in accordance with applicable laws and regulations, including requirements for ethics and social responsibility.

The Company has established a risk management programme where the Group's critical risk factors are mapped out and monitored and followed up through a systematic process. The Group's financial risk management programme is carried out by its central treasury department, in co-operation with the various business segments, under policies approved by the Board. Critical processes with instructions and guidelines for risk management are documented.

The goal of the Group's risk management programme is to minimise potential adverse financial performance effects of these risks which result from unpredictable changes in capital markets. The Group uses to a certain extent financial derivatives to hedge against part of these financial risks.

It is the responsibility of the Board to ensure that the Company has sound internal controls in place and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. The Board conducts an annual review of the Company's most important areas of exposure to risk, such as internal control arrangements.

Deviations from the Code: None

CORPORATE GOVERNANCE

11. REMUNERATION OF THE BOARD

The remuneration of the Board is proposed by the nomination committee and decided by the shareholders at the annual general meeting of the company. The level of remuneration of the Board reflects the responsibility of the board, its expertise and the level of activity in both the Board and any Board committees.

The remuneration of the Board is not linked to the Company's performance. All members of the Board, with the exception of the chairman of the Board, receive the same remuneration. The members of the audit committee and remuneration committee receive separate, additional remuneration. The remuneration paid to members of the Board is disclosed in Note 8 to the Arcus financial statements.

Deviations from the Code: None

12. REMUNERATION OF EXECUTIVE PERSONNEL

The Board has established guidelines for the remuneration of the executive personnel. These guidelines are communicated to the annual general meeting and included in the Company's annual report.

The Board is directly responsible for determining the chief executive officer's salary and other benefits. The chief executive officer is, in consultation with the chairman of the Board, responsible for determining the salary and other benefits for the Group's other senior executives.

The purpose of Arcus' terms and conditions policy is to attract personnel with the competence that the Group requires, to further develop and retain employees with key expertise, and to promote a long-term perspective and continuous improvement with a view to achieving Arcus' business goals. In general, Arcus' policy shall be competitive but not market-leading in terms of the total compensation package. For further detail of the

Group's policy regarding salaries and other remuneration to executive personnel, see Note 8 to the Group's consolidated financial accounts for 2017.

Deviations from the Code: None

13. INFORMATION AND COMMUNICATIONS

The Board has established guidelines for investor communication. The Company's objective is to ensure that the financial market and the shareholders have sufficient information about the Company to be certain that pricing reflects underlying values. Care will be taken by the Company to ensure an impartial distribution of information when dealing with shareholders and analysts.

Arcus will publish its financial calendar every year, identifying the dates on which it will present its quarterly reports, when the annual general meeting will be held and other key events.

All information considered to be relevant and significant for valuing the company's shares will be distributed and published in English via disclosure system of the Oslo Stock Exchange, www.newsweb.no, and via the Company's website: www.arcus.no. All financial reports and other information are prepared and disclosed in such a way as to ensure that shareholders, investors and others receive correct, clear, relevant and up-to-date information equally and in a timely manner. The Company holds public presentations of its results quarterly. The presentation material is made available via the Oslo Stock Exchange's news site, www.newsweb.no, and www.arcus.no.

The Company will publish an annual, electronic finance calendar with an overview of the dates for important events, such as the annual general meetings and publishing of interim reports. Any communication with shareholders outside the Company's general meeting will take place in accordance with

applicable equal treatment requirements and applicable legislation regarding inside information.

Deviations from the Code: None

14. COMPANY TAKE-OVERS

The Board has established guiding principles for how it will act in the event of a take-over offer.

In the event of a take-over bid being made for the Company, the Board will follow the overriding principle of equal treatment for all shareholders, and will seek to ensure that the Company's business activities are not disrupted unnecessarily. The Board will strive to ensure that shareholders are given sufficient information and time to form a view of the offer.

The Board will not seek to prevent any take-over bid unless it believes that the interests of the Company and the shareholders justify such actions. The Board will not exercise mandates or pass any resolutions with the intention of obstructing any take-over bid unless this is approved by the general meeting following the announcement of the bid. There are no defence mechanisms against take-over bids in Arcus' articles of association or in any underlying steering document. Neither has the Company implemented any measures to limit the opportunity to acquire shares in the Company.

If a take-over bid is made, the Board will issue a statement in accordance with statutory requirements and the recommendations in the Code.

In the event of a take-over bid, the Board will obtain a valuation from an independent expert.

Any transaction that is in effect a disposal of the Company's activities will be submitted to the general meeting for its approval.

Deviations from the Code: None

15. AUDITOR

The Company's elected external auditor is EY. The auditor is independent of Arcus and is appointed by the general meeting. The auditor's fee is approved by the general meeting.

The auditor presents a plan to the audit committee for the audit, and is present at Board meetings dealing with the preparation of the annual accounts, where the audited financial statements are reviewed and approved. The auditor is also present at all meetings with the audit committee. The auditor also participates in meetings of the Board that deal with the annual financial statements and, at least once a year, carries out a review of the company's procedures for internal control in collaboration with the audit committee. In addition, the external auditor meets with the Board, without management being present, at least once per year.

The Board reports annually to the annual general meeting on the auditor's overall fees, broken down between audit work and other services.

Deviations from the Code: None

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Directors' Report

ARCUS ASA

Arcus ASA is a holding company whose purpose is the import, export, production, storage and distribution of alcoholic beverages and other goods, as well as other activities related to this business, and the ownership of interests in other companies that conduct such business. With its head office at Gjelleråsen in Nittedal Municipality, the Group is a leading wine and spirits company in the Nordic region. The Group is a global market leader in the aquavit category, a market leader in spirits in Norway and number two in Denmark. The Group is also the market leader for wine in Norway, number two in Sweden, and number three in Finland.

STRATEGY

Within **spirits**, Arcus' key objective is to achieve growth in the core categories of aquavit and bitters. Sales in the Nordic region must be further developed, while the German market must be revitalised. Innovation is key, in terms of categories, consumer groups and occasions.

For **wine**, there is strong focus on winning tenders and attracting complementing agencies. Further development of own brands, primarily through Arcus Wine Brands, is also important. The opportunity for minority ownership interests must be used actively to attract skilled individuals for starting up wine companies.

Concerning **distribution**, there is sustained focus on cost optimisation and on increasing revenue primarily by attracting new customers.

The Group's financial objectives, adopted in conjunction with the Group's IPO on 1 December 2016, are firm. This requires organic growth of 3-5 per cent per annum (including minor bolt-on acquisitions) and EBITDA growth of 6-9 per cent per annum during the next three to five years. The

Group's ambition is to pay annual dividend of around 50-70 per cent of the year's net profit.

The consolidated financial statements of Arcus ASA are presented in accordance with IFRS (International Financial Reporting Standards).

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In 2017, the Group's total operating revenue was NOK 2,575 million (NOK 2,582 million in 2016). New customers for Vectura, as well as acquisitions, contributed positively to revenue, while sales of wine and spirits were more subdued compared to the previous year, as a consequence of low market growth and somewhat lower market shares in a few markets.

Consolidated operating costs totalled NOK 2,292 million (NOK 2,305 million). The cost decrease is mainly related to a lower cost of sales.

In 2017, the Group's operating profit before depreciation (EBITDA) was NOK 348 million, compared with NOK 290 million in 2016. Operating EBITDA (adjusted for non-recurring

items) was NOK 361 million, compared with NOK 335 million in 2016. Reported operating profit of NOK 273 million includes impairment of goodwill in Excellars, acquired in 2011, at NOK 22.7 million.

The Group's net financial items amounted to NOK -15 million (NOK -237 million). The reduction in net financial items is primarily related to the lapse of the previous year's IPO costs and the buy-out of previous and current employees' synthetic shares and options. In addition, the company's interest costs were significantly lower, due to a lower debt ratio after the IPO.

The Group's pre-tax profit was NOK 259 million (NOK 2 million).

The Group's profit for the year after tax was NOK 188 million (NOK -24 million).

The parent company has no operating revenues. The pre-tax profit of the parent company, Arcus ASA, was NOK 48 million, compared with NOK -233 million for the previous year. The increase is mainly related to how 2016 was burdened with high costs for the IPO which

do not affect 2017, while for 2017 a Group contribution from the subsidiary Arcus-Gruppen AS of NOK 65 million was recognised, compared to 0 in 2016.

Financial position, investments and liquidity
At the end of the year, the Group had brands and goodwill of NOK 1,862 million (NOK 1,679 million). The increase is mainly related to the acquisition of the Hot n'Sweet and Vanlig brands, as well as currency adjustments concerning brands and goodwill in foreign currency.

At the close of the year, the Group had investments in fixed assets and software for NOK 359 million (NOK 381 million). In 2017, the Group invested NOK 22 million in fixed assets and software, while depreciation of NOK 44 million resulted in a lower book value at the end of 2017 compared to the end of 2016. No significant investments are expected in the coming years.

At the end of 2017, financial assets totalled NOK 60 million (NOK 58 million).

Total current assets were NOK 2,114 million, compared with NOK 2,004 million at the same time last year. Of this amount, receivables at year-end totalled NOK 1,519 million (NOK 1,426 million).

At the end of 2017, cash and bank deposits were NOK 184 million (NOK 199 million).

Group equity was NOK 1,669 million as at 31 December (NOK 1,503 million). Changes in equity are affected positively by the profit for the year, but reduced by the dividend paid to minority shareholders in the Group and shareholders in the parent company. At year-end, the equity ratio was 37 per cent, compared with 35 per cent at the end of 2016.

The Group is financed through a non-current loan of NOK 749 million. In addition, the Group has debt of NOK 183 million related to financial leasing, of which NOK 17 million falls due during 2018. At year-end, the Group had drawn NOK 73 million on the facility under the Group cash

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pool system. As of 31 December 2017, the Group's total liabilities amounted to NOK 2,863 million (NOK 2,792 million), of which the interest-bearing debt amounted to 35 per cent.

Consolidated net cash flow from operating activities was NOK 200 million (NOK -2 million). The increase is affected significantly by the termination of the factoring agreement with SEB in 2016 (NOK -225 million effect on the previous year's cash flow).

Net cash flow from investment activities was NOK -144 million (NOK -47 million). Net cash flow from investment activities is affected by the acquisition of the Vanlig and Hot n'Sweet brands.

Net cash flow from financing activities was NOK -164 million (NOK 75 million). Net cash flow from financing activities is affected by dividend payment, as well as increased ownership interests in subsidiaries with non-controlling interests.

Holdings of cash and cash equivalents were NOK 112 million (NOK 199 million). Deviations between the company's operating profit and operating cash flow are the Group's financial expenses, changes in working capital and tax paid during the period.

Financial risk and risk management

The Board has adopted a financial policy, defining the framework and guidelines for financial risk management within the Group.

Arcus' principal source of income is the core business. The main risk management strategy for the Group is to limit the financial risk created by the core business.

The most important financial risks to which the Group is exposed are associated with credit risk, interest rate risk, liquidity risk and foreign currency risk.

To a small extent, Arcus uses financial instruments to hedge interest rate and currency risks. The Group does not meet the accounting requirements for hedge accounting, and such



DRIKK MED VETT.
SÅ BLIR GODE
OPPLEVELSER
ENDA BEDRE.

Arcus

instruments are therefore, on initial recognition, accounted for as financial instruments at fair value, while changes in value are recognised through profit or loss.

Credit risk

The finance policy stipulates that credit risk must be assessed before establishing credit purchase agreements with new customers. The

assessment includes a review of accounting information, as well as other relevant and accessible data, to determine the credit limit and credit terms. Once a relationship has been established with a customer, credit risk and credit limits are continuously assessed in relation to the client's financial performance and payment history. Receivables outstanding are continuously monitored by the finance

department in cooperation with the marketing departments of the individual businesses. A large proportion of the Group's accounts receivable arise from the sale of wines and spirits to the state-owned monopoly outlets in the Nordic region. Credit risk associated with these customers is considered to be non-existent. The Group's credit risk is otherwise spread over a large number of small customers within the hotel, restaurant

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and café market, as well as a small number of distributors outside the Nordic region.

Interest rate risk

The Group is exposed to interest rate risk via financing activities (debt financing and financial leasing liabilities) and investments (bank deposits). At the end of 2017, the Group's non-current liabilities consisted of credit facilities at SEB and financial leasing at Nordea Finans. The interest rate hedging policy entails that up to 50 per cent of the base rate on non-current loans can be hedged. At the end of 2017, none of the Group's interest-bearing debt was hedged. The interest rate margin on credit facilities at SEB is related to the size of the Group's net interest-bearing debt relative to EBITDA, while the agreement with Nordea Finans involves a fixed interest rate margin.

Liquidity risk

Liquidity risk is the risk that the Group will not

be in a position to service its financial liabilities as they fall due. Arcus must at all times have sufficient liquidity to meet its obligations. At the same time, the aim is to minimise the Group's surplus liquidity. The Group will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance.

Arcus aims for the highest possible degree of flexibility in terms of utilising liquid assets as effectively as possible in day-to-day operations. This is achieved through a Group cash pool system with a drawing facility managed by Arcus AS.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used. During 2017, the Arcus Group acquired the remaining 50 per cent of the shares in the DDSK A/S Group, 100 per cent of the shares in BevCo AS, the Vanlig brand and

the Hot n'Sweet brand, and also acquired further non-controlling interests in existing subsidiaries for NOK 13 million. All of these acquisitions were financed with own liquidity and existing drawing facilities.

The Group did not raise new non-current loans in 2017, but renewed the existing financial leasing with Nordea.

Currency risk

The Group is exposed to currency risk as it operates in several countries and makes significant purchases in foreign currencies. The most significant currencies are euro, Danish krone, Swedish krona and US dollar.

The Group's currency exposure can mainly be divided into two groups: cash flow risk and translation risk. The principal objective is to limit the effect of exchange rate fluctuations on the Group's cash flow in Norwegian kroner. Changes in purchase costs from suppliers in functional currency, due to exchange rate fluctuations, are continuously sought to be offset by changes in customer prices and through renegotiation of purchase prices from suppliers.

The risk horizon, i.e. the time it takes to compensate for negative currency movements, is generally controlled by the price-adjustment opportunities in relation to the Nordic state monopolies. In Norway, this takes place every fourth month and in Sweden, every sixth month. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions.

Some of the Group's non-current borrowing is undertaken in Swedish kronor, as a natural hedging of cash flows in the form of dividends in Swedish kronor.

For reporting purposes, receivables and debt, as well as monetary items in foreign currency, are translated at the closing rates in the companies' functional currencies. The Group's presentation

currency is Norwegian kroner. The Group is therefore further exposed to currency risk on translating foreign subsidiaries from their functional currency to the Group's presentation currency. This translation risk is not hedged.

ABOUT THE COMPANY

Arcus ASA owns all of the shares in Arcus-Gruppen AS and Vectura AS. The purpose of the company is to manage shares and other company holdings and the Group operates in the business areas of spirits, wine and distribution.

The Spirits business area imports, produces, bottles, markets and sells wine and spirits primarily in the Nordic region and Germany, but also in other selected export markets. The company also provides bottling services for associated companies.

The Wine business area imports, bottles, markets and sells wine in Norway, Sweden and Finland.

The Distribution business area distributes alcoholic beverages in the Norwegian market.

The company's registered office is in Nittedal Municipality, Norway.

Employees, working environment and sick leave

At year-end, the Group had 420.9 FTEs (Full Time Equivalents) distributed as 427 permanent employees, of whom 339 are employed in Norway. The parent company Arcus ASA has two employees

The Board considers the working environment and cooperation with employee representatives to be good and constructive. The co-involvement of employees is ensured at several levels of the Group. Permanent cooperation committees, consisting of employee representatives and representatives from management, have been set up in the operating companies in Norway. At these meetings, the management provides information, and engages in discussions when needed. A corporate

NUMBER OF EMPLOYEES IN THE ARCUS GROUP AS OF 31.12.2017 DISTRIBUTED BY COUNTRY

	Norway	Sweden	Denmark	Finland	Germany	Total
Women	96	28	4	11	1	140
Men	243	26	11	7		287
Total	339	54	15	18	1	427

NUMBER OF EMPLOYEES IN THE ARCUS GROUP AS OF 31.12.2017 DISTRIBUTED BY BUSINESS AREA

	Men	Women	Total
Spirits	97	50	147
Wine	32	49	81
Arcus-Gruppen AS	23	14	37
Vectura AS	133	27	160
Arcus ASA	2	-	2
Total	287	140	427

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committee has also been established where the employees' Board members and key representatives meet before each Board meeting to discuss relevant, Group-wide issues.

The Group's operating companies work systematically with health, safety and the environment. Individual action plans are established and followed up centrally, in the business areas and in the working environment committees.

The Norwegian companies in Arcus ASA are IA (inclusive working life) companies in Norway, and work closely with the occupational health service and NAV (the Norwegian Labour and Welfare Administration) to reduce sick leave.

Individual follow-up and facilitation are important tools in this work. In 2017, sick leave for Arcus-Gruppen AS with subsidiary in Norway was 4.2 per cent. The objective for 2018 is for sick leave not to exceed 4.2 per cent. In 2017, sick leave amounted to 8.9 per cent in Vectura AS. The objective for 2018 is for sick leave not to exceed 7.5 per cent. Sick leave varies between departments and business areas.

Sick leave statistics and HSE incidents are presented each month at departmental meetings and on bulletin boards, and are considered by the working environment committees.

To avoid serious injuries and incidents, it is important to have an organisation and culture that identifies hazardous conditions, registers adverse incidents and introduces corrective measures on an ongoing basis. In this respect, the operating companies in the Group have been successful. Adverse incidents are reported regularly. These incidents are reported on a monthly basis to management, employees, working environment committees and safety representatives.

All injuries are investigated to discover the underlying cause, and measures are then implemented to avoid similar incidents.

In 2017, there were seven injuries resulting in absence due to illness (five in Vectura AS and

two in Arcus Norway AS). The injuries were not serious and the persons returned to work after brief periods of absence. The Group's goal for 2018 is zero absence due to injuries.

Equal opportunities

Of the Group's 427 employees at year-end, 32.4 per cent were women and 67.6 per cent were men, compared with 30.0 per cent women and 70.0 per cent men in the previous year.

The management groups of the operating companies all have female members. The Group Management of Arcus ASA consists of nine men.

At the end of 2017, the Board of Directors of the holding company (Arcus ASA) comprised ten Board members, of whom four were women. Three members of the Board of Directors are elected by the employees, and one of these members is a woman. The proportion of female members of the Board of Directors thereby fulfils the statutory requirements concerning female representatives on an ASA's board of directors.

In connection with the local salary settlement in 2017 in Norway, the parties reviewed the situation concerning equal opportunities and equal pay. The parties agreed

that satisfactory consideration is made of equal pay and equal opportunities.

The Group's goal for the operating companies is for them to be workplaces with no discrimination or harassment in any form. Both the working regulations and the ethical rules have guidelines in this respect. In addition, good reporting routines have been established.

At the end of 2017, the employees represented around 35 different languages. The Group has a stated policy, included through ethical rules, not to discriminate on the basis of gender, disability, ethnicity, religion, etc. The Board of Directors and the management groups



DRIKK MED VETT.
SÅ BLIR GODE
OPPLEVELSER
ENDA BEDRE.

Arcus

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of the operating companies' consider this in relation to recruitment, appointments, salaries and working conditions, as well as through awareness-raising activities.

Data protection

On 25 May 2018, the new EU General Data Protection Regulation (GDPR) will enter into force. The key aspects of the existing legislation are continued, with additions comprising extensive new requirements of companies which process personal data. For Arcus this entails extensive investigation and documentation work.

In 2017, Arcus commenced the work of mapping current personal data, as well as procedures, systems and documentation related to the processing of all personal data, and gap analyses, production and documentation, as well as implementation and operation. In early 2018, procedures for compliance, control and auditing will also be reviewed, so that Arcus will handle personal data protection in accordance with the new Regulation when it enters into force.

Environment

Consideration for the external environment is an important part of corporate social responsibility at Arcus. The Group's operations affect the external environment via the production and distribution of its products. Arcus supports a precautionary approach to environmental challenges, and works systematically to reduce the impact of its activities on the external environment. As an element of Arcus' CSR work, concrete KPIs have been set for carbon dioxide reduction and increased recirculation of waste.

Alcohol

Arcus takes a clear stance on responsible alcohol consumption. Our aim is to raise awareness and understanding among all of the target groups which are relevant for Arcus

about our corporate approach to alcohol and responsible consumption. This is the background to the important "Think before you drink" campaign, which has been further developed since it was first launched in 2015. "Think before you drink" is both an internal and external awareness campaign, reaching all employees and all stakeholders in contact with Arcus. In 2017, Arcus ran a campaign which targeted high school graduates. The "Think before you drink" message was shared on the high school graduates' own digital channels. At the four big parties at Tryvann in Oslo, 6,000 bottles of water were distributed to high school graduates, and it was easy for the young people to refill the bottles with water. Arcus was not identified as the originator of the initiative.

AKAN (organisation to prevent alcohol abuse at work) committees and AKAN contacts have also been established in the operating companies. This is an integrated element of the Annual Report.

The Annual Report includes a separate report on Arcus' corporate social responsibility and organisation.

Ownership

On 1 December 2016, Arcus ASA was listed on the Oslo Stock Exchange, and at year-end 2017/18 had 2,622 shareholders. At the close of the year, three shareholders each held more than 5 per cent of the company's shares: Canica AS (33.3 per cent), Geveran Trading Co Ltd (9.9 per cent) and Verdipapirfondet DNB Norge (IV) (5.3 per cent). Each quarterly result has been presented to investors in Oslo and London. In addition, the result for Q1 was presented to investors in Helsinki, and the result for Q2 in Stockholm.

The Annual Report includes a separate report on Arcus' corporate governance compliance. This is an integrated element of the Annual Report.

Continued operations

In accordance with Section 3-3a of the Norwegian Accounting Act, it is confirmed that the company is a going concern. The basis for this lies in the long-term plans and strategic choices that have been made.

EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

No significant events have occurred after the close of the financial year, between the date of the statement of financial position and the Board of Directors' consideration of the financial statements for 2017.

APPROPRIATION OF PROFITS

The parent company Arcus ASA reported a result for the year of NOK 31.0 million in 2017, compared with NOK -199.7 million in 2016. The Board proposes the allocation of dividend of NOK 1.66 per share, in total NOK 112.9 million, and that the profit of NOK 31.0 million be transferred to other equity.

FUTURE PROSPECTS

In conjunction with the IPO, the company published its long-term growth targets, including organic revenue growth of 3-5 per cent including minor bolt-on acquisitions, and EBITDA growth of 6-9 per cent in the next three to five years. The Board continues to set these targets as the basis for the Group's continued development.

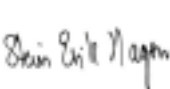
DECLARATION

The Board of Directors and the General Manager confirm that, to the best of their knowledge, the annual financial statements have been prepared in accordance with current accounting standards and that the information presented in the financial statements provides a true and fair view of the assets, debt, financial position and overall results of the Group. The Board of Directors and the General Manager also confirm that, to the best of their knowledge, the annual financial statements present a true and fair view of the development, results and position of the company and the Group, and a good description of the most central risk and uncertainty factors faced by the company.

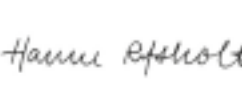
Gjelleråsen 15 March 2018



Michael Holm Johansen
Chairman of the Board



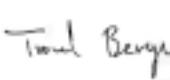
Stein Erik Hagen



Hanne Refsholt



Eilif Due



Trond Berger




Leena Saarinen



Erik Hagen



Kjell Arne Greni



Ingrid E. Skistad



Ann-Beth Freuchen



Kenneth Hamnes
Group CEO

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BOARD OF DIRECTORS



Michael Holm Johansen
Chairman of the Board



Stein Erik Hagen
Board member



Hanne Refsholt
Board member



Eilif Due
Board member



Trond Berger
Board member



Leena Saarinen
Board member



Ann-Beth Freuchen
Board member



Erik Hagen
Board member



Kjell Arne Greni
Board member



Ingrid E. Skistad
Board member

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Statement of income 01.01.-31.12.

<i>Figures in NOK 1,000</i>	Note	2017	2016
OPERATING REVENUE AND EXPENSES			
Sales revenues	4,5	2,530,126	2,521,826
Other operating revenues	4,5	44,934	60,571
Total operating revenues	4,5	2,575,060	2,582,397
Net gain on sale of fixed assets	3,14,15	30	144
Cost of sales	6,18	-1,408,524	-1,467,920
Salaries and other personnel costs	8,9,10	-417,412	-392,545
Depreciation and amortisation	14,15	-51,581	-51,625
Write-downs	14,15	-22,700	0
Other operating expenses	6,7,16	-391,699	-392,516
Share of profit from associated companies and jointly controlled entities	13	3,286	5,789
Operating profit before other income and expenses		286,460	283,724
Other income and expenses	7, APM	-13,167	-44,874
Operating profit		273,293	238,850

<i>Figures in NOK 1,000</i>	Note	2017	2016
FINANCIAL INCOME AND EXPENSES			
Interest income	11	6,654	7,944
Other financial income	11,22	19,243	10,419
Interest costs	11	-31,475	-70,414
Other financial costs	11,22	-8,965	-184,677
Net financial profit/loss		-14,543	-236,728
PRE-TAX PROFIT			
		258,750	2,122
Tax	12	-70,528	-26,211
Profit for the year		188,222	-24,089
The profit for the year is allocated to			
Non-controlling interests	1	6,944	10,480
Parent company shareholders		181,278	-34,569
		188,222	-24,089
Earnings per share (NOK)			
Earnings per share	20	2.66	-0.67
Diluted earnings per share	20	2.62	-0.67

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Statement of other comprehensive income 01.01.-31.12.

<i>Figures in NOK 1,000</i>	Note	2017	2016
Profit for the year		188,222	-24,089
Items that will not be reclassified against the statement of income:			
Estimate deviations, pensions	10	4,439	-1,278
Total items that will not be reclassified against the statement of income, before tax		4,439	-1,278
Tax on items that will not be reclassified against the statement of income	12	-1,065	320
Total items that will not be reclassified against the statement of income, after tax		3,374	-959
Items that may be reclassified against the statement of income:			
Translation differences on translation of foreign subsidiaries		73,207	-39,242
Total items that may be reclassified against the statement of income, before tax		73,207	-39,242
Tax on items that may be reclassified against the statement of income		0	0
Total items that may be reclassified against the statement of income, after tax		73,207	-39,242
TOTAL OTHER COMPREHENSIVE INCOME		76,581	-40,201
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		264,803	-64,290
The total comprehensive income for the year is allocated as follow			
Non-controlling interests		8,127	7,703
Parent company shareholders		256,676	-71,993
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		264,803	-64,290
Total comprehensive income per share (NOK)			
Earnings per share	20	3.77	-1.40
Diluted earnings per share	20	3.70	-1.40

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<i>Figures in NOK 1,000</i>	Note	2017	2016
ASSETS			
Fixed assets			
Intangible assets			
Goodwill	15	1,042,596	1,010,176
Brands	15	819,702	669,237
Software	15	29,151	30,651
Total intangible assets		1,891,449	1,710,064
Tangible assets			
Machinery and equipment	14	304,534	326,049
Fixtures and fittings, tools, office equipment etc.	14	19,614	21,454
Assets under construction	14	5,678	2,732
Total tangible assets		329,826	350,235
Deferred tax assets	12	136,786	172,120
Financial assets			
Investments in associated companies and jointly controlled entities	13	58,670	56,811
Other investments in shares		200	200
Other non-current receivables	17	1,205	1,235
Total financial assets		60,075	58,246
Total fixed assets		2,418,136	2,290,665

<i>Figures in NOK 1,000</i>	Note	2017	2016
Current assets			
Inventories	18	410,759	378,777
Receivables			
Trade receivables	2	1,432,164	1,344,067
Prepayments to suppliers	17	64,570	62,810
Other receivables	12,17	22,325	19,112
Total receivables		1,519,059	1,425,989
Bank deposits	2,19	184,415	199,385
Cash and cash equivalents		184,415	199,385
Total current assets		2,114,233	2,004,151
TOTAL ASSETS		4,532,369	4,294,816

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<i>Figures in NOK 1,000</i>	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	20	1,360	1,360
Share premium		770,743	770,743
Total paid-in equity		772,103	772,103
Retained earnings			
Other equity		878,489	716,582
Total retained earnings		878,489	716,582
Non-controlling interests	1	18,823	13,905
Total equity		1,669,415	1,502,590
Liabilities			
Provisions			
Deferred tax liability	12	101,032	92,628
Pension obligations	10	30,552	34,092
Other provisions	23	320	627
Total provisions		131,904	127,347

<i>Figures in NOK 1,000</i>	Note	2017	2016
Other non-current liabilities			
Debt to financial institutions	2,21	909,218	886,255
Total other non-current liabilities		909,218	886,255
Current liabilities			
Debt to financial institutions	2,21	90,071	16,498
Liabilities at fair value through profit or loss	2,22	0	24,135
Trade payables		603,884	628,347
Tax payable	12	2,128	0
Unpaid public duties	24	928,005	912,310
Other current liabilities	23,24	197,744	197,334
Total current liabilities		1,821,832	1,778,624
Total liabilities		2,862,954	2,792,226
TOTAL EQUITY AND LIABILITIES		4,532,369	4,294,816

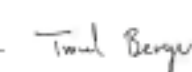
Gjelleråsen, 15 March 2018



 Michael Holm Johansen
 Chairman of the Board


 Stein Erik Hagen


 Hanne Refsholt


 Eilif Due



 Trond Berger


 Leena Saarinen


 Erik Hagen


 Kjell Arne Greni


 Ingrid E. Skistad


 Ann-Beth Freuchen


 Kenneth Hamnes
 Group CEO

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Statement of cash flows 01.01. -31.12.

<i>Figures in NOK 1,000</i>	Note	2017	2016	<i>Figures in NOK 1,000</i>	Note	2017	2016
CASH FLOWS FROM OPERATIONS				CASH FLOWS FROM FINANCING ACTIVITIES			
Pre-tax profit		258,750	2,122	Proceeds - incentive programme	22	0	1,000
Depreciation and amortisation	14,15	74,281	51,625	Payments - incentive programme	22	0	-158,316
Share of profit from associated companies and jointly controlled entities	13	-3,286	-5,789	Capital increase		0	768,883
Dividends received from associated companies and jointly controlled entities	13	0	2,947	Proceeds from non-current interest-bearing debt to financial institutions	2,21	0	802,632
Taxes paid	12	-33,221	-46,711	Repayment of non-current interest-bearing debt to financial institutions	2,21	-15,719	-1,081,048
Interest costs during the period		31,475	70,414	Change in other non-current loans		0	-246
Pension costs and other provisions without cash effect	3	591	-3,601	Change in overdraft facility		72,700	0
Value changes and other costs without cash effect	3	-4,444	164,974	Interest cost paid during the period	3	-31,454	-83,031
Profit/loss on sale of fixed assets and intangible fixed assets	3	-30	-1,051	Payments for acquisition of non-controlling interests		-12,913	-146,325
Unrealised agio	3	19,195	-15,964	Payments of dividends/Group contributions	1,3	-103,515	-28,260
Change in inventories	3,18	-31,781	9,440	Net cash flow from financing activities		-90,901	75,289
Change in trade receivables	3	-43,939	-340,739				
Change in trade payables	3	-45,437	76,890	Effect of exchange rate fluctuations on cash and cash equivalents		19,923	-16,813
Change in other current assets and other liabilities	3	-22,256	33,491	Effect of exchange rate fluctuations on cash and cash equivalents		19,923	-16,813
Net cash flows from operational activities		199,898	-1,952				
CASH FLOWS FROM INVESTMENT ACTIVITIES				Net change in cash and cash equivalents			
Payments on acquisition of intangible fixed assets	15	-124,820	-36,429			-14,970	8,966
Payments on purchase of tangible fixed assets	14	-15,894	-11,379	Holdings of cash and cash equivalents as at 01.01		199,385	190,419
Proceeds from sale of tangible fixed assets	3,14	30	1,060	Holdings of cash and cash equivalents as at 31.12.	19	184,415	199,385
Payments on acquisition of business	26	-2,752	0				
Payment of loans to minority interests		0	-810				
Payments on acquisition of other financial investments	3	-454	0				
Net cash flow from investment activities		-143,890	-47,558				

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Statement of changes in equity

<i>Figures in NOK 1,000</i>	Share capital	Share premium	Translation differences	Share-based payment fund	Other retained earnings	Total for owners of the parent company	Non-controlling interests	Total for the Group
Equity as at 31.12.2015	1,000	794	265,253	0	577,757	844,804	31,603	876,407
Profit for the year 2016	0	0	0	0	-34,569	-34,569	10,480	-24,089
Total other comprehensive income 2016	0	0	-36,465	0	-959	-37,424	-2,777	-40,201
Total profit for the year 2016	0	0	-36,465	0	-35,528	-71,993	7,703	-64,290
Transactions with owners 2016								
Share issue	360	769,949	0	0	0	770,309	0	770,309
Share-based payment	0	0	0	606	0	606	0	606
Payment of dividend	0	0	0	0	0	0	-21,896	-21,896
Changes in non-controlling interests	0	0	0	0	-49,877	-49,877	-8,670	-58,547
Transfer of profit for the year from minority to majority*	0	0	0	0	-5,163	-5,163	5,163	0
Total transactions with owners 2016	360	769,949	0	606	-55,040	715,875	-25,403	690,472
Equity as at 31.12.2016	1,360	770,743	228,788	606	487,190	1,488,687	13,903	1,502,590
Profit for the year 2017	0	0	0	0	181,278	181,278	6,944	188,222
Total other comprehensive income 2017	0	0	72,024	0	3,374	75,398	1,183	76,581
Total profit for the year 2017	0	0	72,024	0	184,652	256,676	8,127	264,803
Transactions with owners 2017								
Share-based payment	0	0	0	7,898	0	7,898	0	7,898
Payment of dividend	0	0	0	0	-99,994	-99,994	-3,521	-103,515
Changes in non-controlling interests	0	0	0	0	-2,675	-2,675	314	-2,361
Total transactions with owners 2017	0	0	0	7,898	-102,669	-94,771	-3,207	-97,978
Equity as at 31.12.2017	1,360	770,743	300,812	8,504	569,173	1,650,592	18,823	1,669,415

* At the end of 2016 the Group owned 90.1 per cent of the subsidiary Excellars AS. In addition, put and call options existed which were associated with the non-controlling interests, although the Group was not considered to have control of the shares as of the close of the financial year. These companies were recognised as though they were wholly owned, but with partial presentation of the non-controlling interests. Partial presentation of non-controlling interests means that the non-controlling interests' share of the profit for the year is shown in the statement of income for 2016, but not in the equity statement as at 31.12.2016. The transfer in 2016 related to the non-controlling interests' share of the profit for the year, adjusted for the dividend distributed for the period.

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Arcus ASA is registered and domiciled in Norway, and located at Destilleriveien 11 in Gjelleråsen in Nittedal Municipality, just north of Oslo. The consolidated financial statements include the parent company and subsidiaries (together referred to as "Arcus" or the "Group", and individually as a "Group company"), as well as the Group's holdings in associated companies. The Group's principal activity is the import, production, marketing, sale and distribution of wine and spirits.

Historical development

The Group has carried out the following important transactions in recent years:

2017

- In January, the Group acquired the remaining 50 per cent interest in Det Danske Spiritus Kompagni A/S. Det Danske Spiritus Kompagni A/S thereby became a wholly-owned subsidiary in the Group's spirits activities.
- In January, the Group established Vingruppen Finland Oy, as a wholly-owned subsidiary of Vingruppen i Norden AB.
- In February, the Group acquired the remaining 9.9 per cent interest in Excellars AS. Excellars AS thereby became a wholly-owned subsidiary in the Group's wine activities.
- In June, the Group increased its ownership of Valid Wines Sweden AB from 97.0 per cent to 100.0 per cent by the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares. At the same time, the Group sold 16.9 per cent of the shares to the company's general manager, so that after the transaction the Group has an ownership interest of 83.1 per cent in Valid Wines Sweden AB.
- In September, the Group acquired 100 per cent of the shares in the Norwegian company BevCo AS, which as from the same date is part of the Group's spirits activities. Among other things, the company has the distribution rights for Dooley's Toffee in Norway.
- In October, the Group acquired the Vanlig brand, which comprises a vodka and a gin product. The Group took over sales of this product as from the same date, while production was taken over during Q1 2018.
- In December, the Group acquired the Hot n'Sweet brand, which is a vodka shot. The Group took over sales of this product as from 1 January 2018, while production was taken over during Q1 2018.

2016

- In February, the Group increased its ownership of Excellars AS from 51.0 per cent to 90.1 per cent by the subsidiary Vingruppen AS' acquisition of minority shares.
- In February, the Group increased its ownership of Wineagency Sweden AB from 80.0 per cent to 90.0 per cent by the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares.
- In July, the Group increased its ownership of Wineworld Sweden AB from 80.0 per cent to 90.0 per cent by the subsidiary Vingruppen i Norden AB's acquisition of additional minority shares.
- In August, the Group acquired the Dworek vodka brand.
- In December, the Group increased its ownership of Vingruppen i Norden AB from 99.37 per cent to 100.0 per cent by the subsidiary VinGruppen Sweden Holding AB's acquisition of the remaining minority shares.
- Arcus-Gruppen Holding AS was restructured as a public limited liability company and changed its name to Arcus ASA, before the company's listing on the Oslo Stock Exchange on 1 December.

2015

- In February, acquired the aquavit brand Snällero's in Sweden.
- In April, acquired the wine activity from Fondberg in Finland. Changed the name of the company to Social Wines Oy.
- In September, acquired 70 per cent of the shares in a recently-founded Norwegian wine company, Heyday Wines AS.
- In Q4, reorganised the ownership of Vingruppen i Norden AB, by selling the shares to a newly-established wholly-owned holding company in Sweden called VinGruppen Sweden Holding AB.
- Discontinued production in Aalborg and moved the production and bottling of the Danish brands (Aalborg Aquavit, Maltserkreutz and Gammel Dansk) to customised facilities at Gjelleråsen.

2014

- Established Vingruppen AS as the new holding structure for the wine business in Norway.

2013

- In January, acquired all the shares in Arcus Denmark A/S from Pernod Ricard, which included the Aalborg Aquavit and Gammel Dansk brands, and all the shares in Arcus Deutschland GmbH, which owns the Maltserkreutz brand.

2012

- Completed the new production and distribution facility and head office at Gjelleråsen, and moved the business there.

2011

- Acquired 28.2 per cent of the shares in Vingruppen i Norden AB, increasing the holding from 62.5 per cent to 90.7 per cent. At the same time, entered into an option agreement for the remaining 9.3 per cent.
- Acquired 51 per cent of the shares in Excellars AS, with an option for the remaining 49 per cent.
- Swapped 34 per cent of the shares in SAS de Lille Madame for 32.6 per cent of the shares in Tiffon SA. Acquired a further 106 shares and increased the holding in Tiffon SA to 34 per cent.

2010

- Implemented an agreement on sale of Gjelleråsen Prosjekt 1 AS.
- Started construction of a new production and distribution facility and head office at Gjelleråsen.

2009

- Acquired the brands Star Gin, Red Port and Dry Anise from Pernod Ricard.
- Acquired 80 per cent of the company Symposium Wines AS.

2008

- Acquired Gjelleråsen Prosjekt 1 AS, which included the site of the new operating location at Gjelleråsen in Nittedal Municipality north of Oslo.

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The consolidated financial statements for 2017, including comparative information, have been prepared in accordance with IFRS applicable as at 31 December 2017, and as described in the note on the accounting policies. Applicable IFRS have been applied retrospectively.

The annual financial statements were adopted by the Board of Directors on 15 March 2018. The Group's head office is located at Gjelleråsen in Nittedal Municipality and the core activities are the production, sale and distribution of alcoholic beverages. The Group's domestic market is the Nordic region, but the Group also has sales to other countries, mainly Germany and the USA.

Arcus ASA is listed on the Oslo Stock Exchange. The price on 31.12.2017 was NOK 46.50 per share, compared to NOK 44.50 per share at the end of 2016.

NEW ACCOUNTING STANDARDS

No changes which have significantly affected the Group's financial statements have been made to the framework conditions from IFRS in the current year. The most important changes to the accounting standards that will affect the Group in the future are presented below.

Adopted IFRS and IFRIC with future effective dates:

The standards and interpretations adopted up to the date of presentation of the consolidated financial statements, but where the effective date is in the future, are shown below. The Group's intention is to implement the relevant changes on the effective date, on the assumption that the EU approves the changes before the presentation of the consolidated financial statements.

CHANGES RELEVANT TO THE ARCUS GROUP: IFRS 9 Financial instruments

In July 2014, the IASB published the final subproject of IFRS 9 and the standard has now been finalised. IFRS 9 includes changes related to classification and measurement, hedge accounting and impairment. IFRS 9 will replace IAS 39 Financial Instruments – Recognition and Measurement. The parts of IAS 39 that were not changed as part of this project were transferred and included in IFRS 9.

The standard will be implemented retrospectively, with the exception of hedge accounting, although the preparation of comparative figures is not a requirement. The rules for hedge accounting will mainly be implemented prospectively, with a few exceptions. The Group has no plans for the early implementation of the standard. The new standard will apply with effect from reporting years beginning on 1 January 2018 or later.

The new standard is not expected to have any material impact on the Group's financial reporting, but may affect the Group's classification and measurement of financial assets and liabilities.

IFRS 15 Revenue recognition

IASB has released a new standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations for revenue recognition. The core principle of IFRS 15 is that revenue is recognised in order to reflect the transfer of agreed goods or services to customers, and at an amount that reflects the consideration the company expects to be entitled to in exchange for these goods or services.

The standard applies, with a few exceptions, to all revenue-generating contracts with customers and

includes a model for recognition and measurement of the sale of individual non-financial assets. IFRS 15 will be implemented using either a fully retrospective or a modified method. The new standard will apply with effect from reporting years beginning on 1 January 2018 or later.

In 2017, the Group undertook an analysis of its income recognition principles and assessed the changes that are necessary due to the implementation of IFRS 15 as from 1 January 2018. The key aspects of these assessments were the time of revenue recognition of our products, classification of discounts, annual bonuses, market support and outbound shipping, and an agent/principal assessment concerning net or gross recognition of revenue.

The analysis did not reveal significant changes from existing principles, apart from the book entry of outbound shipping. Up to and including 2017, the Group has booked outbound shipping as a reduction of revenue. Based on an assessment of the agent/principal principle, the Group assesses that as from 1 January 2018, the costs of outbound shipping must be presented on a gross basis, as a cost under other indirect costs. The Group plans to include all effects of the new standard at the time of its first application in 2018, and this will entail changes to the statement of income, and to some extent also to the Revenue note and Segment note. This will increase the Group's reported revenue by an amount of around NOK 30-50 million. The change will not affect the Group's reported EBITDA.

IFRS 16 Leases

IFRS 16 Leases replaces the existing IFRS standard for leases, IAS 17 Leases. IFRS 16 sets out principles for recognition, measurement, presentation and disclosure of leasing agreements for both parties to a leasing agreement, i.e., the customer (lessee)

and provider (lessor). The new standard requires the lessee to recognise the assets and liabilities of most leasing agreements, which is a significant change from current principles. The standard comes into force on 1 January 2019, but has not yet been approved by the EU. The new standard will apply with effect from reporting years beginning on 1 January 2019 or later.

New IFRS 16 concerning leases will entail a significant change to the accounting policy related to leasing costs. As from financial years commencing in 2019, all significant leasing agreements must be capitalised. This will give an intangible right on the asset side and an equivalent liability on the debt side.

On the implementation of IFRS 16, the Group has two options: the full retrospective method or the modified retrospective method. The difference between the two methods is that the full retrospective method calculates the effects of the new standard related to the share of the lease contracts which has already accrued as of the date of implementation. This means that if the lease contract was signed on 1.1.2016 and the standard was implemented on 1.1.2019, the effects from the first three years must be booked to equity as from 1 January in the comparison year. If the Group chooses the modified retrospective method, the effects are only calculated as from the implementation date, and there is no adjustment in relation to equity. The full retrospective method has a lower effect on the statement of financial position and equivalently lower future depreciation than the modified retrospective method, but has a negative equity effect as of the implementation date.

At the end of 2017, the Group made a calculation based on the Group's existing leasing agreements. The estimate shows that if IFRS 16 had been implemented as of 31.12.2017, the Group would

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have had an effect on the statement of financial position of between NOK 1,050 and 1,150 million, depending on the method chosen. The negative equity effect on choosing the full retrospective method would have been NOK 108 million. Based on the estimate, the future effect on the result would have shown lower operating costs of NOK 91 million, which would give equivalently higher EBITDA. Depreciation and amortisation would have been NOK 58-65 million higher, which would have given net EBIT that was NOK 25-32 million higher in the first financial year after implementation than without IFRS 16 implementation. Calculated interest costs of NOK 44 million would have led to a pre-tax profit NOK 12-19 million lower than without IFRS 16 implementation, in the first year after implementation.

On the introduction of IFRS 16 Leases as from 2019, the Group's reported net interest-bearing debt and adjusted EBITDA will change significantly. The loan agreement with SEB specifies that the loan terms must be calculated according to today's model, independently of the introduction of IFRS 16, so that the Group's ability to fulfil the loan terms will not be affected by the introduction of IFRS 16.

Other changes

Other changes resulting from new standards that have yet to come into effect will not influence or have any significant effect on the consolidated financial statements.

ACCOUNTING POLICIES

Consolidation principles

The consolidated financial statements comprise Arcus ASA and subsidiaries in which Arcus ASA has control, and present the overall financial results, the overall financial position, and the overall cash flows, as one financial entity. Control takes place when the Group is entitled to variable returns from an investment object, and can also influence relevant activities which affect the returns on the investment

As of 31.12.2017, the following exchange rates have been used when translating income and financial position figures from subsidiaries with functional currencies other than NOK:

Exchange rates		2017	2016
EUR average rate	Income statement items	9.3326	9.2980
EUR closing rate	Financial position items	9.8510	9.0865
SEK average rate	Income statement items	0.9684	0.9830
SEK closing rate	Financial position items	0.9992	0.9484
DKK average rate	Income statement items	1.2546	1.2488
DKK closing rate	Financial position items	1.3231	1.2223

object. Normally this will be the company in which Arcus ASA, either directly, or indirectly via subsidiaries, owns more than 50 per cent of the shares with voting rights. In the consolidated financial statements, this Group is referred to as Arcus or the Arcus Group.

See Note 1 for an overview of all the companies included in the consolidation.

In the consolidated financial statements all intra-Group receivables and internal transactions between companies within the Group have been eliminated. The cost price of shares in subsidiaries is eliminated against equity at the time of acquisition. Accounting values including goodwill and excess values associated with foreign subsidiaries are translated from the functional currency to NOK according to the exchange rate at the close of the financial year.

Goodwill is included in the consolidated financial statements as an intangible asset.

Any changes in the Group's ownership of a subsidiary, without any loss of control, is recognised as an equity transaction. If the Group loses control of a subsidiary, underlying assets (including goodwill), debt, minority interests and other equity

components are deducted, while gains and losses are recognised in the income statement. Any remaining investment is recognised at fair value.

Non-controlling interests

Non-controlling interests' share of profit after tax is shown on a separate line after the Group's profit for the year. Non-controlling interests' share of equity is shown on a separate line as part of the Group's equity.

In instances where there are put and/or call options associated with the non-controlling interests, and where the Group has determined that it does not have an existing interest in the shares to which the options apply, the subsidiary is presented as if it were wholly owned, but with partial presentation of non-controlling interests. Partial presentation of non-controlling interests means that for each reporting period the non-controlling interests will receive their part of the profit for the year, which is shown under the profit allocation in the consolidated statement of income and in the statement of changes in equity. At the end of each period, the non-controlling minority interests' share of profit, adjusted for the distribution of dividend for the period to the non-controlling interests, will be transferred as an equity transaction from the non-controlling interests' share of equity to the

majority's equity. The option liabilities will be recognised at the present value of the redemption amount and presented in the statement of financial position as an obligation at fair value via profit or loss.

Currency

All transactions in foreign currency are translated to functional currency as of the date of the transaction. Monetary items in foreign currency are translated as of the close of the financial year to functional currency using the exchange rate as of the close of the financial year.

The Group's presentation currency is NOK, which is also the parent company's functional currency.

The functional currency of subsidiaries is the currency in which the subsidiary reports its financial statements. On consolidation of subsidiaries that have a functional currency other than NOK, items of income and expenses are converted to the Group's presentation currency in accordance with average conversion rates. This means that at the end of each period, items of income and expenses are translated at the average exchange rate to date in the year. For the statement of financial position, including excess value and goodwill, the closing exchange rate as of the close of the financial year is

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used. Currency differences arising on consolidation of entities with another functional currency are attributed to equity and presented as other comprehensive income in the consolidated statement of other comprehensive income. On disposal of subsidiaries, accumulated translation differences associated with the subsidiary are charged to the statement of income.

Investments in associated companies and jointly controlled entities

Associated companies are companies in which the Group has significant influence, normally between a 20 and a 50 per cent holding. The equity method is used for associated companies in the consolidated financial statements. Excess value analysis has been carried out with regard to associated companies. The share of profit is based on profit after tax in the company in which investment has been made, with deduction for depreciation of excess value resulting from the cost price of the shares being higher than the acquired holding of capitalised equity. The share of profit is shown in the statement of income on a separate line before operating profit and the investment is shown as a line under financial fixed assets.

Jointly controlled companies are investments in which the Group has an agreement on joint control over an entity together with one or more other parties, when none has decisive influence and all strategic, financial and operational decisions concerning the entity require unanimity between the parties. The share of profit is based on profit after tax in the company in which investment has been made with deduction for depreciation of excess value resulting from the cost price of the shares being higher than the acquired holding of capitalised equity. The share of profit is shown in the statement of income on a separate line before operating profit and the investment is shown as a line under financial fixed assets.

Business mergers

Business mergers in the Group are treated according to the acquisition method and present the Group as a single entity. On acquisition, the cost price of the acquired business is allocated so that the consolidated opening statement of financial position reflects the estimated fair value of the acquired assets and liabilities. To determine fair value on acquisition, alternative methods of determining fair value must be used for assets for which there is no active market. Added value in excess of what is attributable to identifiable assets and liabilities is reported as goodwill. If the fair value of the equity in the acquired company exceeds the consideration, a reassessment is made of the valuation of observable assets and liabilities. If the reassessment reveals no discrepancies, the difference is recognised as income as at the acquisition date. The allocation of the cost price of the business merger must be changed if new information is revealed about the fair value applicable at the time of acquisition and up until the final excess value analysis. This must take place within 12 months of the acquisition date.

With each business acquisition, the minority interest will be measured at fair value, and minorities' share of goodwill is capitalised in the consolidated statement of financial position.

On stepwise acquisition of subsidiaries, the basis is the value of assets and liabilities on the date of the establishment of the Group. Subsequent acquisition of ownership of existing subsidiaries in addition to the majority interest will not affect the assessment of assets or liabilities.

Revenue recognition principles

Revenues associated with the sale of goods and services is recognised when the Group has transferred risk and rights to the purchaser. This is normally on delivery of the goods and services. Other revenues is recognised when it is probable

that transactions will involve future financial gains that will accrue to the company and the size of the sum can be estimated reliably. Variable discounts and bonuses are allocated and accrued in the period in which they are expected to occur.

Sales revenues are presented net after deduction of discounts, VAT, outbound shipping costs, alcohol and packaging tax.

Information on revenue recognition in the Distribution segment

All sales that are distributed and sold through Vectura AS are invoiced by the company, including special duties, cost of goods, handling charges, etc. Sales revenues for the services are presented net after deductions for special duties and associated goods and handling charges, etc. Vectura AS' sales revenues are presented net based on an assessment of the fact that the company's revenues are related to the delivery of services, etc., and that the product flow risk is the suppliers' responsibility.

Other income and expenses

To provide more information in the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. See also the detailed specification of what these items include in the notes relating to the individual line items. For more information on other income and expenses, see the Alternative Performance Measurement (APM) appendix.

Inventories

Inventories are valued at the lower of acquisition cost/production cost and net selling value, where net selling value is calculated as the selling price in a transaction with market participants on the measurement date less selling expenses. Purchased inventories are valued at acquisition cost according

to the principle of weighted average with deduction for obsolescence, while inventories produced in-house are valued at production cost according to the principle of full costing with deduction for obsolescence.

Receivables

Trade receivables and other receivables are stated at nominal value after deduction of provisions for expected losses. Provision for losses is made on the basis of an individual assessment of each receivable based on identified indicators of impairment.

Sold accounts receivable that are included in the factoring agreement are presented as reduced accounts receivable in the statement of financial position.

Prepayments to suppliers

Prepayments to suppliers apply to financing the purchase of inventory for individual partners. Prepayments are shown at nominal value after deduction for provisions for expected losses. Provisions for losses are made on the basis of identified indicators of impairment.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, balances in the Group cash pool system and other means of payment with a due date less than three months from the acquisition date.

The Group's cash pool system is connected with cash and bank overdrafts within the same cash pool system and is presented net.

The Group cash pool system is managed by the parent company, Arcus ASA.

Tangible assets

Tangible fixed assets are capitalised at cost price less accumulated depreciation and accumulated loss on non-transitory impairment. Depreciation is

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calculated and taken to expenses from the date the fixed asset is taken into use, and is calculated on the basis of expected useful life, taking account of estimated residual value.

Different rates of depreciation are used for a fixed asset's components if these have different economic lives. Assets under construction are not depreciated. Depreciation is taken to expenses only when the asset is ready for use. Profit and loss on sales of fixed assets are set as the difference between the selling price and the book value at the time of sale. Profits on sales of fixed assets are recognised as operating income and losses as operating expenses. If there are indications of impairment, the amount recoverable is estimated in order to assess any loss through the impairment. If the book value exceeds the amount recoverable, the asset is written down to recoverable value, while the remaining depreciation period is maintained (breakpoint solution). Depreciation methods, residual values and estimated life are continuously assessed.

Intangible assets

Intangible assets comprise brands, software and goodwill. Intangible assets are capitalised at cost price with deduction for accumulated depreciation and accumulated write-downs in the event of non-transitory impairment.

Intangible assets with limited useful lives are depreciated by the straight-line method over the expected useful life.

The capitalised value of goodwill, brands and other intangible assets with indeterminate lifetime is tested for impairment at least once a year, or more often if there are indications that the value of the asset has decreased. This requires estimates of the amount recoverable by cash-generating units to which goodwill and other intangible assets are attributed

To determine the recoverable amount, the Group estimates expected future pre-tax cash flows from the cash-generating unit and applies suitable discount rates in order to calculate the present value of future cash flows. Cash flows for brands are calculated based on a market-based "relief from royalty" method before tax. See Note 15 for a more detailed description of this model.

Expectations regarding future cash flows will vary over time. Changes in the market conditions and expected cash flows may cause losses in the event of impairment in the future. The most important assumptions with significance for the present value of the cash flows associated with the investments are future profits and growth, as well as the discount rate used.

Pensions

Net pension costs for defined benefit plans comprise the period's service cost, including future growth in salaries and interest rates on the estimated obligation, less expected returns on the pension assets. Prepaid pension is shown as a non-current asset in the statement of financial position where it is probable that the over-financing can be used or repaid. Correspondingly, a non-current liability is shown in the accounts when the pension obligation is greater than the pension assets. Net pension costs are classified as payroll costs in the statement of income. Changes in the liability resulting from changes in pension plans are taken to profit or loss immediately. Changes in the pension liability and the pension assets resulting from changes in, and deviations from, the estimate assumptions (estimate deviations), are recognised against equity and are presented in the statement of other comprehensive income.

The Group also has defined contribution pension plans, which are schemes whereby the company pays contributions on an ongoing basis to the employees' individual pension plans. Ongoing

premium invoices of this kind are expensed as salaries and other personnel costs.

Restructuring

Provisions for restructuring are recognised as expenses when the programme has been adopted and announced and the costs are identifiable and quantifiable. Provisions linked to restructuring are included as other provisions for liabilities calculated at present value. Agreements securing future work input are recognised as expenses over the period in which the work input is delivered.

Taxes

The tax expense comprises both tax payable and the change in deferred tax. Tax payable is based on taxable income for the year. Taxable income is different from the pre-tax profit as presented in the statement of income because of income and expenditure items that are not taxable/deductible (permanent differences) and the change in differences in taxable and accounting accruals (temporary differences). Tax payable is calculated based on tax rates that are adopted at the end of the period.

Deferred tax is capitalised on the basis of the temporary differences and any deficit to be carried forward existing at the end of the financial year and that involves increased or reduced future tax payable, when these differences are reversed in future periods. Temporary differences are differences between accounting and taxable results arising during a period and are reversed during a later period. Deferred tax is calculated on the basis of nominal tax rates (rates adopted as of the close of the financial year in the individual country) multiplied by temporary differences and the deficit to be carried forward. Deferred tax assets are capitalised when the probability exists that future taxable income will enable utilisation of the asset.

Share-based payment

The Group has two share-based incentive schemes for senior executives, and a general share savings programme for all employees.

The costs related to the two share-based incentive schemes for senior executives are accrued during the vesting period, which is the period between the allocation date and the date of receipt. The costs which are accrued are the calculated value of the matching shares or options as of the allocation date, and this value is not adjusted during the vesting period. These costs are booked as personnel costs, set off to Group equity.

The related employer tax is in principle accrued during the same period. The costs of the employer tax in each period are calculated on the basis of the fair value of the matching shares or options. The costs for the period comprise the change in provisions, and are booked as personnel costs, set off as debt in the statement of financial position.

The costs related to this programme are recognised in accordance with IFRS 2.

The general share savings programme for all employees is based on the Group selling shares to the employees below market value. The costs related to this programme are recognised by booking the difference between the market value of the shares and the purchase price for the employees as personnel costs.

Classification principles

Other assets included in the operating cycle or falling due within 12 months are classified as current assets. Remaining assets are classified as fixed assets.

Liabilities included in the operating cycle or falling due within 12 months, where there is no unconditional right to defer settlement, are

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classified as current liabilities. Remaining liabilities are classified as non-current.

Proposed dividend/Group contributions are capitalised in the statement of financial position as a liability when the Group has an irrevocable obligation to make dividend payments/Group contributions, normally after adoption by the Annual General Meeting.

Measurement and classification of financial instruments

The Group classifies financial instruments in the following categories: financial instruments at fair value through profit or loss, loans and receivables, financial assets available for sale and financial liabilities. The classification depends on the purpose of the asset or liability. Management classifies financial assets and liabilities on acquisition.

Financial instruments at fair value through profit or loss

Financial instruments are recognised in the statement of financial position when the Group has become party to the instrument's contractual provisions, and deducted when the contractual rights or obligations are fulfilled or cancelled, or have expired or been transferred. Financial instruments are classified as current assets if the expected settlement date is within 12 months of the close of the financial year, and as fixed assets if the settlement date is later than 12 months after the close of the financial year

Financial instruments at fair value through profit or loss are either financial instruments held for trading purposes or financial instruments earmarked at fair value. A financial instrument is classified in the category "held for trading" if it is primarily acquired with a view to producing profit from short-term price fluctuations. Derivatives are classified as held for trading unless they form part of a hedge. Assets and liabilities in this category are classified

as current assets or current debt if it is expected that they will be settled within 12 months; otherwise they are classified as financial assets or non-current debt.

Loans and receivables

Loans and receivables are financial assets that are not derivatives, that have fixed or determinable payments and that are not traded in an active market. They are classified as current assets unless they fall due more than 12 months after the close of the financial year. Loans and receivables comprise accounts receivable and other receivables, as well as cash and cash equivalents in the statement of financial position.

Loans and receivables are measured at amortised cost, and value changes resulting from interest rate changes are not recognised.

Financial assets available for sale

Financial assets available for sale are financial assets that are not derivatives and that have been placed in this category, or that do not belong to any other category. They are classified as fixed assets provided that the investment does not fall due or the management does not intend to sell the investment within 12 months from the close of the financial year.

Other financial liabilities

Financial liabilities not falling into the category of "financial instruments at fair value through profit or loss" are classified as other financial liabilities. For measurement of financial liabilities at fair value, see measurement of financial instruments in Note 2.

Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Financial liabilities are recognised at amortised cost based on an effective interest rate method. Transaction costs (arrangement charges) are capitalised in the statement of financial position as part of the book value of the loan, and depreciated over the period of the loan (amortised cost).

Borrowing in currencies other than the functional currency is translated at the exchange rate at the close of the financial year.

Categorisation of financial assets and debt

The Group's measurement of financial assets, debt and other financial instruments at fair value can be divided into three categories:

Level 1: Listed (unadjusted) prices in active markets.

Level 2: Direct or indirect inputs other than listed prices included in Level 1, that are observable for the asset or the liability.

Level 3: Techniques for calculation of fair value based on other than observable market data.

Leases

Leases where a significant part of the risk and return associated with ownership continues to lie with the lessor are classified as operational leases. Lease payments from operational leases (with deduction for any financial incentives from the lessor) are charged as expenses using the straight-line method over the period of the lease.

Leases with regard to property, plant and equipment in which the Group principally holds all risks and rewards are classified as financial leasing. Financial leasing is capitalised at the start of the lease period at the lower of fair value of the leased fixed assets and the present value of the total minimum lease amount. Each lease payment is allocated between a repayment element and an interest element. The lease cost is charged to profit or loss as financial expenses. The lease liability, less the cost of interest, is classified as other current liabilities and other non-current liabilities. Property, plant and equipment acquired through a financial lease agreement is depreciated over the expected life or the period of the lease if this is shorter.

Statement of cash flows

The indirect method is used in the preparation of

the statement of cash flows. Cash and cash equivalents in the statement of financial position are defined as holdings of cash and cash equivalents in the statement of cash flows.

Segment information

Operating segments are reported in the same way as for internal reporting to Group management. The Group's business areas comprise Spirits, Wine and Distribution and decisions within each business area are taken by the Group CEO.

The Group's activities consist of sales and marketing of Spirits, sales and marketing of Wine, and distribution of spirits and wine.

The Spirits business area comprises the following companies: Arcus Norway AS with subsidiaries, Det Danske Spiritus Kompagni A/S, Arcus Denmark A/S, Arcus Sweden AB, Arcus Finland Oy and Arcus Deutschland GmbH. Supply Chain is also included as a production facility in the Spirits business area.

The Wine business area comprises the following companies: Vingruppen Sweden Holding AB and subsidiaries, and Vingruppen AS and subsidiaries.

The Distribution business area comprises the Vectura AS company.

In addition, there are the remaining Group income and expenses, as well as financing costs, that comprise Arcus-Gruppen AS and Arcus ASA.

The Group presents no segment assets or liabilities, as this is not done in the Group's internal reporting

For further information about the Group's operating segments, see Note 5.

Related parties

The Group's related parties, in addition to subsidiaries, associated companies and jointly

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Areas in which estimates have major significance will be:

Figures in NOK 1,000

Accounting item	Note	Assumptions	Book value 2017	Book value 2016
Goodwill	15	Present value of future cash flows	1,042,596	1,010,176
Brands	15	Present value of future cash flows	819,702	669,237
Other intangible assets	15	Recoverable amounts and correct useful life	29,151	30,651
Tangible assets	14	Recoverable amounts and correct useful life	329,826	350,235
Deferred tax assets	12	Assessment of the ability to exploit tax assets in the future	136,790	172,120
Pension obligations	10	Economic and demographic assumptions	30,552	34,092
Liabilities at fair value through profit or loss	22	Present value of future cash flows	0	24,135
Provisions	23	Correct basis for estimate calculations	12,478	12,903

controlled companies, are defined as the owners, all members of the Board of Directors and Group Management, and companies in which any of these parties either have controlling interests, Board appointments, or are senior employees.

All transactions between Group companies and related parties are made on market terms.

Important accounting estimates and discretionary assessments

Preparation of the annual financial statements requires management to make estimates and assumptions that affect the value of assets, liabilities and conditional liabilities in the statement of financial position, and income and expenses for the financial year.

Future events and changes in the regulatory framework may mean that estimates and assumptions must be changed, while new opinions and interpretations of standards may mean that the choice of principles and presentation will be

changed. Estimates and underlying assumptions are examined and evaluated continuously, and changes in accounting estimates are recognised in the period in which the estimates are changed.

Present value estimates of future cash flows are affected by correct assumptions and estimates of future cash flows and estimates of return requirements. Return requirements are determined using the capital asset pricing model (CAPM) and assumptions in using the CAPM are: risk-free interest; market risk premium; and beta.

The areas with greatest risk of substantial changes are capitalised goodwill, brands, tax assets and liabilities at fair value through profit/loss, on the basis that the capitalised sums are substantial, and that there may be considerable discretion. The estimates are based on assumptions concerning future cash flows that are discounted at a selected discount rate.

Estimates and assumptions are described in the various notes.

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NOTE 1 COMPANIES IN THE GROUP

The consolidated financial statements for 2017 cover the following subsidiaries and associated companies:

<i>Figures in 1,000 (local currency)</i>	Registered office	Currency	Nominal share capital	Group holding and voting share
Company name				
Arcus ASA (parent company)	Nittedal	NOK	1,360	
Subsidiaries				
Arcus-Gruppen AS	Nittedal	NOK	276,552	100%
Vectura AS	Nittedal	NOK	14,014	100%
Shares owned by Arcus-Gruppen AS				
Arcus Norway AS	Nittedal	NOK	62,100	100%
Arcus Denmark AS	Copenhagen	DKK	10,324	100%
Det Danske Spiritus Kompagni A/S*	Copenhagen	DKK	6,500	100%
Vingruppen AS	Nittedal	NOK	60	100%
VinGruppen Sweden Holding AB	Stockholm	SEK	50	100%
Arcus Deutschland GmbH**	Bremen	EUR	500	100%
Shares owned by Arcus Norway AS				
Arcus Sweden AB	Stockholm	SEK	100	100%
Arcus Finland OY	Helsinki	EUR	311	100%
BevCo AS	Nittedal	NOK	600	100%
De Lysholmske Brenneri- og Destillasjonsfabrikker ANS	Nittedal	NOK	0	100%
Siemers & Cos Destillasjon ANS	Nittedal	NOK	0	100%
Løiten Brænderis Destillation ANS	Nittedal	NOK	0	100%
Oplandske Spritfabrik ANS	Nittedal	NOK	0	100%
Shares owned by VinGruppen Sweden Holding AB				
Vingruppen i Norden AB	Stockholm	SEK	4,192	100%

<i>Figures in 1,000 (local currency)</i>	Registered office	Currency	Nominal share capital	Group holding and voting share
Shares owned by Vingruppen AS				
Arcus Wine Brands AS	Nittedal	NOK	100	100%
Vinordia AS	Nittedal	NOK	968	100%
Symposium Wines AS	Nittedal	NOK	500	80%
Vinuniq AS	Nittedal	NOK	100	100%
Excellars AS	Nittedal	NOK	181	100%
Heyday Wines AS	Nittedal	NOK	100	70%
Shares owned by Symposium Wines AS				
Hedoni Wines AS	Nittedal	NOK	30	80%
Shares owned by Vingruppen i Norden AB				
Vinunic AB	Stockholm	SEK	145	100%
Wineworld Sweden AB	Stockholm	SEK	500	90%
The WineAgency Sweden AB	Stockholm	SEK	100	90%
Valid Wines Sweden AB	Stockholm	SEK	1,100	83%
Social Wines OY	Helsinki	EUR	8	94%
Vinum Import Oy	Åbo	EUR	3	88%
Vingruppen Oy	Helsinki	EUR	3	100%
Shares owned by Wineworld Sweden AB				
Wineworld Finland Oy	Helsinki	EUR	220	76%
Quaffable Wines Sweden AB	Stockholm	SEK	100	72%
Shares owned by Vinunic AB				
Vingaraget AB	Stockholm	SEK	50	100%
Shares owned by The WineAgency Sweden AB and WineWorld Sweden AB				
Your Wineclub Sweden AB	Stockholm	SEK	50	90%
Shares owned by Social Wines OY				
Vinunic Oy	Helsinki	EUR	3	94%

* Det Danske Spiritus Kompagni A/S was booked as a jointly-controlled company up to 1.1.2017, and consolidated as a wholly-owned subsidiary as from the same date.

** Arcus Deutschland GmbH has had a financial year from 1 July to 30 June. As from 1.1.2018, the company's financial year follows the calendar year. Impacts on earnings from the company in the consolidated financial statements are based on an estimated annual result for the calendar year, which is the Group's financial year.

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<i>Figures in 1,000 (local currency)</i>	Registered office	Currency	Nominal share capital	Group holding and voting share
Associated company				
Tiffon SA	Jarnac	EUR	1,131	34.75%

Profit, dividends and equity attributable to non-controlling interests

<i>Figures in NOK 1,000</i>	Profits attributable to non-controlling interests in 2017	Accumulated non-controlling interests 31.12.2017*	Dividend distributed to non-controlling interests in 2017
Symposium Wines AS	1,089	2,290	-1,337
Heyday Wines AS	213	459	0
Wineworld Sweden AB	3,161	7,583	-693
The WineAgency Sweden AB	1,454	4,777	-1,098
Social Wines OY	150	1,357	0
Vinum Import Oy	501	1,280	-335
Other companies with minority interests	376	1,077	-58
Total	6,944	18,823	-3,521

<i>Figures in NOK 1,000</i>	Profits attributable to non-controlling interests in 2016	Accumulated non-controlling interests 31.12.2016*	Dividend distributed to non-controlling interests in 2016
Symposium Wines AS	1,382	1,975	-1,560
Excellars AS*	772	0	-4,900
Vingruppen i Norden AB	0	0	-375
Wineworld Sweden AB	6,148	4,766	-12,919
The WineAgency Sweden AB	1,342	4,169	-1,607
Social Wines OY	140	1,111	0
Vinum Import Oy	396	933	-359
Other companies with minority interests	300	951	-176
Total	10,480	13,905	-21,896

* At the end of 2016 the Group owned 90.1 per cent of the subsidiary Excellars AS. In addition, put and call options existed which were associated with the non-controlling interests, although the Group was not considered to have control of the shares as of the date of the statement of financial position. These companies were booked as though they were wholly owned, but with partial presentation of the non-controlling interests. Partial presentation of non-controlling interests means that the non-controlling interests' share of the profit for 2016 is shown in the statement of income, but not in the equity statement.

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Key figures for companies with significant non-controlling interests in the Group

2017

Figures in NOK 1,000

	Symposium Wines AS	Heyday Wines AS	Wineworld Sweden AB	The WineAgency Sweden AB	Social Wines OY	Vinum Import Oy
Sales revenues	103,301	17,799	231,364	196,074	124,805	53,147
Other operating revenues	0	0	-4,994	-3,130	190	-143
Operating expenses excluding depreciation	-96,413	-16,735	-185,768	-174,269	-120,314	-47,731
Depreciation	0	0	-9	-19	-1,483	0
Operating profit	6,888	1,064	40,592	18,656	3,198	5,273
Net financial profit	319	-118	0	91	-53	-12
Tax	-1,760	-237	-8,981	-4,203	-694	-1,054
Profit for the year	5,447	709	31,611	14,544	2,451	4,207
Fixed assets	158	7	2,950	475	1,079	440
Current assets	36,139	8,100	129,095	97,556	58,472	32,636
Total assets	36,297	8,107	132,045	98,031	59,551	33,075
Equity	3,722	1,530	75,838	47,763	20,701	10,206
Liabilities	32,575	6,577	56,207	50,269	38,850	22,870
Equity and liabilities	36,297	8,107	132,045	98,031	59,551	33,075

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	Symposium Wines AS	Excellars AS	Wineworld Sweden AB	The WineAgency Sweden AB	Social Wines OY	Vinum Import Oy
Sales revenues	95,568	87,612	277,856	191,997	129,352	46,075
Other operating revenues	0	0	2,901	4,582	6,298	1,054
Operating expenses excluding depreciation	-86,981	-77,028	-230,422	-179,430	-130,932	-42,974
Depreciation	0	-440	-29	-13	-1,497	0
Operating profit	8,587	10,144	50,306	17,136	3,221	4,155
Net financial profit	-266	332	-6	157	-73	-1
Tax	-2,120	-2,679	-11,743	-3,870	-818	-828
Profit for the year	6,201	7,797	38,557	13,424	2,330	3,326
Fixed assets	107	2,973	2,905	386	2,628	418
Current assets	35,608	45,098	122,956	84,281	65,546	26,933
Total assets	35,715	48,071	125,861	84,667	68,174	27,351
Equity	2,863	3,614	50,256	41,522	17,792	7,834
Liabilities	32,852	44,457	75,605	43,145	50,382	19,517
Equity and liabilities	35,715	48,071	125,861	84,667	68,174	27,351

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NOTE 2 MANAGEMENT OF FINANCIAL RISK
Financial risk

The Group has a Board-adopted financial policy in which strategy and guidelines for financial risk management are defined. Responsibility for the execution of the adopted financial policy lies with Arcus ASA, but it is implemented in cooperation with the individual business areas. The Arcus Group's principal source of income is the core business, and the Group's main strategy with regard to risk is not to speculate, but to limit the financial risk that the core business creates.

The most important financial risks to which the Group is exposed are associated with credit risk, interest rate risk, liquidity risk and foreign currency risk.

For hedging purposes associated with interest rate and currency risk, the Group to a certain degree uses financial derivatives. The Group does not fulfil the accounting requirements for hedge accounting and therefore does not treat these as hedging for accounting purposes. The accounting treatment of financial derivatives is described under Accounting Policies.

Credit risk

Credit risk must be assessed before establishing a customer relationship by examining financial statements and other relevant and available information. Credit periods and credit limits must then be determined. Once a customer relationship is established, credit risk and credit limits are continuously assessed in relation to the client's financial performance and payment history.

Outstanding amounts are continuously monitored in cooperation between the finance department and the marketing departments of the individual businesses.

A significant share of the Group's revenues is associated with the state monopolies in the Nordic region, where there is not considered to be any credit risk. The Group's credit risk is otherwise spread over a large number of small customers within the HORECA market, as well as a small number of distributors outside the home markets.

At the end of 2017 the Group had no significant factoring agreements.

The Group's maximum credit risk is equivalent to the book value of financial assets. See also the table to this Note which categorises financial assets.

Overview of bad debts and age analysis of accounts receivable

<i>Figures in NOK 1,000</i>	31.12.17	31.12.16
Nominal accounts receivable	1,432,873	1,345,198

The provision for bad debt on accounts receivable as at 31.12.2017 was TNOK 709 (2016: 1,131). Losses on accounts receivable are classified as other operating expenses in the statement of income.

The change in provision for losses is as follows:

<i>Figures in NOK 1,000</i>	2017	2016
Opening Balance	-1,131	-1,672
Provision for losses for the year	-212	-334
Confirmed losses for the year	424	181
Received on previously written-off receivables during the period	0	-13
Reversal of previous provisions	238	677
Translation differences	-28	30
Closing Balance	-709	-1,131

As at 31 December, the Group had the following accounts receivable fallen due but not paid

<i>Figures in NOK 1,000</i>	Total	Not due	Due 0-60 days	Due 61-365 days	Due date after more than 1 year
31.12.2017 ¹	1,432,873	1,274,624	158,242	7	0
31.12.2016 ¹	1,345,198	1,245,438	99,760	0	0

1. As at 31.12.2017, the Group had significant accounts receivable that had fallen due. Of this amount, NOK 127 million is related to accounts receivable from Vinmonopolet related to receivables which fell due during the Christmas period on 30 and 31 December 2017, and these were paid on the first banking day in 2018, i.e. 2 January 2018. In the same way, NOK 76 million was items receivable from Vinmonopolet at the end of 2016.

Interest rate risk

The Group is exposed to interest rate risk via financing activities (debt financing and financial leasing liabilities) and investments (bank deposits). At the end of 2017, the Group's non-current liabilities were associated with credit facilities at SEB and financial leasing at Nordea Finans. Group policy is to hedge up to 50 per cent of the base interest rate on non-current loans. The Group assesses the policy on an ongoing basis, and as at 31.12.2017 all interest rates were variable. The margin on credit facilities at SEB is related to the ratio of net interest-bearing debt in relation to EBITDA, while the margin at Nordea Finance is fixed.

<i>Figures in NOK 1,000</i>	Currency	Interest-rate profile	Due date	2017	2016
Current interest-bearing debt					
Drawing on the Group's overdraft facility	NOK	Variable	2018	72,700	0
Liabilities related to financial leasing	NOK	Variable	2018	17,371	16,498
Non-current interest-bearing debt					
Mortgage loans to financial institutions	SEK	Variable	2021	749,400	711,300
Liabilities related to financial leasing	NOK	Variable	2018	166,395	182,987

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Sensitivity analysis, interest 2017

<i>Figures in NOK 1,000</i>	Increase/reduction in basis points	Effect on pre-tax profit
Loans in NOK	50	-4,666
Loans in NOK	-50	4,666

Liquidity risk

Liquidity risk is the risk that the Group will not be in a position to service its financial liabilities as they fall due. The Arcus Group's capital management is described in a separate section of this note.

The Group's activities are subject to seasonal fluctuations, and alcohol sales normally increase in periods with national celebrations and public holidays, especially at Easter and Christmas. The fourth quarter is normally the best quarter for the Group, which is also reflected in cash flows.

Cash flows from operations, which are, for example, affected by changes in working capital, are managed operationally by the business areas. Via reporting, the finance department monitors liquidity flows in the short and long term. Interest-bearing debt is followed up and managed together with interest-bearing receivables at Group level.

The following table presents an overview of the maturity structure for the Group's financial liabilities, based on non-discounted contractual payments. In instances where the counterparty can demand earlier redemption, the sum is recorded in the earliest period in which the payment can be demanded by the counterparty.

2017	Remaining period		
	0-1 year	1-5 years	More than 5 years
Debt to financial institutions – mortgage loans	0	749,400	0
Debt to financial institutions – leasing*	17,371	166,395	0
Other provisions	0	320	0
Trade payables	603,884	0	0
Current liabilities**	1,125,747	0	0
Interest related to mortgage loans	11,241	33,723	0
Interest related to financial leasing debt	4,316	6,809	0
Total	1,762,559	956,647	0

2016

	Remaining period		
	0-1 year	1-5 years	More than 5 years
Debt to financial institutions – mortgage loans	0	711,300	0
Debt to financial institutions – leasing*	16,498	182,987	0
Liabilities at fair value	24,135	0	0
Other provisions	0	627	0
Trade payables	628,347	0	0
Current liabilities**	1,109,643	0	0
Interest related to mortgage loans	12,803	51,214	0
Interest related to financial leasing debt	5,713	2,528	0
Total	1,797,139	948,656	0

* Read more about the maturity profile of financial leases in Note 16 concerning Leasing agreements.

** Current liabilities include collected alcohol taxes.

Currency risk

The Group is exposed to currency risk as it has operations in several different countries. The Group's currency exposure can mainly be divided into two areas: cash flow risk and translation risk. The principal objective is to limit the effect of exchange rate fluctuations on the Group's cash flow in NOK. Changes in costs from suppliers in functional currency due to currency changes are continuously offset by changes in sales prices to customers and through renegotiation of purchase prices from suppliers. The most significant currencies are EUR, USD, SEK and DKK. The risk horizon, i.e., the time it takes to compensate for negative exchange rate fluctuations, is to a great extent controlled by price-adjustment opportunities in the state monopolies in the Nordic region. In Norway this takes place every four months and in Sweden every six months. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions.

All of the Group's non-current borrowing is undertaken in SEK, as a natural hedging of cash flow in the form of dividends in SEK.

For reporting purposes, receivables and debt, as well as monetary items in foreign currency, are translated at the closing rate in the companies' functional currencies.

The Group's presentation currency is NOK. The Group is therefore further exposed to currency risk when translating foreign subsidiaries from their functional currency to the Group's presentation currency. This translation risk is not hedged. As at 31.12.2017, the net translation difference associated with the majority's equity was positive at NOK 300.8 million, corresponding to a positive change in 2017 of NOK 72.0 million (positive by NOK 228.8 million at the end of 2016).

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The table below shows the Group's purchase of non-functional foreign exchange during 2017.

Figures in 1,000 (in the currency concerned)	Purchase of currency 2017			Proportion hedged via forward contracts
	Spot	Forward	Total	
EUR	85,554	15,885	101,439	15.7%
USD	10,092	390	10,482	3.7%
AUD	1,048	230	1,278	18.0%
GBP	2,215	80	2,295	3.5%
DKK	70,000	0	70,000	0.0%
SEK	40	0	40	0.0%

Figures in 1,000 (in the currency concerned)	Purchase of currency 2016			Proportion hedged via forward contracts
	Spot	Forward	Total	
EUR	89,114	23,450	112,564	20.8%
USD	9,116	780	9,896	7.9%
AUD	1,043	0	1,043	0.0%
GBP	830	195	1,025	19.0%
SEK	70	0	70	0.0%

At the end of the year, the Group had the following forward contracts related to the distribution activities, which were booked at fair value with value changes through the profit or loss. The represents financial hedging and the Group does not use hedge accounting.

31.12.17

Forward contracts	Currency	Currency amount	Value in NOK - at end of period	Forward value in NOK	Fair value in NOK	Due date
Figures in NOK 1,000						
Purchase contracts	EUR	2,000	19,702	18,783	919	2018
Purchase contracts	USD	110	907	856	51	2018
Purchase contracts	AUD	60	385	373	12	2018
Purchase contracts	GBP	20	222	211	11	2018
Total					993	

31.12.16

Forward contracts	Currency	Currency amount	Value in NOK - at end of period	Forward value in NOK	Fair value in NOK	Due date
Figures in NOK 1,000						
Purchase contracts	EUR	3,600	32,711	33,579	-868	2017
Purchase contracts	GBP	25	265	270	-5	2017
Purchase contracts	USD	80	692	664	28	2017
Total					-844	

All forward contracts are recognised at fair value as of the close of the financial year.

Sensitivity to exchange rate fluctuation:

The following table shows the Group's sensitivity to changes in the most important exchange rates, if all other variables remain constant.

The effect on the Group's profit before tax is calculated as changes in the fair value of monetary assets and liabilities as at 31.12.2017 in foreign currency (non-functional currency). This includes hedging derivatives recognised at fair value with value changes via profit or loss.

The effect on other comprehensive income (OCI) is calculated as the effect of the translation differences associated with subsidiaries in foreign currency as at 31.12.2017.

Figures in NOK 1,000	Change in exchange rate	Effect on pre-tax profit	Total effect on OCI before tax
EUR	5%	1,416	1,461
EUR	-5%	-1,416	-1,461
SEK	5%	-2,187	-168
SEK	-5%	2,187	168
DKK	5%	4,378	41,317
DKK	-5%	-4,378	-41,317

The Group's exposure to other currencies is insignificant as at 31.12.2017.

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Categorisation of financial assets and liabilities:
Assets

<i>Figures in NOK 1,000</i>	Financial instruments at fair value with value changes through profit or loss	Loans and receivables	Assets available for sale	Total book value of financial assets, 31.12	Prepaid costs	Total in the statement of financial position 31.12.
Other investments in shares	0	0	200	200	0	200
Other non-current receivables	0	1,205	0	1,205	0	1,205
Trade receivables	0	1,432,164	0	1,432,164	0	1,432,164
Other receivables	993	70,981	0	71,974	14,921	86,895
Bank deposits	0	184,415	0	184,415	0	184,415
Total financial assets 31.12.2017	993	1,688,765	200	1,689,958	14,921	1,704,879
Other investments in shares	0	0	200	200	0	200
Other non-current receivables	0	1,235	0	1,235	0	1,235
Trade receivables	0	1,344,067	0	1,344,067	0	1,344,067
Other receivables	0	67,914	0	67,914	14,008	81,922
Bank deposits	0	199,385	0	199,385	0	199,385
Total financial assets 31.12.2016	0	1,612,601	200	1,612,801	14,008	1,626,809

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Liabilities

	Financial instruments at fair value with value changes through profit or loss	Financial liability	Total book value of financial liabilities 31.12.	Provision for accrued expenses and statutory liabilities	Total in the statement of financial position 31.12.
<i>Figures in NOK 1,000</i>					
Debt to financial institutions	0	999,289	999,289	0	999,289
Liabilities at fair value	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0
Trade payables	0	603,884	603,884	0	603,884
Other current liabilities	0	14,916	14,916	182,826	197,742
Total financial liabilities 31.12.2017	0	1,618,089	1,618,089	182,826	1,800,915
Debt to financial institutions	0	902,753	902,753	0	902,753
Liabilities at fair value	24,135	0	24,135	0	24,135
Other non-current liabilities	0	0	0	0	0
Trade payables	0	628,347	628,347	0	628,347
Other current liabilities	844	7,793	8,637	188,697	197,334
Total financial liabilities 31.12.2016	24,979	1,538,893	1,563,872	188,697	1,752,569

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Fair value hierarchy

The Group uses the following hierarchy to determine and report the fair value of financial instruments:

Level 1: Listed (unadjusted) prices in active markets

Level 2: Direct or indirect inputs other than listed prices included in Level 1, that are observable for the asset or the liability.

Level 3: Techniques for calculation of fair value based on other than observable market data.

As at 31 December 2017, the Arcus Group had the following financial liabilities at fair value in the statement of financial position:

31.12.17	Level 1	Level 2	Level 3	Book value as at 31.12.
Currency derivatives	0	993	0	993
Total assets	0	993	0	993

	Level 1	Level 2	Level 3	Book value as at 31.12.
Liabilities at fair value	0	0	0	0
Currency derivatives	0	0	0	0
Total liabilities	0	0	0	0

31.12.16	Level 1	Level 2	Level 3	Book value as at 31.12.
Currency derivatives	0	0	0	0
Total assets	0	0	0	0

	Level 1	Level 2	Level 3	Book value as at 31.12.
Liabilities at fair value	0	0	24,135	24,135
Currency derivatives	0	844	0	844
Total liabilities	0	844	24,135	24,979

There have been no reclassifications between Level 1 and Level 2 during the period. Nor have there been any transfers out of Level 3 during the period.

Reconciliation of liabilities (Level 3):

Commitments classified at Level 3 are historically related to options for the purchase of non-controlling interests and a previous co-investment programme for senior executives. Further information on these commitments is presented in Note 22.

	Book value 31.12.2016	Used/ exercised 2017	Provision made/issued 2017	Value changes 2017	Recognised interest 2017	Book value 31.12.2017
Liabilities at fair value	24,135	-10,483	0	-13,673	21	0
Total	24,135	-10,483	0	-13,673	21	0

	Book value 31.12.2015	Used/ exercised 2016	Provision made/issued 2016	Value changes 2016	Recognised interest 2016	Book value 31.12.2016
Liabilities at fair value	118,999	-244,275	1,000	148,155	256	24,135
Total	118,999	-244,275	1,000	148,155	256	24,135

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Capital management

The Group's overall objective is that the Group at all times has sufficient liquidity to fulfil its obligations in both the short and long term. At the same time, the aim is to minimise the Group's surplus liquidity. The Group will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance. Unutilised credit opportunities are described in Note 19.

As far as possible, the Group wishes to have flexibility for its liquid assets in relation to day-to-day operations. The Group achieves this through a Group cash pool system with a drawing facility that as of 31.12.2017 is managed by Arcus ASA.

When funds are needed for investment purposes, the Group relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used. The Group works according to the objective that the net interest-bearing debt may not exceed 2.5 times EBITDA.

There were no changes in the Group's non-current debt financing during 2017. At the end of 2017, the agreement on a mortgage loan facility contains a loan term (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31.12.2017 the Group was well within the required ratio.

On the introduction of IFRS 16 Leases as from 2019, the Group's reported net interest-bearing debt and adjusted EBITDA will change significantly. The loan agreement with SEB specifies that the loan terms must be calculated according to today's model, independently of the introduction of IFRS 16, so that the Group's ability to fulfil the loan terms will not be affected by the introduction of IFRS 16.

The Group also has financial leasing agreements for major investments in production equipment.

<i>NOK million</i>	2017	2016
Net interest-bearing debt		
Non-current interest-bearing debt to credit institutions	909,218	886,255
Current interest-bearing debt to credit institutions	90,071	16,498
Capitalised front-end fees	6,577	8,032
Bank deposits and other cash and cash equivalents	-184,415	-199,385
Net interest-bearing debt	821,451	711,400

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NOTE 3 INFORMATION ON CASH FLOWS

The Group prepares the statement of cash flows according to an indirect method. Below is a specification of cash flow effects which are not presented elsewhere in the Notes.

EFFECTS OF CASH FLOWS FROM OPERATIONS:
Pension costs and other provisions without cash effect

Pension costs without cash effect are the change in pension obligations in the statement of financial position adjusted for obligations from acquisition or sale, and the effects of booked estimate deviations booked to the total comprehensive income (OCI).

<i>Figures in NOK 1000</i>	Note	2017	2016
Book pension obligations at the beginning of the year	10	-34,092	-35,902
Estimate deviations booked to the total comprehensive income	10	4,438	-1,278
Book pension obligations at the end of the year	10	30,552	34,092
Pension costs without cash effect		898	-3,088
Book other provisions for obligations at the beginning of the year	23	-627	-1,140
Book other provisions for obligations at the end of the year	23	320	627
Costs from other provisions without cash effect		-307	-513
Total pension costs and other provisions without cash effect		591	-3,601

Value changes without cash effect

Below is a specification of value changes included in the statement of income, but without cash effect.

<i>Figures in NOK 1000</i>	Note	2017	2016
Value change in options for the purchase of non-controlling interests	11,22	147	28,180
Value change in previous co-investment programme for senior executives	11,22	-13,821	119,979
Costs related to share-based remuneration without cash effect	9	9,415	731
Amortisation of front-end fees for interest-bearing debt	21	1,652	20,636
Value change, interest rate swaps	11	0	-4,552
Value change, forward exchange contracts	11	-1,837	0
Total value changes without cash effect		-4,444	164,974

Loss on sale of fixed assets and intangible fixed assets

The accounting loss or profit on the sale of fixed assets and intangible fixed assets has no cash flow effect, which is thereby reversed from the operational activities in the indirect method. The sales proceeds related to these divestments is the Group's cash flow effect under investment activities.

<i>Figures in NOK 1000</i>	Note	2017	2016
Book value of sold fixed assets and intangible fixed assets	14,15	0	9
Sales proceeds from sold fixed assets and intangible fixed assets		30	1,060
Profit (-) / loss (+) on sale of fixed assets and intangible fixed assets		-30	-1,051

Unrealised agio

Unrealised agio is related to translation differences for working capital items in foreign subsidiaries with a functional currency in other than the functional currency, and statement of income items linked to the currency translation of loans booked in other currencies than the functional currency.

<i>Figures in NOK 1000</i>	Note	2017	2016
Translation differences for working capital items		19,195	-13,454
The effects on the result of the translation of loans booked in another currency than the functional currency		0	-2,510
Total unrealised agio		19,195	-15,964

Changes in working capital

Changes in working capital are the change in working capital items in the statement of financial position, adjusted for working capital items from the acquisition or sale of companies during the period.

<i>Figures in NOK 1000</i>	Note	2017	2016
Book value of inventories at the beginning of the year		378,777	388,217
Addition of inventories on acquisition of companies during the year		201	0
Book value of inventories at the end of the year		-410,759	-378,777
Change in inventories		-31,781	9,440

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<i>Figures in NOK 1000</i>	Note	2017	2016
Book value of trade receivables at the beginning of the year		1,344,067	1,003,328
Addition of trade receivables on acquisition of companies during the year		44,158	0
Book value of trade receivables at the end of the year		-1,432,164	-1,344,067
Change in trade receivables		-43,939	-340,739

<i>Figures in NOK 1000</i>	Note	2017	2016
Book value of trade payables at the beginning of the year		-628,347	-551,457
Addition of trade payables on acquisition of companies during the year		-20,974	0
Book value of trade payables at the end of the year		603,884	628,347
Change in trade payables		-45,437	76,890

<i>Figures in NOK 1000</i>	Note	2017	2016
Book value of other current receivables at the beginning of the year	17	78,996	90,520
Addition of other current receivables on acquisition of companies during the year	26	845	0
Book value of other current receivables at the end of the year	17	-85,902	-78,966
Change in other current receivables		-6,061	11,554

Book value of other current liabilities at the beginning of the year	24	-1,108,674	-1,086,737
Addition of other current liabilities on acquisition of companies during the year	26	-31,626	0
Book value of other current liabilities at the end of the year	24	1,124,105	1,108,674
Change in other current liabilities		-16,195	21,937
Change in other current assets and other liabilities		-22,256	33,491

EFFECTS OF CASH FLOWS FROM INVESTMENT ACTIVITIES**Payments on acquisition of other financial investments**

In 2017 the entire amount concerns a payment related to an increased ownership interest in an associated company. The Group had no equivalent payments in 2016.

<i>Figures in NOK 1000</i>	Note	2017	2016
Increased ownership interest in an associated company (Tiffon SA)	13	-454	0
Payments on acquisition of other financial investments		-454	0

EFFECTS IN CASH FLOWS FROM FINANCING ACTIVITIES**Interest cost paid during the period**

The Group has quarterly interest payment dates, so that the Group's recognised interest payable coincides with the interest paid during the year. The difference between recognised interest payable and interest paid is related to calculated interest costs relating to liabilities at fair value through profit and loss. In 2016 this also concerns the settlement of an interest rate swap, which entailed a difference in relation to recognised interest costs.

<i>Figures in NOK 1000</i>	Note	2017	2016
Interest paid to credit institutions	11	-31,454	-70,158
Paid on settlement of interest rate swap		0	-12,873
Interest cost paid during the period		-31,454	-83,031

Payment of dividend

The difference in dividend paid in 2016 and dividend carried to equity in 2016 is related to how dividend to a minority for 2015 was not paid before January 2016.

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NOTE 4 REVENUES

Sales revenue is the primary income source for the Group and related segments.

Spirits

The primary revenue source in Spirits is the sale of spirits products, of which most of the sales revenue is from our proprietary products, of which the Group is also the owner of the brand. In addition, this segment also has sales revenue from a good number of agencies, of which the products may be proprietary or imported items that are ready for sale, but where the brand is owned by other external operators. The most important spirits categories are Aquavit, Bitters, Vodka and Cognac.

In geographical terms, Norway, Denmark and Sweden are the most important markets, but the Group also has sales to Germany, the USA, Finland and DFTR (Duty Free Travel Retail), as well as other sales to other markets.

Wine

The primary income source for Wine is sales of wine products, where most of the sales revenue is from agency activities, whereby the Group imports items that are ready for sale. The Group also has considerable sales revenue from sales of own Wine brands, with wine being mixed and bottled in the Group's own production facility.

In geographical terms, the Group has sales revenue from Wine in Norway, Sweden and Finland, and to small extent from DFTR.

Distribution

The Group's Distribution activities comprise its subsidiary, Vectura, whose primary revenue source is comprehensive logistics services for both internal and external suppliers. Comprehensive logistics services comprise everything from placing orders on behalf of a supplier, goods receipt, stock accounting, receiving orders from end-customers, order picking, goods distribution and invoicing of end-customers. At the same time as Vectura invoices the end-customer, Vectura buys the goods from the supplier. Vectura also invoices special taxes (alcohol duties) to the end-customer, on behalf of the Norwegian tax authorities.

Vectura recognises all of its income on a net basis after deduction of special taxes, cost of sales and stock handling costs, based on an overall assessment that Vectura's income source is related to the delivery of comprehensive logistics services and that the risk on the flow of goods is the supplier's responsibility.

Below is a specification of Vectura's net sales income:

<i>Figures in NOK 1000</i>	2017	2016
Invoiced revenues	6,401,693	6,169,328
Invoiced special taxes	-3,802,820	-3,682,014
Cost of sales	-2,357,867	-2,227,097
Net external sales revenues, Distribution	241,006	260,217

Other operating revenues

Other operating revenues primarily comprise revenues other than the primary source of income. For the Spirits segment this consists mainly of contract bottling, and for the Wine segment glass sales, while for the Distribution segment this consists mainly of other activity-based income, including pallet location hire, export handling, destruction of dead stock and quarter pallet production.

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The following tables present the Group's total external revenues:

Sales revenue by market - Group:	2017			2016		
	Sales revenue	Other operating revenues	Total	Sales revenue	Other operating revenues	Total
Norway	996,050	24,568	1,020,618	993,760	20,990	1,014,750
Sweden	1,006,576	12,944	1,019,520	1,028,103	11,682	1,039,785
Finland	221,385	4,610	225,995	207,728	0	207,728
Denmark	146,109	0	146,109	133,108	0	133,108
Germany	59,940	1,504	61,444	58,940	0	58,940
USA	3,238	580	3,818	5,727	0	5,727
DFTR	94,870	0	95,537	92,954	0	92,954
Other international	1,958	728	2,019	1,506	27,899	29,405
Total operating revenues	2,530,126	44,934	2,575,060	2,521,826	60,571	2,582,397

The following tables present the segments' total external and internal revenues:

Revenue by market - Spirits:	2017			2016		
	Sales revenues	Other operating revenues	Total	Sales revenue	Other operating revenues	Total
Norway	301,579	141,306	442,885	308,463	122,955	431,418
Sweden	126,469	5,455	131,924	116,543	1,942	118,485
Finland	32,711	289	33,000	35,267	0	35,267
Denmark	146,109	0	146,109	133,108	0	133,108
Germany	59,940	1,504	61,444	58,940	0	58,940
USA	3,238	580	3,818	5,727	0	5,727
DFTR	91,417	0	92,084	91,554	0	91,554
Other international	1,958	728	2,019	1,505	27,879	29,384
Total operating revenues	763,421	149,862	913,283	751,107	152,776	903,883

Revenue by market - Wine:	2017			2016		
	Sales revenue	Other operating revenues	Total	Sales revenue	Other operating revenues	Total
Norway	448,477	360	448,837	453,255	0	453,255
Sweden	882,085	13,509	895,594	911,560	13,697	925,257
Finland	188,674	4,321	192,995	172,461	0	172,461
DFTR	3,453	0	3,453	1,400	0	1,400
Total operating revenues	1,522,689	18,190	1,540,879	1,538,676	13,697	1,552,373

Revenue by market - Distribution:	2017			2016		
	Sales revenue	Other operating revenues	Total	Sales revenue	Other operating revenues	Total
Norway	251,332	33,071	284,403	232,043	30,881	262,924
Total operating revenues	251,332	33,071	284,403	232,043	30,881	262,924

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Significant customer relationships

The Group has significant customer relationships with Vinmonopolet in Norway and Systembolaget in Sweden, which each represent more than 10 per cent of the Group's total operating revenues.

Total operating revenue from Vinmonopolet was approximately NOK 689 million in 2017, of which NOK 286 million in Spirits and NOK 403 million in Wine. In 2016 the corresponding total was approximately NOK 693 million, of which NOK 288 million in Spirits and NOK 405 million in Wine.

Total operating revenue from Systembolaget was approximately NOK 905 million in 2017, of which NOK 116 million in Spirits and NOK 789 million in Wine. In 2016 the corresponding total was approximately NOK 947 million, of which NOK 108 million in Spirits and NOK 839 million in Wine.

NOTE 5 SEGMENT INFORMATION

2017	Spirits	Wine	Distribution	Other	Eliminations/ reclassifications	Group
<i>Figures in NOK 1,000</i>						
Sales revenues – external	767,591	1,521,529	241,006	0	0	2,530,126
Sales revenues between the segments	-4,170	1,160	10,326	0	-7,316	0
Other operating revenues – external	6,669	15,072	22,741	452	0	44,934
Other operating revenues between the segments	143,193	3,118	10,330	173,730	-330,371	0
Total operating revenues	913,283	1,540,879	284,403	174,182	-337,687	2,575,060
Net profit on sale of fixed assets	30	0	0	0	0	30
Cost of sales	-404,928	-1,154,411	0	0	150,814	-1,408,524
Salaries and other personnel costs	-122,269	-100,122	-134,419	-60,602	0	-417,412
Other operating expenses	-206,650	-94,678	-135,852	-141,392	186,873	-391,699
Share of profit from TS and FKV	3,286	0	0	0	0	3,286
EBITDA, adjusted	182,753	191,668	14,132	-27,812	0	360,741
Other income and expenses	-7,142	-5,166	-647	-212	0	-13,167
Depreciation and amortisation	-24,117	-1,794	-12,825	-7,666	-5,180	-51,581
Write-downs ¹	0	0	0	0	-22,700	-22,700
Operating profit	151,494	184,709	660	-35,690	-27,880	273,293
Net financial profit/loss	2,988	-18,103	480	-1,577	1,669	-14,543
PRE-TAX PROFIT	154,482	166,606	1,140	-37,267	-26,211	258,750

1. Impairment of goodwill in 2017 relates to added value on the acquisition of Excellars AS. This added value is booked at Group level, see also Note 15.

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2016*Figures in NOK 1,000*

	Spirits	Wine	Distribution	Other	Eliminations/ reclassification	Group
Sales revenues – external	746,230	1,515,379	260,217	0	0	2,521,826
Sales revenues between the segments	4,877	23,297	-28,174	0	0	0
Other operating revenues – external	28,045	11,478	20,646	403	0	60,571
Other operating revenues between the segments	124,731	2,220	10,235	173,011	-310,196	0
Total operating revenues	903,883	1,552,373	262,924	173,414	-310,196	2,582,397
Net profit on sale of fixed assets	144	0	0	0	0	144
Cost of sales	-427,031	-1,165,620	0	0	124,731	-1,467,920
Salaries and other personnel costs	-117,244	-93,289	-124,008	-58,004	0	-392,545
Other operating expenses	-202,954	-99,302	-136,320	-139,405	185,465	-392,516
Share of profit from TS and FKV	5,789	0	0	0	0	5,789
EBITDA, adjusted	162,587	194,162	2,596	-23,995	0	335,349
Other income and expenses	-3,916	0	-399	-40,559	0	-44,874
Depreciation and amortisation	-23,906	-1,014	-13,632	-8,363	-4,710	-51,625
Write-downs	0	0	0	0	0	0
Operating profit	134,765	193,148	-11,435	-72,917	-4,711	238,850
Net financial profit/loss	-9,086	-17,576	404	-183,385	-27,085	-236,728
PRE-TAX PROFIT	125,679	175,572	-11,031	-256,302	-31,796	2,122

The Group does not present the segments' assets or liabilities as this is not part of the Group's internal reporting either.

For information regarding pricing associated with sales between the segments, see Note 6.

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NOTE 6 TRANSACTIONS WITH RELATED PARTIES

In addition to subsidiaries and associated companies, the Group's related parties are defined as the owners, all members of the Board of Directors and Group executive management, as well as companies in which any of these parties have either controlling interests, Board appointments or managerial positions.

The Group's transactions with related parties:

Purchase of goods and services:

<i>Figures in NOK 1,000</i>	Relationship	Delivery	2017	2016
Hoff SA	Shareholder	Raw materials	22,386	22,469
Tiffon SA	Associated company (34.75%)	Raw materials and consumables	52,746	56,051
Det Danske Spiritus Kompagni A/S ¹	Jointly controlled entity (50%)	Leased offices, licences	0	3,314
Gjelleråsen Eiendom AS	Owned by shareholder (Canica AS)	Rent	79,150	77,605
Thomas Patay	General manager of Vingruppen AS	Minority shareholder in Vinordia AS, Symposium Wines AS and Vinuniq AS	2,741	0
Total purchase of goods and services			157,023	159,439

Sales of goods and services:

<i>Figures in NOK 1,000</i>	Relationship	Delivery	2017	2016
Tiffon SA	Associated company (34.75%)	Market support	3,714	3,393
Det Danske Spiritus Kompagni A/S ¹	Jointly controlled entity (50%)	Sales of finished goods	0	132,184
Total sales of goods and services			3,714	135,577

Receivables from related parties as at 31.12.:

<i>Figures in NOK 1,000</i>	Relationship	Nature of receivable	2017	2016
Tiffon SA	Associated company (34.75%)	Current receivables	170	0
Det Danske Spiritus Kompagni A/S ¹	Jointly controlled entity (50%)	Current receivables	0	21,061
Total receivables from related parties as at 31.12.:			170	21,061

Liabilities to related parties as at 31.12.:

<i>Figures in NOK 1,000</i>	Relationship	Nature of liability	2017	2016
Hoff SA	Shareholder	Current liabilities	1,147	549
Tiffon SA	Associated company (34.75%)	Current liabilities	10,821	11,082
Det Danske Spiritus Kompagni A/S ¹	Jointly controlled entity (50%)	Current liabilities	0	113
Total liabilities to related parties as at 31.12.:			11,968	11,744

All transactions with related parties are on market terms.

¹ Det Danske Spiritus Kompagni A/S was a jointly-controlled company up to January 2017, when the Group acquired the remaining 50 per cent ownership interest. For further information, see Note 26.

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Transactions between Group companies:

Agreements have been made between the companies in the Group on the cost distribution for internal services and joint procurement. This applies mainly to rent, maintenance and property service functions, as well as shared functions such as finance, IT, payroll, etc. The services are recognised in the various companies' accounts as other operating revenues and other operating expenses, respectively.

All buying and selling of goods and services between the companies takes place on market terms and is eliminated in the consolidated financial statements.

NOTE 7 OTHER OPERATING EXPENSES

Figures in NOK 1,000	2017	2016
Sales and advertising costs	-122,678	-121,688
Logistics costs	-56,331	-56,071
Rent	-86,706	-82,851
Maintenance costs	-37,094	-34,251
Other costs associated with premises	-27,950	-22,904
Travel expenses	-16,991	-18,814
Consultants and external outsourcing of services	-39,543	-73,820
Other costs	-12,650	-20,938
Total other operating expenses	-399,944	-431,337
Of which effects which are included in Other income and expenses in the financial statements	8,245	38,821
Total other operating expenses as presented in the statement of income	-391,699	-392,516

Other income and expenses

Other income and expenses comprises significant positive and negative non-recurring items and restructuring costs. The main purpose of this item is to show these significant non-recurring and non-periodic items, so that the development and comparability of the ordinary items presented in the statement of income are more relevant for the activities. See also the section concerning alternative performance measurement (APM).

Figures in NOK 1,000	2017	2016
Personnel policy and other organisational measures ¹	-4,922	-1,029
Expenses related to the IPO ²	0	-41,474
Other transaction expenses	-502	0
Other non-recurring items ³	-7,743	-2,371
Total other income and expenses	-13,167	-44,874

1 **Personnel policy and other organisational measures:** Costs related to organisational and staffing adjustments in order to meet the restructuring need with new work processes and improved profitability, as well as costs related to a temporary incentive programme with matching shares to selected key employees in conjunction with the IPO in 2016. This programme expires in Q1 2019, and further information about the programme is presented in Note 9.

2 **Expenses related to the IPO:** Expenses concerning the process prior to the listing of Arcus ASA on 1 December 2016. This is to a great extent related to fees for advisers and banks, but also a number of other expenses in direct relation to this process.

3 **Other non-recurring items:** Other non-recurring items consist of both positive and negative items. In 2017, this mainly concerns costs related to a dispute with the Swedish customs authorities and a customer concerning a contract-bottling delivery. These costs primarily comprise Swedish customs and VAT charges levied on the Group in conjunction with the delivery, and related legal fees. In 2016 this mainly consists of the profit on the sale of the last holiday cabin held by the Group, costs related to the completion of relocating the production of Danish brands from Aalborg to Gjelleråsen, and settlement related to a volume undertaking to a former logistics partner in Denmark on the replacement of the logistics partner in 2016.

Auditors' remuneration

The auditors' fees are specified below. The fees cover the Group auditor, EY, as well as other auditors of Group subsidiaries.

Figures in NOK 1,000	2017	2016
Statutory audit	3,100	2,336
Other financial auditing	171	215
Other certification services	69	774
Tax consultancy services	170	239
Other non-audit services	42	226
Total remuneration to the auditors	3,552	3,790

All amounts are exclusive of VAT.

Total audit fees for the Group include fees to auditors other than the Group auditor of TNOK 1,243 for 2017 and TNOK 1,118 for 2016.

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NOTE 8 SALARIES AND OTHER PERSONNEL COSTS

Figures in NOK 1,000	2017	2016
Salaries including holiday pay	-280,838	-266,685
Social security costs	-58,434	-63,732
Pension costs including social security costs	-32,406	-28,397
Other personnel costs	-50,656	-40,691
Total salaries and other personnel costs	-422,334	-399,505
Of which non-recurring items and restructuring costs, which are included under Other income and expenses in the statement of income (see Note 7)	4,922	6,960
Total other operating costs, as presented in the statement of income line under salary costs	-417,412	-392,545
Average number of FTEs employed during the year	420	411

Remuneration to senior executives

The terms and conditions for the Group CEO are set by the Board of Directors, which also makes decisions in principle concerning the Group's terms and conditions policy and compensation schemes for other employees. The Board has a remuneration committee which prepares remuneration proposals for decision by the Board. The committee comprises two members of the Board elected by the shareholders. The administration handles cases for the remuneration committee and the Board.

In 2017, the Group Management was covered by the Group's annual bonus system, a temporary share programme (matching shares) that was established in conjunction with the IPO in 2016, as well as a newly-established option programme adopted at the Annual General Meeting in May 2017. The Group CEO has an ordinary bonus agreement which, under certain conditions, will release payment of up to five months' salary, while other members of the Group Management can receive up to four months' salary.

The Group CEO and other members of the Norwegian Group Management have an ordinary occupational pension with Storebrand, which entails 5 per cent pension contributions for salaries of 0 to 7.1G and 11 per cent for salaries from 7.1 to 12G. The Swedish member of the Group Management has a defined contribution pension scheme for which the contribution rates vary with the salary by up to 34 per cent. The Group CEO also has a supplementary pension agreement that gives pension earnings of 15 per cent of salaries above 12G. This pension entitlement is capitalised annually in the consolidated statement of financial position and the return is based on the return from the Storebrand Balansert pension fund.

Salaries and other remuneration to the Group Management in 2017:

Figures in 1000 Local currency	Currency	Salary	Bonus earned in 2017	Benefits in kind	Pension costs
Kenneth Hamnes	NOK	3,031	286	227	386
Sigmund Toth	NOK	1,728	147	146	84
Erlend Stefansson	NOK	2,033	139	179	84
Erik Bern	NOK	1,780	132	190	84
Bjørn Delbæk	NOK	1,572	103	191	84
Per Bjørkum	NOK	1,523	107	137	84
Thomas Patay	NOK	2,288	144	195	84
Lorna Stangeland ¹	NOK	900	0	50	21
Christian Granlund ²	NOK	870	290	90	45
Claes Lindquist ³	SEK	2,193	1,031	102	862

1. Lorna Stangeland resigned on 31 March 2017 and the benefits stated represent three months' employment. Lorna joined the Board of Directors of Vectura AS after her resignation.
2. Christian Granlund was appointed on 12 June 2017 and the benefits stated represent 6.5 months' employment.
3. Claes Lindquist is reducing his activities and will leave his position on 31.03.2018. Claes will join the Board of Directors of the subsidiary Vingruppen I Norden AB after his resignation.

Salaries and other remuneration to the Group Management in 2016:

Figures in 1000 Local currency	Currency	Salary	Bonus earned in 2016	Benefits in kind	Pension costs
Kenneth Hamnes	NOK	2,444	1,100	220	308
Rune Midtgaard ¹	NOK	1,820	446	150	69
Sigmund Toth ²	NOK	550	614	2	28
Erlend Stefansson	NOK	1,981	669	147	83
Erik Bern	NOK	1,743	585	217	83
Bjørn Delbæk ³	NOK	249	511	25	14
Per Bjørkum	NOK	1,437	485	135	83
Thomas Patay ⁴	NOK	2,264	455	192	83
Lorna Stangeland	NOK	1,700	617	194	83
Claes Lindquist	SEK	2,141	956	69	983

1. Rune Midtgaard was CFO up to 1 September 2016, but was a member of the Group Management until he resigned on 31.10.2016. Benefits paid equivalent to ten months' employment.
2. Sigmund Toth took over as CFO as from 1 September 2016. The benefits paid represent the four months in which he was a member of the Group Management.
3. Bjørn Delbæk was employed on a permanent basis as from 1.11.2016, and the benefits paid represent two months' employment. During the period from 1.1.2016 to 31.10.2016, Bjørn was a contractor and invoiced his services from his own company.
4. TNOK 151 of the salary paid is related to payment of services earned in previous years.

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If the CEO gives notice of termination, he is subject to six months' notice of termination. If notice of termination is given by the Group, the Group CEO will be entitled to 12 months' severance pay, and during this period will not be able to take employment in competing companies.

Concerning the other Group Management members, Sigmund Toth, Erlend Stefansson, Erik Bern, Thomas Patay and Christian Granlund are subject to six months' notice of termination, while Per Bjørkum and Bjørn Delbæk are subject to three months' notice of termination. Claes Lindquist had nine months' notice of termination on his own resignation, and will work until the end of Q1 2018.

Concerning the other Group Management members, Erik Bern, Thomas Patay and Claes Lindquist are subject to a 12-month non-competition clause, while Sigmund Toth, Bjørn Delbæk, Per Bjørkum and Erlend Stefansson are subject to a six-month non-competition clause. They all have an agreement concerning severance pay during the period to which the non-competition clause applies.

No loans or surety are provided for the Group CEO, other Group Management or members of the Board of Directors.

The Group Management's holdings of ordinary shares in Arcus ASA are stated in Note 20.

Concerning the declaration of the Board of Directors regarding the fixing of salaries and other remuneration to executive personnel.

Pursuant to Section 6-16a of the Norwegian Public Limited Liability Companies Act, the Board of Directors will prepare a separate declaration on the fixing of salaries and other remuneration to executive personnel.

Furthermore, under section 5-6 (3) of the Norwegian Public Limited Liability Companies Act, an advisory vote must be held at the general meeting on the Board of Directors' guidelines for fixing remuneration to executive personnel for the coming financial year (see (ii) below). In so far as the guidelines concern share-based incentive arrangements, these shall also be approved by the general meeting (see (iii)).

(i) Salaries and other remuneration to executive personnel

Salaries and other remuneration to executive personnel for the preceding financial year are presented in Notes 8, 9 and 10 of the annual financial statements for Arcus ASA.

(ii) Guidelines for the fixing of salaries and other remuneration to executive personnel

With regard to guidelines for fixing salaries and other remuneration to executive personnel in the coming financial year, the Board of Directors will present the following guidelines to the General Meeting in 2018 for an advisory vote:

The purpose of Arcus' terms and conditions policy is to attract personnel with the competence that the Group requires, to further develop and retain employees with key expertise, and to promote a long-term perspective and continuous improvement with a view to achieving Arcus' business goals. As an overall principle, Arcus' policy must be competitive but not market-leading in terms of the total compensation package. The total compensation may consist of the following elements:

(a) Fixed elements – Basic salary, pension, etc.

Arcus 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 in relation to the median. The employee's area of responsibility, results and performance determine where he or she is placed on the salary scale.

Arcus has a defined-contribution occupational pension plan in Norway. The contribution rate is 5 per cent for salaries up to 7.1G and 11 per cent for salaries between 7.1G and 12G (as from 1.5.2017 1G is NOK 93,634). The CEO is the only employee who currently has an occupational pension for salaries above 12G and the contribution rate is 15 per cent. There are no arrangements or agreements regarding early retirement age for Group Management other than the AFP arrangement and the national insurance scheme, which allow all employees a flexible retirement age starting at the age of 62. All employees in Norway are subject to a statutory age limit of 72, but the age limit in the Group is contractually set at 70, which also applies to the Group Management.

The CEO of Vectura AS has the same pension scheme as the Group Management. The CEO of Vingruppen i Norden AB adheres to the Swedish regulations. The pension scheme in Sweden has different rules and higher contribution rates than in Norway.

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

Arcus has an annual bonus system. The bonus system for the Group Management has consisted of a financial component (70 per cent) tied to a performance-related target for the Group, and an individual component (30 per cent) tied to concrete and defined KPIs for the individual. For all other executive positions, the financial element is 50 per cent related to the target for the Group or company, and the individual element is 50 per cent.

All bonuses are self-financed. The maximum possible bonus for Group Management members is 30 per cent of their annual salary (four monthly salaries), although the CEO may receive a maximum annual bonus of five monthly salaries. In addition to the Group Management, approximately 70 managers and key staff participate in a bonus programme, but the criteria vary. These staff members may receive a bonus of between one and three monthly salaries.

The bonus programme for 2018 will consist of the same components, and its primary target will be the Group's and/or the company's earnings (financial element of 70 per cent). Individual bonuses (personal targets) with a maximum percentage of 30 per cent for Group Management are also a key element of the programme.

Executives of Vectura AS adhere to the same guidelines as the Group Management, but based on the company's EBIT.

Executives of Vingruppen i Norden AB currently adhere to a staggered bonus model, based on the company's EBIT, with maximum five monthly salaries.

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(iii) Share-based incentive programmes

In conjunction with the IPO in 2016, the Group Management and an additional 33 managers/key staff were offered investment in shares in exchange for "matching shares" on conditions specified in the prospectus. In total, 29 people in addition to the Group Management subscribed to the offer. The matching programme will be concluded after the presentation of the result for Q4/2018 in 2019.

The Annual General Meeting in 2017 approved an option-based long-term incentive scheme for the Group Management, as well as the CEO of Vectura and the CEO of Vingruppen i Norden, and for additional managers and key persons. The primary objective of the programme is to provide executive personnel with incentives to generate long-term and continuous success and value creation for shareholders. Reference is made to the report described in Annex 4 to the notice convening the Annual General Meeting.

Arcus ASA has key persons in several wine companies in which it has invested as a minority owner, and this mainly concerns the general manager. This model has been a success for Group and created profitable new business, with well-motivated managers. It is appropriate to continue to allow the general manager of a wine company, based on an individual assessment, to be a minority owner, with an ownership interest limited to 9.9 per cent.

Such a model is intended to encourage an entrepreneurship culture, sound business acumen and internal competition between companies which, in turn, can increase the profitability of the company and of the employee. Financing must primarily take place as the employee's contribution of equity.

On starting up a new company, greater flexibility (up to 30 per cent ownership interest) must be accepted in terms of how much the employee should/may invest, based on an individual and commercial assessment.

(iv) Executive salary policy in previous financial years

The guidelines for salaries and other remuneration to executive personnel described in item (ii) also served as guidelines for fixing executive salaries and other remuneration in 2017. Full individual bonus was paid for 2016, while for 2017, 26 per cent of the maximum bonus will be paid.

(v) Changes in contractual agreements

Managing Director of Vectura AS Lorna Stangeland stepped down on 30 March 2017 and was replaced by Christian Granlund, who took over on 12 June 2017. Lorna Stangeland became an external member of the Board of Directors of Vectura AS as from 1 April 2017.

CEO Claes Lindquist of Vingruppen i Norden AB resigned with effect from 1 April 2018 in order to retire, and was replaced by Svante Selling, who took up the position on 1 February 2018. Claes Lindquist continues as an external member of the Board of Directors of Vingruppen i Norden AB as from 1 April 2018, and after his resignation as of 31 March 2018 will work on a consultant basis, so far for the rest of the year.

The remuneration of the Board of Directors is as follows, as from 3.5.2017

Chairman of the Board of Directors	NOK 500,000 p.a.
Board members elected by the shareholders	NOK 225,000 p.a.
Board members elected by the employees	NOK 150,000 p.a.
Deputy member elected by the employees	NOK 7,500 per meeting

Audit Committee

Chair of the committee	NOK 85,000 p.a.
Member	NOK 40,000 p.a.

Remuneration Committee

Chair of the committee	NOK 40,000 p.a.
Member	NOK 25,000 p.a.

Remuneration to the members of the Board of Directors in 2017:

Figures in NOK 1000		Board fees including committee work	Number of shares 31.12.2017
Board members elected by the shareholders			
Michael Holm Johansen	Chairman of the Board	480	150,000
Mikael Norlander	Resigning Board member in 2017	177	0
Hanne Refsholt		222	0
Leena Maria Saarinen		227	1,860
Trond Berger		301	17,441
Eilif Due ¹		275	3,299,325
Isabelle Ducellier	Resigning Board member in 2017	0	0
Stein Erik Hagen ²	Newly-elected Board member in 2017	150	22,670,000
Ann-Beth Freuchen	Newly-elected Board member in 2017	150	0

Board members elected by the employees

Erik Hagen	See the Table below	566
Ingrid E. Skistad ³	See the Table below	1,368
Kjell Arne Greni	See the Table below	0

1. Eilif Due owns 2,325 shares on a personal basis. Other declared shareholdings relate to the shareholder Hoff SA, of which he is Chairman of the Board.

2. Stein Erik Hagen does not own shares on a personal basis. Declared shareholdings relate to the shareholder Canica AS, which is controlled by Stein Erik Hagen and his associate, and of which he is a member of the Board.

3. Ingrid E. Skistad owns 322 shares personally. Other shareholding is owned through Ibrygging Invest AS, where she is Chairman of the Board.

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<i>Figures in NOK 1000</i>	Fixed salary	Board fees including committee work	Benefits in kind	Pension costs
Board members elected by the employees				
Erik Hagen	495	157	6	25
Ingrid E. Skistad	617	150	4	31
Kjell Arne Greni ¹	185	155	6	9

1. Kjell Arne Greni has a 40 per cent position

Remuneration to the members of the Board of Directors in 2016:

<i>Figures in NOK 1000</i>		Board fees including committee work	Number of shares, 31.12.2016
Board members elected by the shareholders			
Michael Holm Johansen	Newly-elected Board member in 2016	637	146,512
Mikael Norlander ¹		0	16,077,244
Hanne Refsholt	Newly-elected Board member in 2016	218	0
Leena Maria Saarinen	Newly-elected Board member in 2016	187	1,860
Trond Berger	Newly-elected Board member in 2016	34	17,441
Eilif Due ²		140	3,299,325
Isabelle Ducellier	Newly-elected Board member in 2016	100	1,860
Leif Johansson	Resigning Board member in 2016	0	0
Daniel Repfennig	Resigning Board member in 2016	0	0
Marius Juul Møller	Resigning Board member in 2016	0	0
Board members elected by the employees			
Erik Hagen		See the Table below	244
Ingrid E. Skistad ³	Newly-elected Board member in 2016	See the Table below	1,046
Kjell Arne Greni		See the Table below	0

1. Mikael Norlander represented the main shareholder, Ratos AB. The declared number of shares related to him also includes Ratos AB's shareholding.

2. Eilif Due owns 2,325 shares on a personal basis. Other declared shareholdings related to the shareholder Hoff SA, of which he is Chairman of the Board.

3. Shareholding is owned through Ibrygging Invest AS, where Ingrid E. Skistad is Chariman of the Board.

<i>Figures in NOK 1000</i>	Fixed salary	Board fees including committee work	Benefits in kind	Pension costs
Board members elected by the employees				
Erik Hagen	484	103	6	24
Ingrid E. Skistad ¹	97	25	0	5
Kjell Arne Greni ²	174	83	7	9

1. Ingrid Skistad was elected to the Board as from 1.11.2016. The amounts paid represent two months as from her election to the Board.

2. Kjell Arne Greni has a 40 per cent position

NOTE 9 SHARE-BASED REMUNERATION**Share-based incentive schemes**

The Group has two share-based incentive schemes for senior executives, which are related to the value growth of the Group. The Group also has a share savings programme in which all employees can participate.

Matching shares for senior executives and other key persons.

Before the Board of Directors in 2017 adopted a new long-term incentive scheme for senior executives, in conjunction with the IPO in 2016 a temporary two-year incentive scheme (interim retention plan) was adopted, in which 37 employees, including the Group Management, were awarded matching shares. These matching shares are granted to recipients in 2019 after the publication of the quarterly report for Q4 2018, if the person in question is still employed at this time.

For the Group Management, matching shares were granted whereby for each share they acquired in addition to their reinvestment obligations related to the settlement of the completed programme with synthetic shares and options, they also received one matching share. The members of the Group Management, who did not already hold synthetic shares or options were entitled to receive either one matching share for each share they purchased in total, or one matching share for every two shares they purchased in total.

Other key persons were invited to purchase shares for up to a given amount, with the right to receive one matching share for every two shares they purchased. Of the 33 key persons who received this offer, 29 made use of it. In 2017, two persons who were covered by this programme resigned, so at the end of 2017 there were 27 key persons in this programme.

If the listed share price on the redemption date exceeds two times the listed price on the allocation date, the number of matching shares will be reduced, so that the total value of the matching shares allocated does not exceed two times the value on the allocation date.

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Below, the number of matching shares as at 31.12.2017 is presented, of which the fair value is based on Arcus' share price as at 31.12.2017 (NOK 46.50).

<i>Figures in NOK 1000</i>	Allocation date	Number of matching shares at the time of allocation	Number of matching shares 31.12.2016	Number of matching shares 31.12.2017	Fair value 31.12.2017	Redemption date
Kenneth Hamnes	01.12.16	42,100	42,100	42,100	1,958	28.02.19
Sigmund Toth	01.12.16	19,767	19,767	19,767	919	28.02.19
Erlend Stefansson	01.12.16	27,062	27,062	27,062	1,258	28.02.19
Erik Bern	01.12.16	9,956	9,956	9,956	463	28.02.19
Bjørn Delbæk	01.12.16	8,692	8,692	8,692	404	28.02.19
Per Bjørkum	01.12.16	8,256	8,256	8,256	384	28.02.19
Thomas Patay	01.12.16	68,785	68,785	68,785	3,199	28.02.19
Claes Lindquist	01.12.16	46,726	46,726	27,670	1,287	28.02.19
Total, Group Management		231,344	231,344	212,288	9,871	
Other managerial employees	01.12.16	149,415	149,415	118,530	5,512	28.02.19
Total number of matching shares		380,759	380,759	330,818	15,383	

Overview of the development in the number of allocated matching shares:

Number of matching shares	2017	2016
Allocated matching shares at the beginning of the year	380,759	0
Allocated matching shares during the year	0	380,759
Terminated matching shares during the year	-49,941	0
Allocated matching shares at the end of the year	330,818	380,759

Effects of matching shares in the accounts:

<i>Figures in NOK 1,000</i>	2017	2016
Earning of matching shares	6,323	606
Termination of matching shares	-80	0
Change in provision for employer taxes	1,252	125
Total costs related to matching shares	7,495	731
Liabilities¹	1,378	125

1. Solely include employer taxes

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Option programme for senior executives

At the Annual General Meeting in May 2017, a new option programme for senior executives in the Group was adopted, with annual allocation of new options.

The options' vesting period will be three years from the allocation date, where the participants have two years to redeem the options after the vesting period. A condition for redemption of an option is that the executive is still employed after the vesting period, and that the Group's KPI objectives, as determined by the Board of Directors, have been achieved in the same period.

The number of options allocated annually will vary, and will correspond to the individual executive's potential maximum bonus that can be achieved in relation to the listed price on the allocation date. The options' strike price is calculated as the volume-adjusted listed price for the last ten days prior to the allocation date, with the addition of 10 per cent.

The options are valued using the Black-Scholes model, for which the most important assumptions on the valuation date will be the spot rate on the valuation date, the estimated time during the redemption period in which the Group assumes that the holders will redeem the option, the dividend in the period, and the share's assumed volatility. The option's maximum redemption price is limited to three times the spot rate at the time of allocation.

There are no dividend rights related to the options during the period prior to redemption.

Below the Group Management's options holdings are listed.

Allocation date	2017	
Vesting period	04.05.2017 - 04.05.2020	
Redemption period	04.05.2020 - 04.05.2022	
Strike price	NOK 51.53	
Number of options	2017	2016
Kenneth Hamnes	199,426	0
Sigmund Toth	90,773	0
Erlend Stefansson	110,628	0
Erik Bern	96,546	0
Bjørn Delbæk	84,508	0
Per Bjørkum	82,524	0
Thomas Patay	115,034	0
Christian Granlund	95,724	0
Claes Lindquist	40,584	0
Total, Group Management	915,747	0
Other managerial employees	313,557	0
Total number of options	1,229,304	0

Option calculation assumptions:

		2017	2016
Share price on the allocation date	NOK	47.90	0
Share price on the balance sheet date	NOK	46.50	0
Redemption price – minimum	NOK	51.53	0
Redemption price – maximum	NOK	143.70	0
Risk-free interest %	%	1.1%	0.0%
Volatility* %	%	25.0%	0.0%
Expected dividend %	%	3.1%	0.0%

* As the company has no historical volatility figures that can be applied, the company has calculated average volatility for comparable companies on European stock exchanges within the same sector for the last five years.

Overview of development in the number of allocated options

Number of options	2017	2016
Allocated options during the year	1,407,369	0
Terminated options during the year	-178,065	0
Outstanding options at the end of the year	1,229,304	0

Effects of options in the accounts:

Figures in NOK 1,000	2017	2016
Earning of options	1,655	0
Change in provision for employer taxes	265	0
Total option costs	1,920	0
Liabilities¹	265	0

¹ Solely includes employer taxes

Share savings programme for all employees

In 2017, the Board of Directors adopted a general share savings scheme for all employees, under which all employees will annually have the opportunity to buy a limited number of shares in Arcus ASA, with a discount of 20 per cent. Sale of shares to employees below market value is recognised as a personnel cost comprising the difference between the market value of the shares and the purchase price.

This was first performed in November 2017, when 100 employees in total subscribed for a total of 31,234 shares. These shares were purchased at an average price of 46.56 and sold to the employees at a discount of 20 per cent, whereby each employee could purchase either 322 or 161 shares. For this, costs of TNOK 290 were charged to the consolidated accounts in 2017.

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NOTE 10 PENSION COSTS, ASSETS AND OBLIGATIONS

Defined benefit pension plan

Up until 31 December 2008, Arcus ASA and its subsidiaries had a group defined benefit plan for their employees in Statens Pensjonskasse (the Norwegian Public Service Pension Fund – SPK) and Storebrand. The SPK pension plan also included a contractual early retirement plan (AFP) with financing from the commencement of employment. From 31 December 2008, the Board of Directors terminated the SPK group pension plan for the entire Group in order to switch to defined contribution plans.

With the transition to the new pension plan, all those who were ill or disabled remained in the respective defined benefit plans. Statens Pensjonskasse has confirmed that Arcus no longer has any legal obligations associated with the remaining pension recipients who are linked to the SPK defined benefit plan, but is only obliged to pay annual premium contributions specified by SPK, according to the same principle as for defined contribution plans. The Group therefore takes the current invoices from SPK to expenses in the same way as for the defined contribution plan. Within the pension obligation as at 31.12.2017, a provision of NOK 4.1 million is linked to five individuals in the Storebrand defined benefit plan. This is the only pension obligation secured with assets.

In addition, two individuals, who are no longer employed by the company, have a defined benefit plan for salaries above 12G (National Insurance base amount). This plan has been recognised with obligations totalling NOK 4.2 million at the end of 2017.

Gift pension and unfunded pension arrangement

On the transition to the defined contribution plan in 2009, there were individual employees who had previously been with SPK who would be disadvantaged in the event of early retirement at 65-67 years of age. To compensate for this, it was agreed that a gift pension would be paid to all employees who were with SPK before the transition. As at 31.12.2017, this gift pension is linked to 136 employees in the Norwegian operations, while the total obligation has been recognised at NOK 13.1 million.

The Group CEO has an unfunded pension arrangement in which the pension entitlement earned is 15 per cent of the salary above 12G. At the end of 2017, this obligation was recognised at NOK 0.7 million.

Contractual early retirement plan pension (AFP)

On 1 January 2011, a new contractual early retirement plan (AFP) pension scheme was introduced in Norway. Unlike the old scheme, the new AFP plan is not an early retirement plan, but a scheme that provides a lifelong supplement to the ordinary pension. Employees can choose to take out the new AFP pension as from the age of 62, also while continuing to work, and add additional earnings by working up to the age of 67. This new AFP plan is a defined benefit multi-enterprise pension scheme, and is financed through premiums that are set as a percentage of salary. So far no reliable measurement and allocation of obligations and assets is available for the plan. In accounting terms, the plan is treated as a defined-contribution pension plan in which premium payments are charged as current costs and no provisions are made in the financial statements. In 2016 and 2017, the current premium payments were set at 2.50 per cent of total salary payments between 1 G and 7.1 G to the company's employees. It has been decided not to change the premium payments for 2018. There is no accumulation of funds in the plan and it is expected that the premium level will increase over the coming years.

There are some seniority requirements associated with the new AFP plan with regard to accumulated length of employment in the scheme. This means that on reaching the age of 62, the individual employee must have been employed for seven of the previous nine years in order to meet the seniority requirements to be able to draw an AFP pension under the new scheme. For the Arcus Group there were 17 individuals who did not fulfil this seniority requirement on the introduction of the new AFP plan. In 2011, Arcus applied for these individuals to have their accumulated period of employment in the old AFP plan in SPK included before transition to the LO/NHO (Norwegian Confederation of Trade Unions/ Confederation of Norwegian Enterprise) plan from 1 January 2009. Fellesordningen (Joint Pension Plan) gave its consent to this in return for Arcus paying the entire excess above and beyond the state supplement of 1/3 of the AFP pension. As at 31.12.2017, this relates to a residual obligation for seven people and the obligation is recognised at NOK 5.2 million.

Defined contribution pension

The Arcus Group's general pension scheme for all other employees concerns defined-contribution pension schemes which are adapted to the regulations in the individual countries in which the Group has employees.

Norway

The general defined-contribution pension scheme has contribution rates of 5 per cent of salary in the bracket from 0 to 7.1 times the National Insurance basic amount (G); and 11 per cent of salary in the bracket from 7.1 to 12 times the National Insurance basic amount (G). In addition, there is a private disability plan with a 66 per cent benefit level, without free policy accumulation. The child and dependent supplement to Arcus' group life plan is a replacement for the previous spouse and child pension.

The costs associated with the defined contribution pension are related to the current premium invoices from the insurance company with which Arcus has signed a defined contribution pension agreement. The current defined contribution pensions and disability pensions for employees in the defined contribution plan are adjusted annually on the basis of the pension fund's surplus.

Employees in the defined contribution plan who have become disabled are entitled to have their disability obligations regulated by the same adjustment as the basic amount (G) each year and the capitalised obligation related to this was NOK 3.2 million at the end of 2017.

Sweden

In Sweden, the contributions are, to a great extent, individually agreed contribution rates based on individual salaries, and these can vary considerably. In 2017, the contribution rates vary between 9 per cent and 34 per cent of the individual's salary. The contribution rates apply as from the first krone earned.

Denmark

The general defined-contribution pension scheme in Denmark has contribution rates varying from 8 to 10 per cent. The contribution rates apply as from the first krone earned.

Finland

The general defined-contribution pension scheme in Finland has contribution rates of 18.95 per cent for employees aged below 53, and 17.45 per cent for employees aged over 53.

Germany

The contribution rate in Germany is 9.35 per cent of the employee's salary, up to the maximum calculation basis of EUR 76,200.

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Other matters

The Group applies a discount rate equivalent to the covered bond interest rate to its pension commitments.

The pension assumptions made by the Group are consistent with the recommendations of the Accounting Standards Board from September 2017. Due to the lack of significance, the assumptions were not updated as of 31.12.2017.

The table below shows both defined benefit and other pension obligations based on actuarial assumptions.

Figures in NOK 1,000

Pension costs	2017	2016
Present value of pension earnings for the year	778	1,053
Interest cost of pension obligations	890	953
Return on pension assets	-215	-252
Administration costs	174	173
Recognised estimation loss/(profit)	0	-736
Accrued social security contributions	218	262
Net pension costs after social security contributions	1,845	1,453

Defined contribution pension plan

Recognised contributions excluding social security contributions	30,561	26,944
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Net pension obligations

Estimated accrued obligations, funded pension plans	14,436	13,707
Estimated value of pension assets	-10,328	-9,741
Net estimated pension obligations (-)/assets (+), funded pension plans	4,108	3,966
Estimated accrued obligations, non-funded pension plans	26,444	30,126
Net pension assets/(obligations) recognised in the statement of financial position	30,552	34,092

Changes in obligations

Net pension obligations 01.01	34,092	35,902
Pension costs, continued operations	1,845	1,453
Paid out through operations	-743	-4,071
Premium payments including SSC	-204	-471
Estimate deviations recognised directly in equity (IAS19R)	-4,438	1,279
Net pension obligations 31.12.	30,552	34,092

Summary of pension assets:

Shares and other equity instruments	10,328	9,741
Total pension assets 31.12.	10,328	9,741

Figures in NOK 1,000

Financial assumptions	2017	2016
Discount rate	2.30%	2.10%
Expected salary adjustment	2.50%	2.25%
Expected pension increase	1.50%	1.25%
Expected adjustment of the National Insurance basic amount (G)	2.25%	2.00%
Expected return on pension assets	2.30%	2.10%

Actuarial and demographic assumptions

Withdrawal rate at 62 years	50%	50%
Withdrawal rate at 67 years	50%	50%
Mortality	K2013	K2013
Disability	K1963	K1963
Voluntary retirement (under 50 years)	5%	5%
Voluntary retirement (over 50 years)	0%	0%

The actuarial assumptions are based on commonly used assumptions within the insurance industry with regard to demographic factors.

The Group's pension plans satisfy the statutory requirements concerning mandatory occupational pension schemes.

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Sensitivity analysis of net pension obligations:

The table below shows the effects of changes in pension obligations, deferred tax assets and equity in the event of a change in the most important economic assumptions by one percentage point up or down. The calculations are otherwise carried out in the same way as the actuarial calculations and are based on all other economic and demographic assumptions remaining unchanged.

Sensitivity 2017	Discount rate		Salary growth		Adjustment of NI basic amount (G)	
	1%	-1%	1%	-1%	1%	-1%
Change in pension obligations	-3,116	3,697	6,019	-4,980	-2,566	2,597
Change in deferred tax assets	717	-850	-1,384	1,145	590	-597
Change in equity	2,400	-2,847	-4,634	3,835	1,976	-2,000
Percentage change in obligations	-10.2%	12.1%	19.7%	-16.3%	-8.4%	8.5%

Sensitivity 2016	Discount rate		Salary growth		Adjustment of NI basic amount (G)	
	1%	-1%	1%	-1%	1%	-1%
Change in pension obligations	-3,477	4,125	6,716	-5,557	-2,864	2,898
Change in deferred tax assets	835	-990	-1,612	1,334	687	-695
Change in equity	2,643	-3,135	-5,104	4,223	2,176	-2,202
Percentage change in obligations	-10.2%	12.1%	19.7%	-16.3%	-8.4%	8.5%

Summary of cash flows related to pension plans

Figures in NOK 1,000	2017	2016
Premium payments, Storebrand defined benefit plan recognised in the statement of financial position	204	425
Payments from operations, gift pension at 65-67 years of age	743	566
Payments under unfunded pension to former CEO recognised in the statement of financial position	0	3,316
Premium payments, AFP plan not recognised in the statement of financial position	4,069	4,165
Premium payments, remaining in SPK	72	66
Premium payments, defined contribution pension	29,240	25,404
Total	34,328	33,942

All figures include social security costs

Premium payments associated with ordinary defined-contribution pension schemes are the largest disbursement items associated with pensions. The basis for the premium payments to the defined contribution plan is calculated according to the actual salaries and will reflect the salary development within the company.

Premium payments to the new AFP plan are also calculated on the basis of actual salaries, in addition to how the premium rate is expected to increase in the years ahead. The premium rate was 2.50 per cent in 2016 and 2017 and this will remain unchanged in 2018.

NOTE 11 FINANCIAL INCOME AND COSTS

Figures in NOK 1,000	2017	2016
Financial income		
External interest income	6,654	7,944
Total interest income	6,654	7,944
Value adjustment of interest rate swap agreements at fair value	0	4,552
Value adjustment of foreign exchange forward contracts at fair value	1,837	0
Value adjustment of co-investment programme (synthetic shares and options)	13,821	0
Net agio gains	2,854	5,848
Other financial income	731	19
Total other financial income	19,243	10,419
Total financial income	25,897	18,363
Financial costs		
Interest costs to financial institutions	-31,454	-70,158
Interest costs on liabilities at fair value	-21	-256
Total interest costs	-31,475	-70,414
Value adjustment of minority options at fair value	-147	-28,180
Value adjustment of foreign exchange forward contracts at fair value	0	-2,021
Value adjustment of co-investment programme (synthetic shares and options)	0	-119,979
Amortisation of front-end fee related to credit facilities at SEB	-1,652	-20,636
Other financial costs	-7,166	-13,861
Total other financial costs	-8,965	-184,677
Total financial costs	-40,440	-255,091
Net financial profit/loss	-14,543	-236,728

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NOTE 12 TAX

Tax for the year is calculated as follows:

Figures in NOK 1,000	2017	2016
Tax payable	-37,463	-40,670
Change in deferred tax	-34,306	10,590
Insufficient provision in previous years	1,241	3,869
Total tax cost	-70,528	-26,211

Tax breakdown by country	2017	2016
Tax - Norway	-34,883	6,498
Tax - Sweden	-26,194	-25,545
Tax - Denmark	-7,343	-6,094
Tax - Finland	-2,220	-1,841
Tax - Germany	112	771
Total tax cost	-70,528	-26,211

Reconciliation from nominal to actual tax rates	2017	2016
Pre-tax profit	258,750	2,122
Expected income tax at the nominal tax rate in Norway	-62,100	-531
Tax effect of the following items:		
Non-deductible costs	-7,638	-26,831
Non-taxable income	33	0
Insufficient provision in previous years	1,241	2,171
Change in non-capitalised tax assets	213	0
Change in tax rate	-4,859	-5,789
Differences in tax rates	3,366	4,554
Profit share, associated companies	789	1,447
Other	-1,573	-1,232
Tax	-70,528	-26,211

Effective tax rate	27%	1235%
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Tax on items in OCI

Tax on items in OCI are entirely due to changes in deferred tax associated with pension obligations in Norway.

Tax payable by country in the statement of financial position	2017	2016
Tax liability to Norway	1,907	1,704
Tax liability to Sweden	-5,336	-9,815
Tax liability to Denmark	5,451	4,862
Tax liability to Finland	382	-80
Tax liability to Germany	-276	373
Total tax liabilities payable, see also Note 17	2,128	-2,956

Tax paid during the period, per country	2017	2016
Tax paid to Norway	-896	-5,686
Tax paid to Sweden	-22,412	-26,200
Tax paid to Denmark	-7,510	-12,760
Tax paid to Finland	-1,851	-2,556
Tax paid to Germany	-552	491
Total tax paid	-33,221	-46,711

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Specification of tax effect of temporary differences and deficit carried forward:

	2017		2016	
	Asset	Liability	Asset	Liability
Tangible assets	-3,093	532	37	667
Intangible fixed assets	-45,585	-101,588	-47,905	-93,848
Financial assets	-931	0	-717	0
Inventories	-10,271	0	-8,536	338
Trade receivables	1,545	0	1,539	215
Pension obligations	6,604	0	7,833	0
Provisions	5,781	0	10,437	0
Gain/loss tax fund from sale of fixed assets	-864	24	-1,127	0
Deficit carried forward	183,600	0	210,559	0
Total deferred tax, gross	136,786	-101,032	172,120	-92,628
Unrecognised deferred tax assets	0	0	0	0
Net deferred tax in the statement of financial position	136,786	-101,032	172,120	-92,628

At the end of the year, the Group had NOK 183.6 million in capitalised deferred tax assets associated with the deficit carried forward. Based on an assessment and analysis of the Group's earnings in Norway historically, and the future prognosis, it is assessed that the deficit carried forward can be utilised in full, and the related deferred tax asset has therefore been entered.

Deferred tax positions are calculated on the basis of local tax rates in the respective countries on the reporting date. At the end of 2017, the rates were 23 per cent in Norway, 22 per cent in Sweden, 22 per cent in Denmark and 20 per cent in Finland.

At the end of 2017, deferred tax assets were associated with net negative temporary differences for the tax regimes in Norway and Sweden, while deferred tax liabilities were linked to net positive temporary differences for the tax regime in Denmark. At the end of 2016, deferred tax assets were associated with net negative temporary differences for the tax regime in Norway, while deferred tax liabilities were linked to net positive temporary differences for the tax regimes in Denmark and Sweden.

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NOTE 13 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

2017

Figures in NOK 1,000

	Company type	Ownership interest	Book value 01.01.2017	Buy/sell/ issue	Share of profit for the year	Dividend	Translation differences	Book value 31.12.2017
Tiffon SA *	TS	34.8%	48,029	454	3,286	0	6,901	58,670
Det Danske Spiritus Kompagni A/S **	FKV		8,782	-8,782	0	0	0	0
Total investments in associated companies and jointly controlled entities			56,811	-8,328	3,286	0	6,901	58,670

2016

Figures in NOK 1,000

	Company type	Ownership interest	Book value 1.1.2016	Buy/sell/ issue	Share of profit for the year	Dividend	Translation differences	Book value 31.12.2016
Tiffon SA *	TS	34.0%	46,280	0	1,749	0	0	48,029
Det Danske Spiritus Kompagni A/S **	FKV	50.0%	8,439	0	4,040	-2,946	-751	8,782
Total investments in associated companies and jointly controlled entities			54,719	0	5,789	-2,946	-751	56,811

* The Group buys Cognac from Tiffon SA, see detailed information on these transactions with associates in Note 6. In September 2017, Arcus acquired a further 0.75 per cent ownership interest in the company, and at the end of the year has an ownership interest of 34.75 per cent. Tiffon SA has a financial year from 1 July to 30 June. The share of profit from Tiffon is based on an estimated annual profit for the calendar year that is equivalent to the Group's financial year.

** Det Danske Spiritus Kompagni A/S was established in 2013 to handle sales of Arcus products in Denmark, and was owned jointly with Flemming Karberg Familieholding ApS. In January 2017, the Arcus Group acquired the rest of the shares in the company, and as from this date the company is recognised as a wholly-owned subsidiary, and consolidated in the consolidated accounts. Prior to the acquisition, both ownership and voting shares, as well as Board composition, were divided 50/50 between Arcus and Flemming Karberg Familieholding ApS. See detailed information on transactions with related parties in Note 6.

None of the associated companies or jointly controlled entities has listed share prices. The Group's share of profit from associated companies, after tax, is presented on a separate line before Group operating profit.

Summarised financial information regarding associated companies and jointly controlled entities, based on 100 per cent:

2017

	Total current assets 31.12.2017	Total fixed assets 31.12.2017	Total current liabilities 31.12.2017	Total non-current liabilities 31.12.2017	Total equity 31.12.2017	Operating revenues 2017	Operating expenses 2017	Profit for the year 2017
Figures in NOK 1,000								
Tiffon SA	329,085	16,933	33,193	144,009	168,815	101,248	82,784	9,457

2016

	Total current assets 31.12.2016	Total fixed assets 31.12.2016	Total current liabilities 31.12.2016	Total non-current liabilities 31.12.2016	Total equity 31.12.2016	Operating revenues 2016	Operating expenses 2016	Profit for the year 2016
Figures in NOK 1,000								
Tiffon SA	301,695	16,390	35,031	136,547	146,507	107,964	96,067	5,145
Det Danske Spiritus Kompagni A/S*	68,815	21	52,950	0	15,886	161,188	150,827	8,081

* As a consequence of both ownership and voting rights being divided 50/50 between the owners, the Group was not deemed to have control of DDSK A/S at the end of 2016. DDSK A/S was therefore not consolidated in the Group's accounts before the acquisition of the remaining 50 per cent in 2017.

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NOTE 14 TANGIBLE FIXED ASSETS
Figures in NOK 1,000

	Land, buildings and other real estate	Machinery and equipment	Fixtures and fittings, tools, office equipment etc.	Assets under construction	Total tangible assets
Acquisition cost as at 01.01.2016	0	500,992	86,364	67,417	654,773
Addition of tangible fixed assets	0	7,992	1,445	1,945	11,382
Transferred from facilities under construction	0	62,645	0	-66,630	-3,985
Reclassifications	0	0	-1,297	0	-1,297
Translation differences	0	-309	-809	0	-1,118
Acquisition cost as at 01.01.2017	0	571,320	85,703	2,732	659,755
Addition of tangible fixed assets	0	5,320	2,857	7,717	15,894
Transferred from facilities under construction	0	2,693	290	-4,771	-1,788
Disposal at cost (sale of tangible fixed assets)	0	-30,643	-358	0	-31,001
Translation differences	0	185	524	0	709
Acquisition cost 01.01.2017	0	548,875	89,016	5,678	643,569
Accumulated depreciation 01.01.2016	0	-216,117	-60,764	0	-276,881
Ordinary depreciation	0	-29,355	-5,529	0	-34,884
Reclassifications	0	0	1,297	0	1,297
Translation differences	0	201	747	0	948
Accumulated depreciation 01.01.2017	0	-245,271	-64,249	0	-309,520
Ordinary depreciation	0	-29,567	-5,009	0	-34,576
Disposal, accumulated depreciation (sale of tangible fixed assets)	0	30,643	358	0	31,001
Translation differences	0	-146	-502	0	-648
Accumulated depreciation 31.12.2017	0	-244,341	-69,402	0	-313,743
Book value as at 31.12.17	0	304,534	19,614	5,678	329,826
Of which book value of capitalised leases	0	176,697	0	0	176,697
Ordinary depreciation for the year – capitalised leases	0	-16,385	0	0	-16,385
Book value of capitalised interest costs	0	3,291	0	0	3,291
Annual leasing fee for non-capitalised tangible fixed assets	83,928	2,309	463	0	93,739

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Both the parent company and the Group use straight-line depreciation for all tangible fixed assets.

The economic life of tangible fixed assets is estimated as follows:

*Machines, vehicles and plant	3-15 years
*Office machinery and inventory	4-10 years
*Land, buildings and other real estate	0 years

No indications of impairment or a need to adjust the useful lives of assets were identified during the period.

NOTE 15 INTANGIBLE ASSETS

<i>Figures in NOK 1,000</i>	Goodwill	Brands	Software	Total
Acquisition cost 01.01.2016	1,042,182	706,257	111,969	1,860,408
Addition of intangible assets	0	32,647	3,782	36,429
Transferred from facilities under construction	0	0	3,985	3,985
Translation differences	-32,006	-23,572	0	-55,578
Acquisition cost 01.01.2017	1,010,176	715,332	119,736	1,845,244
Addition of intangible assets	0	118,611	6,209	124,820
Transferred from facilities under construction	0	0	1,788	1,788
Acquisition of business	16,583	3,900	0	20,483
Translation differences	38,537	35,403	136	74,076
Acquisition cost 31.12.2017	1,065,296	873,246	127,869	2,066,411
Accumulated depreciation 01.01.2016	0	-40,568	-77,927	-118,495
Ordinary depreciation	0	0	-11,158	-11,158
Amortisation	0	-5,583	0	-5,583
Translation differences	0	56	0	56
Accumulated depreciation 01.01.2017	0	-46,095	-89,085	-135,180
Ordinary depreciation	0	0	-9,621	-9,621
Amortisation	0	-7,396	0	-7,396
Write-downs	-22,700	0	0	-22,700
Translation differences	0	-53	-12	-65
Accumulated depreciation 31.12.2017	-22,700	-53,544	-98,718	-174,962
Book value 31.12.2017	1,042,596	819,702	29,151	1,891,449
Of which capitalised value of assets with indefinite useful lives	1,042,596	780,288	0	1,822,884

Economic life of intangible assets with
identifiable useful lives

10-19 years 3-10 years

Depreciation plan

Straight line Straight line

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Addition of brands

Vanlig

In October 2017, the Group acquired the Vanlig brand, which includes a vodka and a gin product, from Svensk Vodka Export AB in Sweden. The Group took over sales of these products as from 1 October 2017, while production will be taken over during Q2 2018.

Hot n'Sweet

At the end of December 2017, the Group acquired the Hot n'Sweet brand from Strandgaarden Wine & Spirits A/S in Denmark. Hot n'Sweet is a liqueur with a flavour characterised by Turkish pepper candy. The Group took over sales of this product as from 1 January 2018, while production will be taken over during Q1 2018.

Impairment testing

Goodwill is allocated to the Group's cash-generating units and is tested for impairment annually, or more often if there are indicators that the values may have been subject to impairment. Testing for impairment involves determining the recoverable amount for the cash-generating unit. The recoverable amount is determined by discounting expected cash flows, based on the cash-generating entity's Board-approved business plans. The cash-generating entity is the lowest level at which it is possible to follow up operations comprising the relevant goodwill. At the end of 2017, cash-generating units relating to impairment testing of goodwill are defined both at the company and business area levels. The same is carried out for brands with indefinite useful lives. The cash-generating unit for impairment testing of brands is the brand itself.

The discount rate used for both brands and goodwill is 9.0 per cent before tax, and reflects estimated risk and capital costs for the Group, based on a capital structure considered representative for the activities in which the Arcus Group is engaged.

Recoverable amount in an impairment test of goodwill

The recoverable amount for the cash-generating units is calculated on the basis of the present value estimate of the expected cash flows before tax. The cash flows used as the basis for the impairment test are based on assumptions about future sales volume, sales prices, purchase prices for input factors, salary development and other direct costs set out in Board-approved budgets and long-term plans. The terminal value is based on the cash flow in the last forecast year (2020). The growth assumption in the terminal value is set to inflation only (no real growth) and level of reinvestments are expected to be the same as depreciation of the entities' fixed assets.

CGU related to goodwill from the acquisition of the production activity in Denmark is assessed to be the entire Spirits segment since, as from 2015, the business in Denmark was integrated with other spirits operations in the Group.

In 2017 the Group wrote down goodwill related to the acquisition of Excellars AS in 2011. The recoverable amount on impairment testing of goodwill in Excellars is based on the 2018 budget, with growth of 2 per cent (inflation) up to 2021 in both revenue and EBITDA, which gives somewhat higher growth in the EBITDA margin during the period. This growth is also applied to the terminal value. On the basis of the impairment tests performed, the Group has recognised impairment of goodwill amounting to TNOK 22,700. This impairment is a consequence of weaker development in the company's results. To some extent, the company's earnings have been dependent on revenue from wines with a high sugar content. This is a wine segment that has enjoyed longstanding popularity in Norway, but for which demand has declined significantly, especially during the past year. Any negative change in the assumptions applied to the calculation of the recoverable amount may lead to further impairment. The management is working on new strategy plans to achieve a turnaround for the company, so that the Group avoids further impairment.

Concerning other goodwill in the Group, the impairment tests have not entailed impairment, and downward adjustment of the estimated cash flows by 20 per cent, or an increase in the discount rate by 2 per cent, would not have entailed impairment of other goodwill either.

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Recoverable amount in an impairment test of brands

The recoverable amount for the brands is calculated on the basis of a "relief from royalty" method before taxes, where the brand's annual royalty is estimated as future revenues of the brand multiplied by a long-term expected profit level for the relevant brands. Cash flow estimates used are discounted using a discount rate.

Downward adjustment of the estimated cash flows by 20 per cent, or an increase in the discount rate by 2 per cent, would not have entailed impairment for any of the brands.

The table below shows the Group's intangible assets with indefinite useful lives (goodwill and brands) by cash-generating unit. The most important brands are presented individually, while less important brands are presented under other brands.

Figures in NOK 1,000	Category	Currency	Segment	Goodwill	Brands	Total
Cash-generating unit						
Norwegian aquavits	Aquavit	DKK	Spirits	0	119,846	119,846
Danish aquavits	Aquavit	NOK	Spirits	0	291,082	291,082
Other aquavits	Aquavit	NOK, DKK, SEK	Spirits	0	165,729	165,729
Danish bitters	Bitter dram	NOK	Spirits	0	9,262	9,262
Norwegian cognac	Cognac	NOK	Spirits	0	17,585	17,585
Norwegian vodka	Vodka	NOK	Spirits	0	35,104	35,104
International vodka	Vodka	NOK	Spirits	0	68,200	68,200
Agency wine	Agency wine	NOK	Wine	0	5,024	5,024
Other brands	Other	NOK, DKK	Spirits	0	107,870	107,870
Spirits segment		DKK	Spirits	424,186	0	424,186
Spirits segment		NOK	Spirits	381,346	0	381,346
Vingruppen i Norden AB (sub-Group)		SEK	Wine	95,852	0	95,852
Social Wines OY		EUR	Wine	25,994	0	25,994
Excellars AS		NOK	Wine	115,218	0	115,218
Total				1,042,596	819,702	1,862,298

The various cash-generating entities listed below include the following known brands:

Cash-generating unit	Brands
Norwegian aquavits	Lysholm Linie, Løiten Linie, Gammel Opland and Gilde, and other Norwegian aquavits
Danish aquavits	Aalborg
Other aquavits	Malteserkreutz and Snällersöds
Danish bitters	Gammel Dansk
Norwegian cognac	Braastad cognac
Norwegian vodka	Vikingfjord, Amundsen and Brennevin Seksti
International vodka	Vanlig, Dworek, Hammer, Kalinka and Dobra
Agency wine	Doppio Passo and Pietro de Campo
Other brands	Hot n'Sweet, Dooley's, Eau de Vie, Golden Cock, St. Hallvard, Upper Ten, Dry Anis and Star Gin

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NOTE 16 LEASING AGREEMENTS

Operational leasing

As at 31 December 2017, the Group had the following leasing agreements which are defined and recognised as operational leasing agreements. There were no significant terms and conditions concerning sub-letting, purchase, escalation or restrictions to the operational leasing agreements as at 31 December 2017.

<i>Figures in nominal NOK 1,000</i>	Annual leasing cost	Due date within 1 year	Due date 2-5 years	Due date after more than 5 years	Total
Leased premises	83,928	83,659	331,851	1,216,118	1,636,628
Vehicles	2,309	2,265	2,497	0	4,762
Machines and office equipment	463	463	471	0	934
Total	86,700	86,387	334,819	1,216,118	1,642,324

This overview includes the agreement concluded with Gjelleråsen Eiendom AS on the lease of production, distribution and administration buildings at Gjelleråsen for a term of 25 years starting on 1 January 2012. The annual rent under this agreement is TNOK 80,132 as from 2018.

Financial leasing

As at 31 December 2017, the Group had four contracts to lease equipment used at Gjelleråsen. All of the above agreements took effect on 1 June 2012 and have a duration of 15 years. This equipment was recognised in the Arcus Group's statement of financial position as at 31.12.2017.

<i>Figures in nominal NOK 1,000</i>	Annually Lease amount	Due date within 1 year	Due date 2-5 years	Due date after more than 5 years	Total
Machinery and equipment	21,687	21,687	173,203	0	194,890
Total	21,687	21,687	173,203	0	194,890

The contract partner for the financial leasing agreements is Nordea, and the agreements are subject to variable interest rates.

Even though, in principle, the leasing agreements have been entered into with a 15-year repayment and interest profile (annuity), the terms of the agreements are for a shorter period of time. Remaining capitalised lease liabilities will fall due in the course of the last 12 months of the agreement period. The Group and Nordea are in continuous dialogue concerning an extension of the agreements to a total maturity profile of 15 years. All changes to the agreements must be formally handled by the landlord.

The present value of future lease payments is NOK 180,3 million as at 31.12.2017, based on a discount rate equivalent to the effective interest rate on the financing in 2017.

Arcus-Gruppen AS has pledged a 100 per cent surety guarantee for all liabilities that the subsidiaries have undertaken or may undertake in connection with the signed leasing agreements. All fixed assets are included in the pledged assets as security for the Arcus Group's non-current bank financing; see Note 25.

NOTE 17 OTHER RECEIVABLES

<i>Figures in NOK 1,000</i>	Note	2017	2016
Non-current receivables			
Other non-current receivables		1,205	1,235
Total other non-current receivables		1,205	1,235

The Group has no receivables with a term of more than five years.

<i>Figures in NOK 1,000</i>	Note	2017	2016
Current receivables			
Prepaid costs*		14,920	11,052
Prepaid tax	11	0	2,956
Fair value of forward contracts		993	0
Other current receivables*		6,412	5,104
Total other current receivables		22,325	19,112

<i>Figures in NOK 1,000</i>	2017	2016
Prepayments to suppliers		
Nominal prepayments to suppliers	70,755	68,480
Provisions	-6,185	-5,670
Total prepayments to suppliers*	64,570	62,810

Through its distribution business, Vectura purchases goods on behalf of agents and importers. Depending on the type of agreement entered into by the agent or importer, there will be instances where Vectura buys in goods on behalf of the agent or importer and where the agent or importer bears most of the risk associated with this inventory. This type of financing of inventory for individual partners is stated at nominal value less provision for expected losses, and is presented as prepayments to suppliers.

* Items included in changes in working capital in Note 3.

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NOTE 18 INVENTORIES

<i>Figures in NOK 1,000</i>	2017	2016
Raw materials	22,709	22,891
Goods in progress	99,629	101,797
Finished goods/goods for resale	310,111	273,719
Obsolescence provision	(21,690)	(19,630)
Total inventories	410,759	378,777

Cost of inventories in the statement of income comprises input costs for finished goods/goods for resale and production value at cost price for goods produced in-house. The total cost of inventories was NOK 1,409 million in 2017 (2016: NOK 1,467 million).

See also Note 25 for details of pledges and guarantees.

NOTE 19 CASH AND CASH EQUIVALENTS

<i>Figures in NOK 1,000</i>	2017	2016
Cash and cash equivalents in the Group's cash pool system	0	100,731
Other bank deposits	184,402	98,654
Cash holdings	13	0
Total cash and cash equivalents	184,415	199,385
Available drawing rights	604,982	601,897
Utilised drawing rights	-72,700	0
Available liquidity	716,697	801,282

<i>Figures in NOK 1,000</i>	2017	2016
Restricted bank deposits		
Restricted bank deposits	531	0
Total restricted bank deposits	531	0

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes all subsidiaries, with the exception of the companies included in the wine activities in Sweden and Finland, and Det Danske Spiritus Kompagni A/S. At the end of 2017, this Group cash pool system was managed by the parent company, Arcus ASA.

The joint overdraft limit in the Group cash pool system is TNOK 600,000. The total drawing on the Group cash pool system as at 31 December 2017 amounts to TNOK 72,700, while at the end of 2016 the Group had deposit of TNOK 100,731. The parent company, Arcus ASA, has pledged surety on behalf of all of its subsidiaries, linked at all times to outstanding drawings on this scheme.

In addition, the subsidiary group Vingruppen i Norden AB has a separate overdraft arrangement in Sweden, with a maximum credit facility of TSEK 4,000 (TNOK 3,997); and in Finland with a maximum credit facility of TEUR 100 (TNOK 985) at the end of 2017. There was no drawing on these entitlements at the end of 2017.

The Group's exposure to interest rate risk is stated in Note 2.

Summary of bank guarantees as at 31 December:

<i>Figures in NOK 1,000</i>	2017	2016
Bank guarantees for tax deduction funds	30,549	37,732
Bank guarantees for customs and duty credit facilities	22,246	13,899
Other bank guarantees	369	0
Total bank guarantees	53,164	51,631

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NOTE 20 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital comprises:

Date	Change	Total number of shares	Nominal value	Book value (NOK 1,000)
31.12.15		1,000,000	1.00	1,000
20.10.16	Split 1:50	50,000,000	0.02	1,000
01.12.16	Share issue	68,023,255	0.02	1,360
31.12.17		68,023,255	0.02	1,360

20 largest shareholders as at 31.12.2017:

	Number of shares	Ownership and voting rights	
Canica AS	22,670,000	33.3%	
Geveran Trading Co Ltd	6,750,000	9.9%	
Verdipapirfondet DNB Norge (IV)	3,577,915	5.3%	
Hoff SA	3,297,000	4.8%	
Sundt AS	3,234,957	4.8%	
Folketrygdfondet	1,800,000	2.6%	
Danske Invest Norske Instit. II.	1,725,100	2.5%	
KLP Aksjenorge	1,266,494	1.9%	
Verdipapirfondet DNB Norden (III)	1,222,178	1.8%	
Centra Invest AS	1,169,846	1.7%	
Holta Invest AS	1,000,000	1.5%	
Ilmarinen Mutual Pens Ins Comp	1,000,000	1.5%	
Verdipapirfondet DNB Norge Selektiv	936,616	1.4%	
Goldman Sachs International	NOM	900,000	1.3%
Skandinaviska Enskilda Banken AB (A/C SEB AIF - Swedish Residents)		862,000	1.3%
Danske Invest Norske Aksjer Inst		855,400	1.3%
Landkreditt dividend		850,000	1.2%
Kommunal Landspensjonskasse		809,707	1.2%
Skandinaviska Enskilda Banken AB (A/C clients account)	NOM	795,113	1.2%
Citibank Europe Plc	NOM	794,127	1.2%
Other shareholders		12,506,802	18.4%
Total	68,023,255	100.0%	

Shareholdings of the Group Management as at 31.12.2017:

	Number of shares	Ownership and voting rights
Kenneth Hamnes ¹	126,499	0.2%
Sigmund Toth	19,767	0.0%
Erik Bern	20,233	0.0%
Bjørn Delbæk ²	22,705	0.0%
Per Bjørkum	16,511	0.0%
Erlend Stefansson	54,124	0.1%
Thomas Patay	110,156	0.2%
Christian Granlund	2,822	0.0%
Claes Lindquist	46,726	0.1%
Total shareholdings of the Group Management	419,543	0.6%

1. The shareholding is held via Ekelyveien AS

2. Of the holdings, 5,000 shares are held via Oslo Consulting AS

Dividend and Group contributions

The Board of Directors proposes dividend distribution of NOK 1.66 per share for 2017 (2016 NOK 1.47 per share).

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Earnings per share

Earnings per share is calculated on the basis of the profit for the year attributable to the shareholders in the parent company divided by a weighted average of the number of outstanding ordinary shares for the year, reduced for ordinary shares bought by the company and held as own shares.

The Arcus Group has an sharebased incentive schemes for senior executives under which externally owned shares can be diluted by issuing matching shares. To take account of this future increase in the number of shares, diluted earnings per share are also calculated, which takes account of a weighted average for the year of the estimated number of matching shares and options.

Earnings per share:	2017	2016
Profit for the year	188,227	-24,089
Profit for the year attributable to non-controlling interests	6,944	10,480
Profit for the year to the owners of the parent company	181,283	-34,569
Comprehensive income	264,803	-64,290
Comprehensive income attributable to non-controlling interests	8,127	7,703
Comprehensive income to the owners of the parent company	256,681	-71,993
Weighted average of the number of outstanding shares	68,023,255	51,501,938
Dilution effect from option scheme	893,730	0
Dilution effects from matching shares	368,274	31,730
Weighted average of the number of outstanding shares – diluted	69,285,259	51,533,668
Earnings per share in NOK	2.66	-0.67
Diluted earnings per share in NOK	2.62	-0.67
Comprehensive income per share in NOK	3.77	-1.40
Diluted comprehensive income per share in NOK	3.70	-1.40

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NOTE 21 DEBT TO FINANCIAL INSTITUTIONS
Figures in NOK 1,000

	Type of financing	Currency	Interest rate profile	Loan amount in foreign currency 31.12.2016	Loan amount in NOK 31.12.2017	Loan amount in NOK 31.12.2016
SEB	Mortgage loan	SEK	Variable	750,000	749,400	711,300
SEB	Overdraft facility	NOK	Variable	72,700	72,700	0
Nordea	Financial leasing	NOK	Variable	183,766	183,766	199,485
Total debt to financial institutions					1,005,866	910,785
Capitalised front-end fees					-6,577	-8,032
Book value of debt to financial institutions					999,289	902,753

Term structure	Type of financing	Currency	Maturity 2018	Maturity 2019	Maturity 2020	Maturity 2021 or later	Total
SEB	Mortgage loan	SEK	0	0	0	749,400	749,400
SEB	Overdraft facility	NOK	72,700	0	0	0	72,700
Nordea**	Financial leasing	NOK	17,371	17,804	101,796	46,795	183,766
Total debt to financial institutions*			90,071	17,804	101,796	796,195	1,005,866

Reconciliation of interest-bearing debt on 31.12.2017

<i>Figures in NOK 1,000</i>	Book value 31.12.2016	Cash flow 2017		Without cash flow 2017				Book value 31.12.2017
		Raised	Repayment	Amortisation front-end fee	Reclassification	Acquisition/sale of companies	Translation differences	
Non-current debt								
Mortgage loan	703,268	0	0	1,652	0	0	37,903	742,823
Financial leasing	182,987	0	0	0	-16,592	0	0	166,395
Total non-current interest-bearing debt	886,255	0	0	1,652	-16,592	0	37,903	909,218
Current debt								
Mortgage loan	0	0	0	0	0	0	0	0
Financial leasing	16,498	0	-15,719	0	16,592	0	0	17,371
Overdraft facility	0	72,700	0	0	0	0	0	72,700
Total current interest-bearing debt	16,498	72,700	-15,719	0	16,592	0	0	90,071
Total interest-bearing debt	902,753	72,700	-15,719	1,652	0	0	37,903	999,289

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Figures in NOK 1,000	Book value 31.12.2015	Cash flow 2016		Without cash flow 2016				Book value 31.12.2016
		Raised	Repayment	Amortisation of front-end fee	Reclassification	Acquisition/sale of companies	Translation differences	
Non-current debt								
Mortgage loan	833,305	802,632	-908,130	20,636	0	0	-45,175	703,268
Financial leasing	200,181	0	0	0	-17,194	0	0	182,987
Total non-current interest-bearing debt	1,033,486	802,632	-908,130	20,636	-17,194	0	-45,175	886,255
Current debt								
Mortgage loan	156,849	0	-156,849	0	0	0	0	0
Financial leasing	15,373	0	-16,069	0	17,194	0	0	16,498
Overdraft facility	0	0	0	0	0	0	0	0
Total current interest-bearing debt	172,222	0	-172,918	0	17,194	0	0	16,498
Total interest-bearing debt	1,205,708	802,632	-1,081,048	20,636	0	0	-45,175	902,753

In connection with the IPO in 2016, the Group refinanced its non-current loans in SEB. In this connection the entire original mortgage loan, denominated in NOK and SEK, was redeemed, while the entire new loan was denominated in SEK.

The non-current mortgage loan is legally placed in the subsidiary VinGruppen Sweden Holding AB in Stockholm, and falls due in its entirety at the end of 2021.

After the refinancing in 2016, the Group has not hedged interest rates. The previous interest hedging agreement entailed a positive value change of TNOK 4,552 in 2016, but led to a non-recurring payment of TNOK -12,873 on settlement in December 2016.

On the establishment of the new loan, a front-end fee was paid, which is capitalised in the statement of financial position and written off over the duration of the loan. The remaining book value of the front-end fee related to the previous mortgage loan was written down in 2016, and this is classified under other financial costs.

* Maturity in 2018 is presented as current liabilities in the statement of financial position.

**See Note 16 concerning leasing agreements for information on the term structure of annual leasing amounts.

The agreement on a mortgage loan facility contains a loan clause (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31.12.2017 the Group was well within the required ratio.

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NOTE 22 LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

At the beginning of 2017, the Group had booked earmarked liabilities, measured at fair value through profit or loss. These obligations related to two conditions:

1) Options for the purchase of non-controlling interests

Estimated liability to buy out minority shareholders (49 per cent) in the subsidiary Excellars AS, based on the management's best estimate at the expected due date. 41.1 per cent of these minority shares were acquired and paid for in February 2016, while the rest were settled in Q1 2017.

2) Issue of synthetic shares and options in a share programme for selected executives in the Group (co-investment programme).

Options for the purchase of non-controlling interests:

The liabilities related to options for the purchase of non-controlling interests were estimated on the basis of the pricing mechanisms applied to the purchase agreement and the shareholder agreements, discounted to the close of the financial year. The most important parameters in the pricing mechanisms were the development of the share values, measured as EBIT (operating profit) up until the estimated due date, multiplied by a multiple according to the Group's value development. As a basis for EBIT, the Group's budgets and long-term plans up until the expected due date are used. The discount rate used was NIBOR with duration matched to the expected due date.

During 2017 there were no significant value changes related to this minority option, and the last part of the option was settled in Q1 2017. After the redemption of the last part of the option, the Group has a 100 per cent ownership interest in the subsidiary Excellars AS.

Co-investment programme for managerial employees

With regard to the liabilities related to issued synthetic shares and options, these are associated with a share and option programme for senior executives and Board members of the Arcus Group prior to the IPO in 2016. All of the synthetic shares and options were redeemed at the IPO in December 2016, and the remaining obligation at the beginning of 2017 concerned the valuation of uncertainty related to the taxation treatment of settlement. This uncertainty was clarified in 2017 and the obligation was recognised as income.

Reconciliation of earmarked liabilities, measured at fair value via profit or loss:

<i>Figures in 1,000 (stated currency)</i>	Minority share options	Share programme	Liability at fair value through profit or loss
Book value of liability 31.12.2015	67,837	51,162	118,999
Fair value on initial recognition 2016	0	1,000	1,000
Paid during the period 2016	-85,959	-158,317	-244,276
Changes in value during the period 2016	28,180	119,976	148,156
Interest during the period 2016	256	0	256
Book value of liability 31.12.2016	10,314	13,821	24,135
Paid during the period 2017	-10,483	0	-10,483
Changes in value during the period 2017	148	-13,821	-13,673
Interest during the period 2017	21	0	21
Book value of liability 31.12.2017	0	0	0

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NOTE 23 OTHER PROVISIONS FOR LIABILITIES
Severance pay (long-term)

Provisions for liabilities are associated with severance pay on termination of employment. The plan covered initially 70 employees of the Group who have received severance packages in connection with the restructuring of the companies. The obligations are paid monthly up to 2019 and are presented under other non-current provisions for liabilities. The provision is calculated by discounting future payments including social security contributions at a discount rate which depends on the length of the obligation. As at 31.12.2017, the provision was associated with four remaining individuals.

Severance pay (short-term)

It has been necessary for the Group to make organisational and staffing adjustments in order to meet new requirements, including new work processes and improved profitability. During this change process, the Group offered a range of personnel policy initiatives to its employees, in order to fulfil the new framework conditions without compulsory downsizing. As at 31.12.2017, the liability associated with this was recognised at NOK 2.2 million.

All of the current liabilities are recognised in the statement of financial position under other current liabilities.

Non-current liabilities

2017	Book value as at 31.12.2016	Reversed provision 2017	Recognised provision 2017	Translation difference 2017	Book value as at 31.12.2017
<i>Figures in NOK 1000</i>					
Severance pay	627	-307	0	0	320
Non-current provisions	627	-307	0	0	320

2016	Book value as at 31.12.2015	Reversed provision 2016	Recognised provision 2016	Translation difference 2016	Book value as at 31.12.2016
<i>Figures in NOK 1000</i>					
Severance pay	1,140	-513	0	0	627
Non-current provisions	1,140	-513	0	0	627

Current liabilities

2017	Book value as at 31.12.2016	Reversed provision 2017	Recognised provision 2017	Translation Difference 2017	Book value as at 31.12.2017
<i>Figures in NOK 1000</i>					
Severance pay	2,276	-1,900	1,762	20	2,158
Other provisions	10,000	0	0	0	10,000
Other current liabilities	12,276	-1,900	1,762	20	12,158

2016	Book value as at 31.12.2015	Reversed provision 2016	Recognised provision 2016	Translation Difference 2016	Book value as at 31.12.2016
<i>Figures in NOK 1000</i>					
Severance pay	7,080	-5,434	630	0	2,276
Other provisions	10,000	0	0	0	10,000
Other current liabilities	17,080	-5,434	630	0	12,276

NOTE 24 CURRENT LIABILITIES

<i>Figures in NOK 1000</i>	2017	2016
Unpaid public duties		
Special duties, alcohol	569,034	549,231
Value added tax	339,151	304,407
Other public duties	19,820	58,672
Total unpaid public duties*	928,005	912,310

<i>Figures in NOK 1000</i>	2017	2016
Other current liabilities		
Current non-interest-bearing debt*	25,329	19,088
Fair value, foreign exchange forward contracts	0	844
Provision for social security costs related to share-based remuneration	1,642	125
Provision for liabilities*, see Note 23	12,158	12,276
Other accrued costs*	158,615	165,001
Total other current liabilities	197,744	197,334

All current liabilities fall due within 12 months.

* Items included in changes in working capital in Note 3.

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NOTE 25 PLEDGES AND GUARANTEES**Non-current credit financing in SEB**

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes the subsidiaries with the exception of the companies in the wine business in Sweden and Finland, and Det Danske Spiritus Kompagni A/S in Denmark. At the end of 2017, this Group cash pool system was managed by the parent company, Arcus ASA. The parent company has pledged surety on behalf of all of its subsidiaries, which is linked to the outstanding drawing on this scheme at any time.

No collateral is pledged for the Group's non-current credit financing in SEB. For further information about the non-current credit financing, see Note 21.

Surety guarantee related to financial leasing

One of the Group's subsidiaries, Arcus-Gruppen AS, has pledged a surety guarantee for leased assets (financial leasing) with Nordea Finans. At the end of 2017, the surety guarantee amounted to TNOK 194,890 for the Group's own leased operating equipment. See also Note 16 concerning leasing agreements.

NOTE 26 BUSINESS MERGERS**Acquisition of the remaining 50 per cent of Det Danske Spiritus Kompagni A/S**

In January 2017, the Arcus Group reached agreement with Flemming Karberg Familieholding ApS on the acquisition of the remaining 50 per cent ownership interest in Det Danske Spiritus Kompagni A/S (DDSK). Up to and including 31.12.2016, DDSK was owned on a 50/50 basis by the Arcus Group and Flemming Karberg Familieholding ApS, and was treated as a Joint Venture in the Arcus Group, see also Note 13. This is a strategic acquisition to gain control of the entire value chain related to the company's activities in Denmark. The acquisition was implemented as from 1.1.2017 and means that in accounting terms, DDSK will be fully consolidated in the Group as from the same date.

A final acquisition analysis is presented below, based on the company's statement of financial position as of the acquisition date.

<i>Figures in NOK 1,000</i>	Recognised value of acquired business	Observable excess values	Fair value of acquired business
Tangible assets	21	0	21
Receivables	44,883	0	44,883
Bank deposits	23,933	0	23,933
Unpaid public duties	-12,318	0	-12,318
Other current liabilities	-39,915	0	-39,915
Tax payable	-715	0	-715
Fair value, observable net assets			15,887
Acquisition value			31,535
Goodwill			15,647

The acquisition of the remaining shares in DDSK was mainly based on the same share price as for the existing shares, so that the acquisition did not entail any revaluation gains. The company is not assessed to have any excess value other than goodwill. On acquisition, goodwill is the part of the net excess value that is not identifiable. Estimated goodwill is capitalised in the consolidated statement of financial position based on the expectation that synergies with the Group's existing operations will provide opportunities for increased earnings in the future. The acquisition analysis is final.

Net cash outflow related to the acquisition:

<i>Figures in NOK 1000</i>	2017
- Cash payment on acquisition	-22,753
+ Cash and cash equivalents in the acquired business	23,933
Net cash outflow on acquisition	1,180

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<i>Figures in NOK 1,000</i>	2017
Sales revenue	147,418
Total operating revenues	147,418
Cost of sales	-119,853
Payroll costs	-9,810
Share of operating expenses	-10,063
Total operating expenses	-139,726
Operating profit	7,692

Acquisition of BevCo AS

In September 2017, the Group acquired all of the shares in BevCo AS. Among other things, the company holds the distribution rights for Dooley's Toffee in Norway, and the acquisition was thus part of the Group's strategy to make small and selective acquisitions in order to strengthen its position in the Nordic region. The acquisition was implemented as from 1.9.2017 and the company has been fully consolidated in the Group as from the same date.

A final acquisition analysis is presented below, based on the company's statement of financial position as of the acquisition date.

<i>Figures in NOK 1,000</i>	Recognised value of acquired business	Observable excess values	Fair value of acquired business
Brands	0	3,900	3,900
Inventories	201	0	201
Receivables	120	0	120
Bank deposits	1,008	0	1,008
Unpaid public duties	-93	0	-93
Other current liabilities	-274	0	-274
Deferred tax liability	0	-858	-858
Fair value, observable net assets			4,004
Acquisition value			4,940
Goodwill			936

Net cash outflow related to the acquisition:

<i>Figures in NOK 1000</i>	2017
- Cash payment on acquisition	-4,940
+ Cash and cash equivalents in the acquired business	1,008
Net cash outflow on acquisition	-3,932

NOTE 27 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR**Other**

No significant events occurred between the close of the financial year and the date on which Arcus's consolidated financial statements and parent company financial statements were approved for publication. This applies to events that would have provided knowledge of factors present at the close of the financial year, or events concerning matters that have arisen since the close of the financial year. The consolidated financial statements were approved for publication by resolution of the Board of Directors on 15 March 2018.

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Alternative performance measurements

In the discussion of the reported operational results, statement of financial position and cash flows, the Group refers to a number of parameters for Alternative performance measurements. These are not defined in the general accounting policies, as for IFRS.

The Group Management of the Arcus Group frequently uses these parameters for Alternative performance measurements and believes that, in combination with comparable parameters defined in ordinary accounting policies, these are of great benefit to investors wishing to understand the Group's business, ability to fulfil its commitments, and ability to monitor the development of new business opportunities. These alternative measurements of results should not be seen in isolation, but, as the name indicates, are an alternative to more well-known result measurement parameters as defined in international accounting standards.

Below, the Group's parameters for Alternative performance measurements are defined.

Gross profit

The Arcus Group defines gross profit as total operating revenue less cost of sales.

<i>Figures in NOK 1000</i>	2017	2016
Group		
Sales revenues	2,530,126	2,521,826
Other operating revenues	44,934	60,571
Total operating revenue	2,575,060	2,582,397
Cost of sales	-1,408,524	-1,467,920
Gross profit	1,166,536	1,114,477

<i>Figures in NOK 1000</i>	2017	2016
Spirits		
Sales revenues	763,421	751,107
Other operating revenues	149,862	152,776
Total operating revenue	913,283	903,883
Cost of sales	-404,928	-427,031
Gross profit	508,355	476,851

<i>Figures in NOK 1000</i>	2017	2016
Wine		
Sales revenues	1,522,689	1,538,676
Other operating revenues	18,190	13,697
Total operating revenue	1,540,879	1,552,373
Cost of sales	-1,154,411	-1,165,620
Gross profit	386,469	386,753

<i>Figures in NOK 1000</i>	2017	2016
Distribution		
Sales revenues	251,332	232,043
Other operating revenues	33,071	30,881
Total operating revenue	284,403	262,924
Cost of sales	0	0
Gross profit	284,403	262,924

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Other income and expenses

To improve the information value of the Group's consolidated income statement, significant positive and negative non-recurring items and restructuring costs are separated out to a separate line in the statement of income called other income and expenses. Other income and expenses are presented net on this income statement line. Other income and expenses are presented in Note 7.

Below, the income statement is presented up to and including EBIT, with and without adjustment for other income and expenses:

Figures in NOK 1000	2017		2016	
	Adjusted	Non-adjusted	Adjusted	Non-adjusted
Sales revenues	2,530,126	2,530,126	2,521,826	2,521,826
Other operating revenues	44,934	44,934	60,571	60,571
Total operating revenues	2,575,060	2,575,060	2,582,397	2,582,397
Net profit on sale of fixed assets	30	30	144	1,051
Cost of sales	-1,408,524	-1,408,524	-1,467,920	-1,467,920
Salaries and other personnel costs	-417,412	-422,334	-392,545	-399,505
Other operating expenses	-391,699	-399,944	-392,516	-431,337
Share of profit from associated companies and jointly controlled entities	3,286	3,286	5,789	5,789
EBITDA	360,741	347,574	335,349	290,475
Depreciation and amortisation	-51,581	-51,581	-51,625	-51,625
Write-downs	0	-22,700	0	0
Operating profit (EBIT)	309,160	273,293	283,724	238,850
Other income and expenses	-13,167	0	-44,874	0
Write-downs	-22,700	0	0	0
Reported operating profit	273,293	273,293	238,850	238,850

EBITDA and adjusted EBITDA

EBITDA is defined as operating profit before depreciation, write-downs and amortisation.

Adjusted EBITDA is defined as operating profit before depreciation, write-downs, amortisation and other income and expenses.

EBITDA margin = EBITDA/Total operating revenue

Adjusted EBITDA margin = adjusted EBITDA/Total operating revenue

Below is a reconciliation of operating profit to adjusted EBITDA:

Figures in NOK 1000	2017	2016
Group		
Operating profit	273,293	238,850
Depreciation, write-downs and amortisation	74,281	51,625
EBITDA	347,574	290,475
Other income and expenses	13,167	44,874
Adjusted EBITDA	360,741	335,349

Figures in NOK 1000	2017	2016
Spirits		
Operating profit	151,494	134,765
Depreciation, write-downs and amortisation	24,117	23,906
EBITDA	175,611	158,671
Other income and expenses	7,142	3,916
Adjusted EBITDA	182,753	162,587

Figures in NOK 1000	2017	2016
Wine		
Operating profit	184,709	193,148
Depreciation, write-downs and amortisation	1,794	1,014
EBITDA	186,502	194,162
Other income and expenses	5,166	0
Adjusted EBITDA	191,668	194,162

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<i>Figures in NOK 1000</i>	2017	2016
Distribution		
Operating profit	660	-11,435
Depreciation, write-downs and amortisation	12,825	13,632
EBITDA	13,485	2,197
Other income and expenses	647	399
Adjusted EBITDA	14,132	2,596

<i>Figures in NOK 1000</i>	2017	2016
Other		
Operating profit	-35,690	-72,917
Depreciation, write-downs and amortisation	7,666	8,363
EBITDA	-28,024	-64,554
Other income and expenses	212	40,559
Adjusted EBITDA	-27,812	-23,995

OTHER DEFINITIONS OF ALTERNATIVE PERFORMANCE MEASUREMENTS, SHOWN IN KEY FIGURES**Equity ratio**

Equity ratio = equity/total equity and debt

Net interest-bearing debt

Net interest-bearing debt = Debt to financial institutions + book value of capitalised front-end fee + fair value, interest rate swap - bank deposits and other cash and cash equivalents.

<i>Figures in NOK 1000</i>	2017	2016
Net interest-bearing debt		
Non-current interest-bearing debt to credit institutions	909,218	886,255
Short-term interest-bearing debt to credit institutions	90,071	16,498
Book value of capitalised front-end fee	6,577	8,032
Bank deposits and other cash and cash equivalents	-184,415	-199,385
Net interest-bearing debt	821,451	711,400

Organic growth

Organic growth in income is the Group or segment's total operating revenue, adjusted for translation effects and structural changes.

<i>Figures in NOK 1000</i>	2017	2016
Group		
Sales revenues	2,530,126	2,521,826
Other operating revenues	44,934	60,571
Total operating revenue	2,575,060	2,582,397
Currency effects ¹	0	-13,682
Structural changes ²	-46,060	-6,940
Calculation basis, organic growth	2,529,000	2,561,775

1 Currency effects are calculated by translation of income in 2016 in other currencies than NOK at the same average rate as for translation of income in 2017.

2 The structural changes in 2017 primarily comprise adjustment for revenue from the acquisition of the Dworek and Vanlig brands, and the acquisition of the DDSK and BevCo activities. The adjustment in 2016 is related to the effect on income of the discontinuation of the deposit scheme in Denmark.

<i>Figures in NOK 1000</i>	2017	2016
Spirits		
Sales revenues	763,421	751,107
Other operating revenues	149,862	152,776
Total operating revenue	913,283	903,883
Currency effects ¹	0	-485
Structural changes ²	-46,060	-6,940
Calculation basis, organic growth	867,223	896,458

1 Currency effects are calculated by translation of income in 2016 in other currencies than NOK at the same average rate as for translation of income in 2017.

2 The structural changes in 2017 primarily comprise adjustment for revenue from the acquisition of the Dworek and Vanlig brands, and the acquisition of the DDSK and BevCo business. The adjustment in 2016 is related to the effect on revenue from the discontinuation of the deposit scheme for re-used bottles in Denmark.

<i>Figures in NOK 1000</i>	2017	2016
Wine		
Sales revenues	1,522,689	1,538,676
Other operating revenues	18,190	13,697
Total operating revenue	1,540,879	1,552,373
Currency effects ¹	0	-12,988
Structural changes	0	0
Calculation basis, organic growth	1,540,879	1,539,385

1 Currency effects are calculated by translation of income in 2016 in other currencies than NOK at the same average rate as for translation of income in 2017.

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Figures in NOK 1000

	2017	2016
Distribution		
Sales revenues	251,332	232,043
Other operating revenues	33,071	30,881
Total operating revenue	284,403	262,924
Currency effects	0	0
Structural changes	0	0
Calculation basis, organic growth	284,403	262,924

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<i>Figures in NOK 1,000</i>	Note	2017	2016
OPERATING REVENUE AND EXPENSES			
Payroll costs	1	10,244	6,285
Other operating expenses		4,540	37,909
Total operating expenses		14,784	44,194
Operating profit		-14,784	-44,194
FINANCIAL INCOME AND EXPENSES			
Income from investment in subsidiary	9	65,312	0
Interest income from Group companies		0	707
Other interest income		3,755	3,982
Other financial income		15,836	7,698
Interest costs to Group companies		0	-2,795
Other interest costs		-10,107	-42,660
Other financial costs		-11,882	-155,372
Net financial profit/loss		62,914	-188,440
PROFIT BEFORE TAX		48,130	-232,634
Tax	2	17,111	-32,965
RESULT FOR THE YEAR		31,019	-199,669
Transferred from/to other equity		31,019	-199,669
Total transfers		31,019	-199,669

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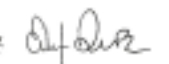
Figures in NOK 1,000	Note	2017	2016
ASSETS			
Fixed assets			
Intangible assets			
Deferred tax assets	2	124,137	141,248
Total intangible assets		124,137	141,248
Financial assets			
Investment in subsidiary	3	1,438,317	1,438,317
Total financial assets		1,438,317	1,438,317
Total fixed assets		1,562,454	1,579,565
Current assets			
Receivables			
Trade receivables from Group companies	9	22	0
Group contributions from Group companies	9	65,312	0
Current receivables from Group companies	9	8,326	0
Other receivables		274	445
Total receivables		73,934	445
Cash and cash equivalents	10	0	100,731
Total current assets		73,934	101,176
TOTAL ASSETS		1,636,388	1,680,741

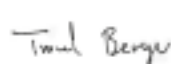
Gjelleråsen, 15 March 2018



 Michael Holm Johansen
 Chairman of the Board



 Stein Erik Hagen

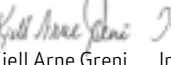

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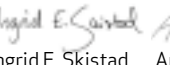

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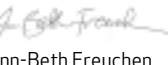

 Trond Berger



 Leena Saarinen


 Erik Hagen


 Kjell Arne Greni


 Ingrid E. Skistad


 Ann-Beth Freuchen


 Kenneth Hamnes
 Group CEO

Figures in NOK 1,000	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	4,5	1,360	1,360
Share premium	5	719,280	770,744
Total paid-in equity		720,640	772,104
Retained earnings			
Other equity	5	0	22,664
Total retained earnings		0	22,664
Total equity		720,640	794,768
Liabilities			
Provisions			
Pension obligations	6	757	0
Other provisions	7	0	13,821
Total provisions		757	13,821
Other non-current liabilities			
Debt to financial institutions	8	-3,055	-3,835
Total other non-current liabilities		-3,055	-3,835
Current liabilities			
Debt to financial institutions	8	72,700	0
Trade payables		106	19,498
Trade payables to Group companies	9	3	19,559
Other current liabilities		6,423	46,571
Other current liabilities payable to Group companies	9	0	1,350
Allocated dividend	5	112,920	99,994
Intragroup balance in Group cash pool system	9,10	725,894	689,015
Total current liabilities		918,046	875,987
Total liabilities		915,748	885,973
TOTAL EQUITY AND LIABILITIES		1,636,388	1,680,741

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Statement of cash flows 01.01. - 31.12.

<i>Figures in NOK 1,000</i>	2017	2016
CASH FLOWS FROM OPERATIONS		
Pre-tax profit	48,130	-232,634
Pension costs without cash effect	284	0
Costs related to share-based remuneration without cash effect	7,898	606
Value changes without cash effect	-13,821	120,065
Financial expenses without cash effect	780	20,563
Change in trade receivables	-22	0
Change in trade payables	-38,948	38,627
Change in other current assets and other liabilities	-114,965	47,115
Net cash flows from operational activities	-110,664	-5,658
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Paid-out on the settlement of synthetic shares and options	0	-154,701
Net cash flow from investment activities	0	-154,701
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in loans to subsidiaries	0	65,000
Pension obligation taken over from subsidiary	348	0
Share issue	0	768,883
Proceeds from debt to financial institutions	72,700	100,000
Repayment of debt to financial institutions	0	-629,159
Capitalised front-end fees	0	-4,400
Change in intragroup balance in Group cash pool system	36,879	-66,994
Payments of dividends/Group contributions	-99,994	0
Net cash flow from financing activities	9,933	233,330
Net change in cash and cash equivalents	-100,731	72,971
Holdings of cash and cash equivalents as at 01.01.	100,731	27,760
Holdings of cash and cash equivalents as at 31.12.	0	100,731

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Accounting policies

The annual accounts have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting policies.

The company was founded on 5 November 2004, and listed on the Oslo Stock Exchange on 1 December 2016.

The purpose of the company is to operate the import, export, production, storage and distribution of alcoholic beverages and other goods, and other activities related to this business, as well as the ownership of participations in other companies that conduct such business.

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Arcus ASA owns 100 per cent of the shares in Arcus-Gruppen AS and Vectura AS.

GENERAL RULE FOR VALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES

Assets intended for continuing ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables due for payment within one year are classified as current assets. The classification of current and non-current liabilities is based on similar criteria.

Fixed assets are valued at acquisition cost, but written down to fair value if the impairment is not expected to be temporary. Fixed assets with a limited economic life are depreciated according to a reasonable depreciation plan.

Current assets are valued at the lower of cost or fair value. Current and non-current liabilities are capitalised at the nominal amounts received at the time of establishment. Borrowing costs are capitalised together with the loan and amortised

over the term of the loan. The first year's instalment is reclassified as a current liability.

Certain items are valued according to different principles, as explained below.

SHARES IN SUBSIDIARIES

Shares in subsidiaries are valued using the cost method. The transaction costs are added to the purchase price of shares in subsidiaries. Shares are written down to fair value if this is lower than the recognised value.

Group contributions are recognised in the statement of income in the same year as they are allocated in the subsidiary. If dividends/other distributions exceed the share of retained profit after the acquisition, the surplus represents repayment of invested capital and the distributions are deducted from the value of the investment in the statement of financial position.

RECEIVABLES

Trade receivables and other receivables are stated at nominal value after deduction of provisions for expected losses. Provisions for losses are made on the basis of an individual assessment of each receivable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits and other means of payment with a due date less than three months from the acquisition date.

BORROWING

Financial liabilities through borrowing are recognised at the amount received net of transaction costs. Transaction costs (front-end fees) are

capitalised in the statement of financial position and depreciated over the term of the loan.

Borrowing in currencies other than the functional currency is translated at the exchange rate at the close of the financial year.

PENSIONS

Pension costs comprise the change in pension obligations based on actuarial assumptions and costs related to defined-contribution pension schemes. For pension obligations based on actuarial assumptions the costs concern the pension earned during the period, based on assumptions concerning future wage growth and interest costs on the calculated obligation. Net pension costs are classified as payroll costs in the statement of income. Changes in the liability resulting from changes in pension plans are taken to profit or loss immediately. Changes in the pension liability and the pension assets resulting from changes in, and deviations from, the estimate assumptions (estimate deviations), are recognised against equity.

TAXES

Tax expenses are matched with profit/loss before tax. Tax costs comprise tax payable (tax on the year's directly taxable income) and changes in net deferred tax. Tax costs are allocated to ordinary profit/loss and profit/loss from extraordinary items in accordance with the taxation basis. Deferred tax and deferred tax assets are presented net in the statement of financial position.

Tax assets are only capitalised if it can be shown to be probable that they can be utilised via future taxable income.

STATEMENT OF CASH FLOWS

The indirect method is used in the preparation of the statement of cash flows. Cash and cash equivalents in the statement of financial position are defined as holdings of cash and cash equivalents in the statement of cash flows.

All figures in the financial statements are presented in NOK 1,000 unless otherwise indicated.

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NOTE 1 PAYROLL COSTS

	2017	2016
Salaries including holiday pay	7,408	4,930
Social security costs	1,097	410
Pension costs including social security costs	464	0
Other personnel costs	1,275	945
Total salaries and other personnel costs	10,244	6,285

Average number of employees	2	0
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Benefits to executive personnel	2017		2016	
	Group CEO	Board of Directors	Group CEO	Board of Directors
Salary	3,031	2,444	2,444	1,527
Bonus earned for the current year	324	0	1,100	0
Pension costs	386	0	308	0
Other remuneration	227	0	220	0

The company had two employees during the year. The company had no employees in 2016, but remuneration was paid to the Board of Directors. In addition, bonuses have been re-invoiced and provisions have been made for bonus payments related to the work on the IPO process in 2016.

The declared remuneration to the Group CEO for 2016 was earned, recognised and paid from the subsidiary Arcus-Gruppen AS. As from 2017, the Group CEO has been employed by and received his salary from Arcus ASA.

The Group CEO also has an ordinary bonus agreement which, on specific terms, will release payment of up to five monthly salaries. He is also included in a temporary share programme (matching shares) which was established in conjunction with the IPO in 2016, and a newly-established option programme that was adopted by the Annual General Meeting in May 2017. His holdings in these incentive schemes are specified in the Group's Note 9.

The Group CEO and other members of the Group Management have an ordinary occupational pension with Storebrand, which entails 5 per cent pension contributions for salaries of 0 to 7.1G and 11 per cent for salaries from 7.1 to 12G. He also has a supplementary pension agreement that gives pension earnings of 15 per cent of salaries above 12G. These pension earnings are capitalised annually in the company's statement of financial position, where the return is based on the return from the Storebrand Balansert pension fund.

If the CEO gives notice of termination, he is subject to six months' notice of termination. If notice of termination is given by the Group, the Group CEO will be entitled to 1.2 months' severance pay, and during this period will not be able to take employment in competing companies.

No loans or surety are provided for the Group CEO or members of the Board of Directors.

The Group CEO's holdings of ordinary shares in Arcus ASA are stated in Note 20 for the Group.

Share-based incentive schemes

Matching shares:

In conjunction with the stock-exchange listing of the parent company, Arcus ASA, in 2016 some key persons were offered matching shares, whereby they are entitled to receive one matching share for each share purchased under the IPO. These matching shares are granted to recipients in 2019 after the publication of the quarterly report for the fourth quarter of 2018, if the person in question is still employed at this time.

If the listed share price on the redemption date exceeds two times the listed price on the allocation date, the number of matching shares will be reduced, so that the total value of the matching shares allocated does not exceed two times the value on the allocation date.

In Arcus ASA, two persons received this offer, including the Group CEO. Together they are entitled to allocation of 61,867 shares in Arcus ASA if the employment criterion is fulfilled on the allocation date (of which 42,100 shares for the Group CEO).

The programme entailed costs of TNOK 1,476 in 2017.

Options:

At the annual general meeting of Arcus ASA in May 2017, a new option programme for senior executives in the Group was adopted, with annual allocation of new options. Two persons at Arcus ASA are included in this programme, including the Group CEO.

The options' vesting period will be three years from the allocation date, whereby the participants have two years to redeem the options after the vesting period. A condition for redemption of an option is that the executive is still employed after the vesting period, and that the Group's KPI objectives, as determined by the Board of Directors, have been achieved in the same period.

The options are valued using the Black-Scholes model, for which the most important assumptions on the valuation date will be the spot rate on the valuation date, the estimated time during the redemption period in which the Group assumes that the holders will redeem the option, the dividend in the period, and the share's assumed volatility. The option's maximum redemption price is limited to three times the spot rate at the time of allocation.

There are no dividend rights related to the options during the period prior to redemption.

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The programme entailed costs of TNOK 441 in 2017. Below is a specification of outstanding options at the end of the year:

Number of options	2017	2016
Outstanding options at the beginning of the year	0	0
Allocated options during the year	290,199	0
Outstanding options at the end of the year*	290,199	0
* Of which 199,426 outstanding options to the Group CEO.		
Auditors' fees	2017	2016
Statutory audit	328	326
Other financial auditing	88	0
Other certification services	0	707
Total auditors' fees	416	1,033

The amounts are stated in TNOK and exclude VAT.

Other services than auditing in 2016 are solely related to fees in conjunction with the IPO process.

NOTE 2 TAX

Tax for the year is calculated as follows:	2017	2016
Change in deferred tax	17,111	-34,392
Tax effect of costs related to the IPO, carried to equity	0	1,427
Tax	17,111	-32,965
Reconciliation from nominal to actual tax rates:		
Profit before tax	48,130	-232,634
Expected income tax at a nominal tax rate of 24 per cent (25 per cent in 2016)	11,551	-58,159
Tax effect of the following items:		
Non-deductible costs	276	17,882
Change due to a change in tax rate	5,397	5,885
Tax on costs booked directly to equity	-113	1,427
Tax	17,111	-32,965
Effective tax rate	35.6%	14.2%

Specification of temporary differences and deficit carried forward:

	2017		2016	
	Asset	Liability	Asset	Liability
Non-current debt	0	3,055	0	3,835
Pension obligations	757	0	0	0
Other liabilities	1,271	0	16,312	0
Deficit carried forward	540,754	0	576,057	0
Total	542,782	3,055	592,369	3,835
Basis for deferred tax asset/liability	539,727		588,534	
Net deferred tax asset in the statement of financial position*	124,137		141,248	

At the end of the year, the company had NOK 124.4 million in capitalised deferred tax assets associated with the deficit to be carried forward. Based on the Group's strategic plans and current long-term plans for companies in the tax group, the Board of Directors and executive management expect that the deferred tax assets can be utilised.

At the end of 2017, deferred tax was calculated at 23 per cent as a result of government tax changes as from 2018. At the end of 2016, deferred tax was calculated at 24 per cent.

NOTE 3 SUBSIDIARIES

Subsidiaries of Arcus ASA

Company	Date of acquisition	Business office	Voting and ownership	Currency	Nominal share capital
Arcus-Gruppen AS	10.10.05	Nittedal	100%	NOK	276,000
Vectura AS	30.09.13	Nittedal	100%	NOK	14,000
Company	Cost price (NOK)	Book value as at 31.12	Equity according to last annual financial statements (NOK)	Profit for the year 2017 (NOK)	
Arcus-Gruppen AS	1,886,607	1,362,217	1,958,409	114,747	
Vectura AS	76,100	76,100	21,708	-2,433	
Total subsidiaries	1,962,707	1,438,317	1,980,117	112,314	

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NOTE 4 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital comprises:

Date	Change	Total number of shares	Nominal value	Book value (NOK 1,000)
31.12.2015		1,000,000	1.00	1,000
20.10.16	Split 1:50	50,000,000	0.02	1,000
01.12.2016	Share issue	68,023,255	0.02	1,360
31.12.17		68,023,255	0.02	1,360

20 largest shareholders as at 31.12.2017:	Number of shares	Ownership and voting rights	
Canica AS	22,670,000	33.3%	
Geveran Trading Co Ltd	6,750,000	9.9%	
Verdipapirfondet DNB Norge (IV)	3,577,915	5.3%	
Hoff SA	3,297,000	4.8%	
Sundt AS	3,234,957	4.8%	
Folketrygdfondet	1,800,000	2.6%	
Danske Invest Norske Instit. II	1,725,100	2.5%	
KLP Aksjenorge	1,266,494	1.9%	
Verdipapirfondet DNB Norden (III)	1,222,178	1.8%	
Centra Invest AS	1,169,846	1.7%	
Holta Invest AS	1,000,000	1.5%	
Ilmarinen Mutual Pens Ins Comp	1,000,000	1.5%	
Verdipapirfondet DNB Norge Selektiv	936,616	1.4%	
Goldman Sachs International	NOM	900,000	1.3%
Skandinaviska Enskilda Banken AB (A/C SEB AIF - Swedish Residents)	NOM	862,000	1.3%
Danske Invest Norske Aksjer Inst	855,400	1.3%	
Landkreditt dividend	850,000	1.2%	
Kommunal Landspensjonskasse	809,707	1.2%	
Skandinaviska Enskilda Banken AB (A/C clients account)	NOM	795,113	1.2%
Citibank Europe Plc	NOM	794,127	1.2%
Other shareholders	12,506,802	18.4%	
Total	68,023,255	100.0%	

Dividend

The Board of Directors proposes dividend distribution of NOK 1.66 per share for 2017 (2016 NOK 1.47 per share).

NOTE 5 EQUITY

	Share capital	Share premium	Other equity	Total
Equity as at 01.01	1,360	770,744	22,664	794,768
Profit for the year	0	0	31,019	31,019
Share-based payment	0	0	7,898	7,898
Estimate deviations, pensions	0	0	-125	-125
Allocated dividend	0	-51,464	-61,456	-112,920
Equity as at 31.12	1,360	719,280	0	720,640

NOTE 6 PENSION OBLIGATIONS AND COSTS

The company is obliged to have an occupational pension scheme under the Norwegian Mandatory Occupational Pensions Act, and has a pension scheme which fulfils the requirements of the Act.

Defined-contribution pension

The Arcus Group's ordinary pension plan for all other employees is a defined-contribution pension plan with Storebrand. The contribution rate is 5 per cent of salary in the bracket from 0 to 7.1 times the National Insurance basic amount (G), and 11 per cent of salary in the bracket from 7.1 to 12 times the National Insurance basic amount (G). In addition, there is a private disability plan with a 66 per cent benefit level, without free policy accumulation. The child and dependent supplement to Arcus' group life plan is a replacement for the previous spouse and child pension.

The costs associated with the defined-contribution pension plan are related to the current premium invoices from the insurance company with which the Arcus Group has signed a defined-contribution pension agreement. The current defined-contribution pensions and disability pensions for employees in the defined-contribution plan are adjusted annually on the basis of the pension fund's surplus.

Employees in the defined-contribution plan who have become disabled are entitled to have their disability obligations regulated by the same adjustment as the basic amount (G) each year and the capitalised obligation related to this was NOK 0.1 million at the end of 2017.

Unfunded pension arrangement

The Group CEO also has an unfunded pension arrangement in which the pension entitlement earned is 15 per cent of the salary above 1.2G. Ongoing provision is made for this obligation in the company's balance sheet, with annual interest at the same rate as achieved in Storebrand Balansert Pensjon. At the end of 2017, this obligation was recognised at NOK 0.7 million.

General assumptions

The company applies a discount rate equivalent to the covered bond interest rate to its pension commitments. This is in line with the recommendations of the Norwegian Accounting Standards Board (NASB). The pension assumptions made by the company are consistent with the recommendations of the Accounting Standards Board from September 2017.

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Figures in NOK 1,000

Pension costs	2017	2016
Current value of pension earnings for the year	213	0
Interest cost of pension obligations	36	0
Accrued social security contributions	35	0
Net pension costs after social security contributions	284	0
Defined-contribution pension plan:		
Recognised contributions excluding social security contributions	180	0
Net pension obligations:		
Estimated accrued obligations, non-funded pension plans	757	0
Net pension assets/obligations recognised in the statement of financial position	757	0
Changes in obligations:		
Net pension obligations 01.01	0	0
Pension costs, continued operations	284	0
Paid in via operations after taking over an obligation from a subsidiary	348	0
Estimated deviations recognised directly in equity (IAS19R)	125	0
Net pension obligations 31.12.	757	0
Economic assumptions:		
Discount rate	2.30%	2.10%
Expected salary adjustment	2.50%	2.25%
Expected pension increase	1.50%	1.25%
Expected adjustment of the National Insurance basic amount (G)	2.25%	2.00%
Expected return on pension assets	2.30%	2.10%
Actuarial and demographic assumptions:		
Withdrawal rate at 62 years	50%	50%
Withdrawal rate at 67 years	50%	50%
Mortality	K2013	K2013
Disability	K1963	K1963
Voluntary retirement (under 50 years)	5%	5%
Voluntary retirement (over 50 years)	0%	0%

The actuarial assumptions are based on commonly used assumptions within the insurance industry with regard to demographic factors.

The Group's pension plans satisfy the statutory requirements concerning mandatory occupational pension schemes.

NOTE 7 PROVISIONS FOR LIABILITIES

At the beginning of the year, 23,971 synthetic shares and 102,270 synthetic options associated with the parent company, Arcus ASA, had been issued. All of these were derecognised in conjunction with the parent company's IPO in December 2016. At the end of 2016, there were no longer any agreements in this co-investment programme in Arcus ASA. The Group CEO had 5,970 synthetic options in this programme.

The synthetic shares and options were issued at the estimated fair value on the issue date. The valuation on the issue date was calculated on the basis of external valuations, according to a cash flow model in which cash flows were discounted to fair value using a discount rate corresponding to the Group's weighted average cost of capital (WACC), adjusted for a liquidity premium, but where the final value was also assessed against the pricing of comparable companies. The development in value in reporting periods between issue and settlement was calculated according to the same principles.

On settlement, the synthetic shares resulted in a payment equivalent to the fair value of the actual shares in the parent company, multiplied by the number of synthetic shares. The fair value of the shares was set as the parent company's opening price on the Oslo Stock Exchange. On settlement, the synthetic options resulted in a payment equivalent to the value per share beyond the exercise price, multiplied by the number of synthetic options.

Value changes related to this incentive programme are presented under financial items.

At the beginning of 2017 there was a remaining liability of NOK 13.8 million, which is mainly related to the remaining provision for uncertainty concerning a previous co-investment programme for executive personnel, with synthetic shares and options. This uncertainty was assessed to be insignificant in 2017, and the provision has been reversed. The changes in 2017 are presented in the table below. Reference is also made to Note 22 in the consolidated financial statements.

Figures in NOK 1,000	Synthetic options	Total provisions for liabilities
Recognised value of liability, 1.1.	13,821	13,821
Changes in value during the period	-13,821	-13,821
Payments during the period	0	0
Book value of liability, 31.12	0	0

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Auditor's report**NOTE 8** LOANS, PLEDGES AND GUARANTEES ETC.

Debt to financial institutions				2017	2016
<i>Figures in NOK 1,000</i>	Currency	Interest rate profile	Loan amount in currency	Loan amount in NOK	Loan amount in NOK
Overdraft facility, SEB	NOK	Floating	72,700	72,700	0
Total debt to financial institutions				72,700	0
Capitalised front-end fees				-3,055	-3,835
Book value as at 31.12				69,645	-3,835

Term structure	Maturity 2018	Due date 2019-2021	Due date after 2021	Total
SEB	72,700	0	0	72,700
Total debt to financial institutions	72,700	0	0	72,700

The Group has a Group cash pool system at Skandinaviska Enskilda Banken (SEB), which includes the subsidiaries with the exception of the companies in the wine business in Sweden and Finland. At the end of 2017, this Group cash pool system was managed by Arcus ASA. Arcus ASA, has pledged surety on behalf of all of its subsidiaries, linked at all times to outstanding drawings on this scheme.

The capitalised front-end fee with a book value of TNOK 3,055 relates to the front-end fee for the cash pool scheme. The outstanding value is here amortised over the duration of the loan, until the end of 2021.

The Group has a long-term financing agreement with SEB, whereby the loan is formally for TSEK 750 and is booked in one of the subsidiaries in Sweden, VinGruppen Sweden Holding AB. The financing agreement does not include a pledger of security.

The company has no non-current debt with terms exceeding five years.

The agreement on a mortgage loan facility contains a loan term (covenant) concerning net interest-bearing debt as a ratio of adjusted EBITDA. The Group continuously monitors this clause and reports to the bank on a quarterly basis. As at 31.12.2017 the Group was well within the required ratio.

NOTE 9 INTRAGROUP RECEIVABLES AND LIABILITIES

Receivables	2017	2016
Claims on Group contributions from Arcus-Gruppen AS	65,312	0
Trade receivables from Group companies	22	0
Other current receivables from Group companies	8,326	0
Total	73,660	0

Liabilities	2017	2016
Trade payables to Group companies	3	19,559
Other current liabilities payable to Group companies	0	1,350
Intragroup balance in Group cash pool system	725,894	689,015
Total	725,897	709,924

The company has no consolidated assets or liabilities that will fall due more than five years after the close of the financial year.

NOTE 10 CASH AND CASH EQUIVALENTS

The company has no restricted bank deposits, but has a bank guarantee for a tax payment of TNOK 2,500.

The company administrates the Group cash pool scheme for the Group and the scheme includes most of the Group's subsidiaries. The Swedish and Finnish wine activities, and the new subsidiary, Det Danske Spiritus Kompagni A/S, are not included in the scheme.

Net deposits or drawings by the subsidiaries are presented as intragroup balances with Arcus ASA. The joint overdraft limit in the Group cash pool system is TNOK 600,000.

At year-end, the Group had total drawings of TNOK 72,700 from the scheme, which are presented as an overdraft for Arcus ASA, compared with a deposit of TNOK 100,731 at the end of 2016.

As at 31.12.2017, Arcus ASA has drawings of TNOK 725,894 in the Group cash pool system, compared with drawings of TNOK 689,015 at the end of 2016.

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NOTE 11 FINANCIAL MARKET RISK

Financial risk

The company has individual financial derivatives for hedging purposes. The company does not fulfil the accounting requirements for hedge accounting and therefore does not treat these as hedging for accounting purposes.

The risk management procedures are adopted by the Board of Directors and are undertaken by administration in collaboration with the individual business areas. The most important financial risks to which the company is exposed are associated with interest rate risk, liquidity risk and foreign currency risk. The company's management continuously assesses how these are to be handled.

Interest rate risk

The company is exposed to interest rate risk on the investment of liquid assets and drawing on the Group cash pool system. At 31.12.2017 all of the company's interest-bearing deposits and liabilities were subject to variable interest rates.

Liquidity risk

Liquidity risk is the risk that the Company will not be in a position to service its financial liabilities as they fall due. The company must at all times have sufficient liquidity to meet its obligations. It is also the goal to minimise the company's excess liquidity. The company will work continuously to develop its financial independence, through close monitoring of income development and capital binding, and through continuous assessment of alternative sources of finance.

As far as possible, the company wishes to have flexibility for its liquid assets in relation to day-to-day operations. The Group achieves this through a Group cash pool system with a drawing facility that as of 31.12.2017 is managed by Arcus ASA.

When funds are needed for investment purposes, the company relies on its own liquidity as far as possible. However, for larger investments external debt financing from a financial institution is also used.

Foreign currency risk

In view of the company's international activities, there is some exposure to foreign currency risk. As a general rule, currency is purchased in the spot market, but also to some extent in the forward market, in order to continuously offset net cash positions. The accounting treatment of financial derivatives is described under "Accounting policies".

The company makes some purchases in foreign currency (mainly EUR), while the functional currency is NOK.

Receivables and debt, as well as monetary items in foreign currency, are translated at the closing rate on the balance sheet date. Foreign currency exposure is mainly hedged used forward contracts.

During the year, purchase and sale of goods in foreign currency are hedged to a certain degree, and the forward rate achieved in the market is used as the transaction rate. As a general rule, the foreign currency exposure is hedged three times a year, at four-month intervals.

At 31.12.2017 the company did not have any forward contracts (hedging) to hedge balance sheet items and orders received.

NOTE 12 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

No significant events occurred between the close of the financial year and the date on which Arcus ASA's consolidated financial statements and parent company financial statements were approved for publication. This applies to events that would have provided knowledge of factors present at the close of the financial year, or events concerning matters that have arisen since the close of the financial year. The consolidated financial statements were approved for publication by resolution of the Board of Directors on 15 March 2018.

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To the Annual Shareholders' Meeting of Arcus ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arcus ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the statement of income and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the statement of financial position as at 31 December 2017, statement of income, statements of total 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 2017, 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 2017 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 and the Group 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 for 2017. 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.

Impairment assessments – trade marks and goodwill

As at 31 December 2017, the Arcus Group had significant trade marks and goodwill recognized in the balance sheet, representing 41% of the total capital. As the market conditions for some enterprises are uncertain, the risk for losses due to impairment of these cash generating entities, including Excellars, is increasing. In addition, some spirit brands have in recent years shown signs of declining turnover. Due to the extent of judgmental assessments applied in management's models for impairment considerations, together with the significant value in the balance sheet, the impairment assessments of trade marks and goodwill are considered a key audit matter.

Our audit of the Group's impairment assessments has included a review and testing of the impairment models, assessment of cash-generating entities, control of mathematical accuracy of models together with testing and evaluating the assumptions management used as a basis in the calculations. We also reviewed the design of management's internal controls related to the impairment assessments. In addition, we considered management's assumption on future cash-flow forecasts by looking at the historical accuracy in management's budgets and prognoses against the Company's actual results. We compared key assumptions against market information where available. We also assessed discount rates by comparing the assumptions for the calculation with external data like expected inflation, debt ratio, loan interest, risk premium and beta values for comparable companies. In addition, we have reviewed and carried out sensitivity analyses in order to evaluate how sensitive the model is for changes in the most important underlying assumptions.

We refer to note 15 in the financial statements and to information about intangible assets and significant accounting estimates and judgmental considerations in the Group's accounting principles.

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 Chief Executive Officer (management) are 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 determines 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

FINANCIAL STATEMENTS & NOTES**Consolidated financial statements with notes**

Statement of income 01.01.-31.12.

Statement of other comprehensive income
01.01.-31.12.

Statement of financial position as at 31 December

Statement of cash flows 01.01.-31.12.

Statement of changes in equity

Brief history of the Group

Accounting policies

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Alternative performance measurements

Parent Company accounts with notes

Statement of income 01.01.-31.12.

Statement of financial position as at 31 December

Statement of cash flows 01.01.-31.12.

Accounting policies

Notes

Auditor's report

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 on 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 and in the statements on corporate governance and corporate social responsibility concerning the financial statements, 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.

Independent auditor's report - Arcus ASA

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 has fulfilled its 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, 16 March 2018
ERNST & YOUNG ASKjetil Rimstad
State Authorised Public Accountant (Norway)

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

Independent auditor's report - Arcus ASA



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