

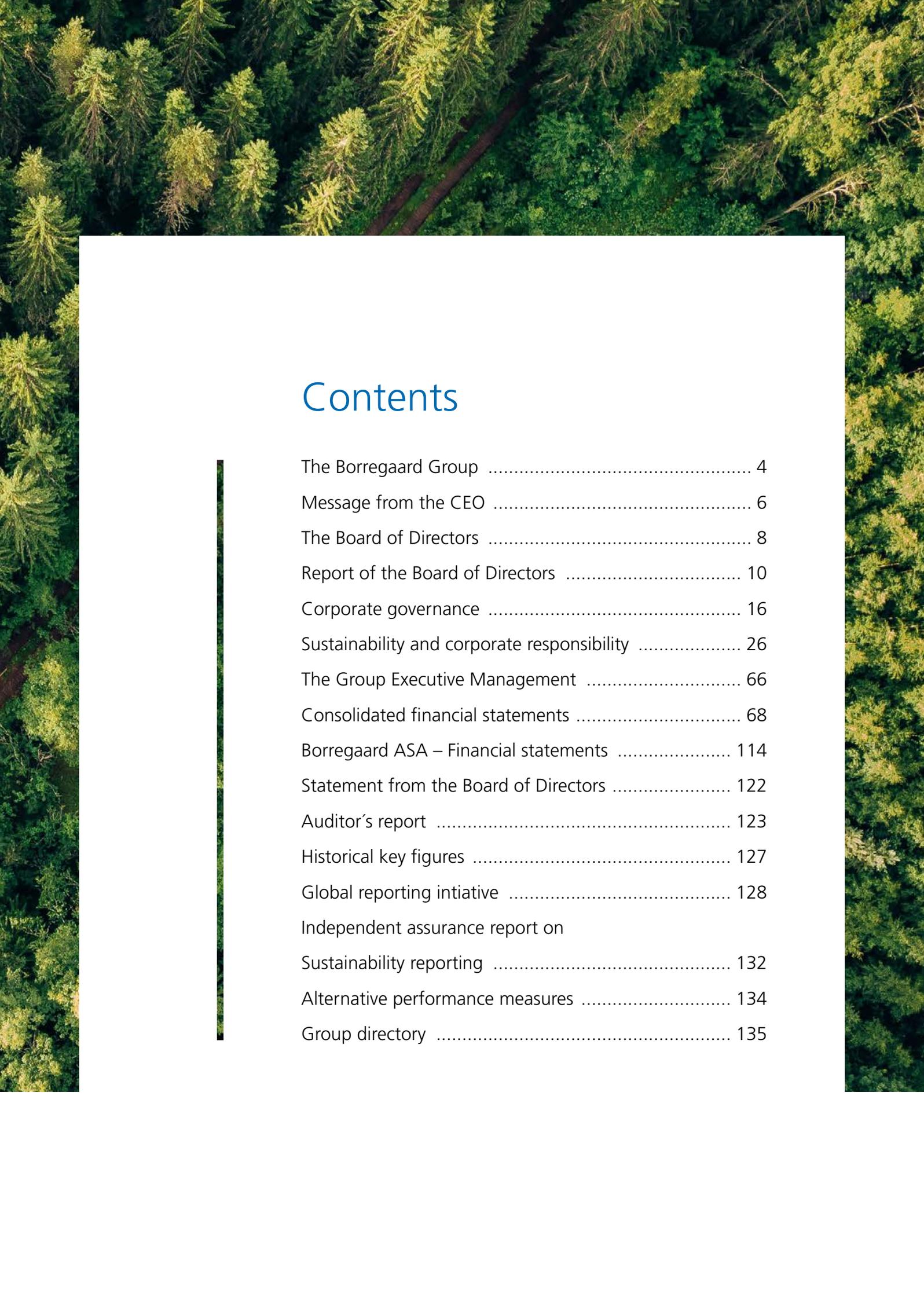
ANNUAL
REPORT

2019



Borregaard





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THE BORREGAARD GROUP

Borregaard operates one of the world's most advanced biorefineries. By using natural, sustainable raw materials, the Group produces advanced and environmentally friendly biochemicals and biomaterials that can replace oil-based products.

BORREGAARD IN A NUTSHELL

- A biorefinery with high value-added
- Specialisation in global niches
- Strong innovation ability and continuous improvement
- Competence as the main competitive advantage

A BIOREFINERY WITH HIGH VALUE-ADDED

The Group's business model is closely linked to the integrated nature of its biorefinery in Norway, which utilises the three key components of wood – cellulose fibres, lignin and sugars – to produce a diversified portfolio of products. The biorefinery utilises more than 85 percent of

the feedstock to make biochemicals and biomaterials. Most of the remaining biomass is converted to energy used in production processes.

In addition to its biorefinery in Sarpsborg, Borregaard has seven production sites outside Norway dedicated to producing lignin-based products. The company also has sales offices in 16 countries in Europe, Asia, Africa and the Americas serving its global customer base. At the end of 2019, the Group had 1,103¹ full-time equivalent (FTE) employees.



BioSolutions

Global market leader in biopolymers and biovanillin from lignin, with unique technology and in-depth application competence.

BioMaterials

Leading global speciality cellulose supplier. Pioneer in cellulose fibrils.

Fine Chemicals

Leading producer of selected pharma intermediates mainly for diagnostics. Large producer of second-generation bioethanol.

¹ See Note 6 to the Consolidated Financial Statements regarding treatment of the joint venture in South Africa.

SPECIALISATION IN GLOBAL NICHES

Borregaard is a supplier of specialised biochemicals and biomaterials to a global customer base. The Group's main products are biopolymers and biovanillin from lignin and speciality cellulose, but the product portfolio also includes second generation bioethanol, pharma intermediates and cellulose fibrils.

Borregaard's niche products serve applications in a wide range of end-markets including construction, agriculture, food and beverages, transport and pharmaceuticals. The Group's strong market positions have been developed through in-depth understanding of its markets, production of advanced and specialised products and local presence in the form of a global sales and marketing organisation.

COMPETENCE AS THE MAIN COMPETITIVE ADVANTAGE

Borregaard is a competence-driven company with production, research and development (R&D) and sales and marketing as its core competencies. To maintain its leading position, Borregaard has a strong focus on training programmes and cooperation between the various disciplines.

Borregaard has a leading research centre combining wood chemistry and fine chemistry, focusing on the development of new or improved products, applications and production technologies. The Group had 97 employees in R&D as of 31 December 2019.

BORREGAARD'S THREE BUSINESS SEGMENTS

Borregaard has made changes to the Group's segment reporting and the composition of the business areas, see Note 7 to the Consolidated Financial Statement.

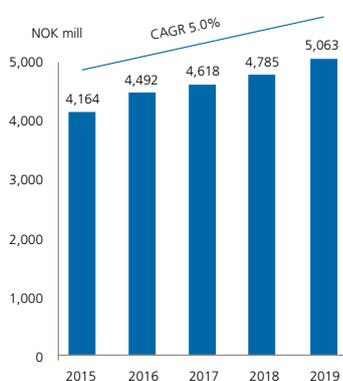
BioSolutions develops, produces and sells biopolymers and biovanillin from lignin. Biopolymers are used as binding and dispersing agents in a wide range of end-market applications, such as construction, industrial binders, agrochemicals and batteries. Biovanillin is supplied to flavour and fragrance companies, as well as to the food and beverage industry. In addition, BioSolutions carries out trading activities in chemicals which are either linked to lignin-based products or have previously been produced by Borregaard.

BioMaterials develops, produces and sells speciality cellulose mainly for use as a raw material in the production of cellulose ethers, cellulose acetate and other speciality products. BioMaterials also includes cellulose fibrils for industrial applications, which are in the market introduction phase.

Fine Chemicals consists of pharma intermediates and second-generation bioethanol.

KEY FIGURES

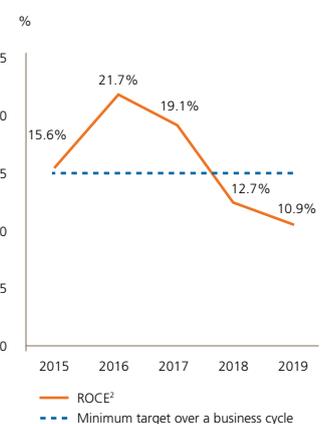
OPERATING REVENUES



EBITDA²



ROCE²



² Alternative performance measures, see page 134 for definition.

MESSAGE FROM THE CEO

Borregaard has defined clear strategic priorities for the development of the company. Our ambition is to develop Borregaard into an even more specialised and competitive company, that delivers sustainable solutions and strong financial results over time.

In the five-year period from 2015 to 2019, we have invested close to NOK two billion in various strategic projects to improve competitiveness and provide for top-line growth in the years to come. The new biopolymer plant in Florida, the upgrade and further specialisation of the biopolymer operation in Norway, the cellulose fibrils plant, the development of the Ice Bear technology, and the upgrade of the bioethanol plant are the most prominent expansion projects in this period.

In the coming years, we will step up our activities to increase market awareness of Borregaard's green solutions. Sustainability is a key component of Borregaard's business model and one of our core values. We offer sustainable products with a good climate footprint and positive environmental, health and safety benefits, that can replace oil-based products. Although most of our customers are still buying chemicals based on performance and price, the sustainability footprint of our products is becoming increasingly important. One example of this is Borregaard's biovanillin used in the food, beverage and cosmetics industries. The market for biovanillin is growing rapidly. This trend is expected to continue and most likely be reinforced in parallel with the world's growing sustainability focus. In response to a growing demand, Borregaard has decided to expand production capacity for biovanillin by at least 250 additional tonnes annually from 2021.



Borregaard has prioritised six of the seventeen Sustainable Development Goals set out in the UN's 2030 Agenda for Sustainable Development; zero hunger, economic growth, innovation, responsible production, climate action and life on land. These goals are closely linked to the business model and the products and solutions we provide. In 2019, The Science Based Targets Initiative approved Borregaard's target for reducing greenhouse gas emissions by 53% by 2030 and 100% by 2050, from a 2009 base year. The targets are in line with the ambitions in the Paris Agreement and well below the level required to limit the global temperature increase to 2°C.

During 2019 we have adjusted the organisation in several areas to support strategy execution. The NOK 450 million upgrade and specialisation of the production facilities for biopolymers at the Sarpsborg site included new drying capacity, tanks for storage of liquid materials and improved solutions for logistics, infrastructure and energy. This investment will enable further specialisation on the unique raw material base and will over time further reduce our exposure to cyclical market segments. In addition, the increased drying capacity at the Sarpsborg site reduces the need for drying products at other production sites. As a consequence, the operations in Germany have been restructured to reflect future needs. This optimisation of the operations in Norway and Germany is targeted to deliver cost reductions of NOK 60 million from 2021.

Reallocation of Borregaard's sales resources to strengthen our sales organisation globally has been an important measure to drive specialisation, diversification and growth. During 2019, we redirected some of the competence and resources in our lignin business away from multi-application responsibilities into roles fully focused on the individual applications. The goal is to increase sales of high value lignin products through focused innovation work and to grow volume by attracting new customers within new applications.

Borregaard's market-oriented culture characterises the organisation of the business. Our business areas and market segments are organised based on the markets they serve. This is further highlighted through an altered composition and renaming of Borregaard's business areas; BioSolutions, BioMaterials and Fine Chemicals. The names provide a strategic description of Borregaard as a supplier of bio-based and specialised products and as a solutions provider.

We are all in a demanding situation as a result of the COVID-19 pandemic. Borregaard monitors the situation closely and has activated the company's emergency organisation. In line with our values, we put safety and health first. Many measures have been implemented in our operational units and offices around the world to limit the risk of infection. The direct effects for our businesses are limited as of today. However, we have no guarantee for how this situation will develop in the future, neither in terms of market conditions, supply chains nor government regulations.

Kind regards,



Per A. Sørli,
President and CEO



THE BOARD OF DIRECTORS



JAN ANDERS OKSUM

Chair

Member of the Board from October 2012 and member of the Board of Borregaard Industries Limited 2007-2012.

Jan Oksum is an independent consultant within organisational development and strategy. He has worked in various positions at Norske Skogindustrier ASA including the position as CEO. Mr Oksum has served as chair and director of various national and international companies, such as Norconsult AS, Elopak AS and Södra Cell AB. He holds a degree in pulp and paper chemistry from the Norwegian University of Science and Technology in Trondheim. Mr Oksum has attended 8 out of 8 board meetings in 2019. Mr Oksum holds 11,500 shares in Borregaard ASA.



TERJE ANDERSEN

Member

Member of the Board from October 2012 and member of the Board of Borregaard Industries Limited 2005-2012.

Terje Andersen is CEO of Orkla Financial and Industrial Investments. He has held various positions within the Orkla group including CFO of Orkla ASA. Mr Andersen holds a number of positions in various boards, such as Saudafaldene AS (chair) and Jotun AS. He holds a degree in Business Administration (siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen. Mr Andersen has attended 8 out of 8 board meetings in 2019. Mr Andersen holds 4,371 shares in Borregaard ASA.



TOVE ANDERSEN

Member

Member of the Board since April 2018. Tove Andersen is EVP Production at Yara International ASA and a member of the group

management team. Ms Andersen has held a number of different positions at Norsk Hydro/Yara, including EVP Supply Chain, VP Marketing and New Business, Country Manager UK/Ireland, Director Specialities and Retail Marketing and Director Business Development and Alliances. She has also held the position as a researcher at Norwegian Computing Center. Ms Andersen is board member of Cambi ASA. She holds a degree in Applied Physics and Mathematics from the Norwegian University of Science and Technology, Norway and an MBA from BI-Norwegian Business School. Ms Andersen has attended 8 out of 8 board meetings in 2019. Ms Andersen holds 4,000 shares in Borregaard ASA.



MARGRETHE HAUGE

Member

Member of the Board since April 2018. Margrethe Hauge is CEO of Teknisk Bureau AS. Until 2017, Ms Hauge was Regional Managing Director - Nordic & Germany at MRC Global Inc. Prior to this, she was Managing Director of MRC Solberg & Andersen AS and EVP Services at TTS Group ASA. She has also held several positions at Kverneland Group. Ms Hauge has also been a trainee at Norsk Hydro ASA. She is a board member of Salmar ASA and GIEK. She holds a Master's degree in Economics & Business Administration, University of Mannheim, Germany. Ms Hauge has attended 7 out of 8 board meetings in 2019. Ms Hauge holds 4,077 shares in Borregaard ASA.



HELGE AASEN

Member

Member of the Board since April 2018. Helge Aasen was CEO of Elkem ASA, between 2009 and 2019. He has held a number of positions in the Elkem Group since 1990, and has experience from various divisions in the Group as well as sales, marketing and commercial positions. Mr Aasen has previously held engineering positions at Norsk Ferro AS, a part of Norsk Jern Holding. He is a board member of Elkem ASA and China National Bluestar Company. Mr Aasen is also chair of the board of the Federation of Norwegian Industries. He holds a degree in Metallurgy from the Norwegian University of Science and Technology and has participated in a leadership programme at IMD, Switzerland. Mr Aasen has attended 7 out of 8 board meetings in 2019. Mr Aasen holds 2,900 shares in Borregaard ASA.



ÅSMUND DYBEDAHL

Employee representative

Member of the Board since April 2013. Åsmund Dybedahl is Leader of The Norwegian United Federation of Trade Unions at Borregaard Sarpsborg (Fellesforbundet Borregaard Fagforening), as well as chair of the board of the Norwegian Confederation of Trade Unions (LO) at Borregaard Sarpsborg. Mr Dybedahl has attended 8 out of 8 board meetings in 2019. Mr Dybedahl and close relatives hold 8,648 shares in Borregaard ASA.



RAGNHILD ANKER EIDE

Employee representative

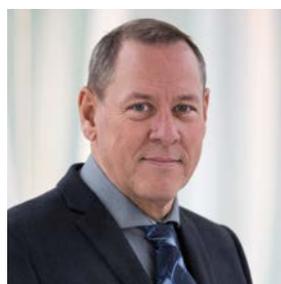
Member of the Board since October 2012. Ragnhild Anker Eide works as Logistics Manager at Borregaard Sarpsborg. She is chair of The Norwegian Society of Graduate Technical and Scientific Professionals (Tekna) at Borregaard and chair of the board of the Joint Union for Officials and Engineers at Borregaard. Ms Eide has attended 8 out of 8 board meetings in 2019. Ms Eide holds 3,025 shares in Borregaard ASA.



BENTE SELJEBAKKEN KLAUSEN

Observer

Observer of the Board since October 2012. Bente Seljebakken Klausen works as a Laboratory Technician at Borregaard R&D, Sarpsborg. She is chair of the Norwegian Engineers and Managers Association (FLT) at Borregaard, treasurer of the Norwegian Engineers and Managers Association (FLT) at the Sarpsborg branch and secretary of the board of the Norwegian Confederation of Trade Unions (LO) at Borregaard Sarpsborg. Ms Seljebakken Klausen has attended 8 out of 8 board meetings in 2019. Ms Klausen and close relatives hold 1,301 shares in Borregaard ASA.



ROY KÅRE APPELGREN

Observer

Observer of the Board from October 2012 and observer of the Board of Borregaard Industries Limited 2010-2012. Roy Kåre Appelgren works as a Senior Engineer in Mechanical Maintenance at Borregaard Sarpsborg. He is chair of The Norwegian Society of Engineers and Technologists (NITO) at Borregaard and a member of the Joint Union for Officials and Engineers at Borregaard. Mr Appelgren has attended 8 out of 8 board meetings in 2019. Mr Appelgren holds 2,248 shares in Borregaard ASA.



REPORT OF THE BOARD OF DIRECTORS

In 2019, Borregaard completed a five-year strategic expansion programme. Going forward, the focus will be on market development to capitalise on potential growth opportunities from these investments.

OVERVIEW

Borregaard is a leading global solutions provider with strong positions in selected niches of biochemicals, biomaterials and fine chemicals. The Group operates one of the world's most advanced biorefineries with high value creation through high utilisation of the wood raw material base. Borregaard's strong innovation competence contributes to continuous specialisation of existing operations as well as the development of new products and applications.

The head office and main production facilities are located in Sarpsborg, Norway, where industrial activity based on sulphite pulping started in 1889. The Group has manufacturing operations or sales offices in 16 countries. See Note 7 to the Financial Statements of Borregaard ASA.

HIGHLIGHTS 2019

During the last five years, Borregaard has invested close to NOK two billion in a number of strategic projects to secure the company's competitive position and prepare for future growth. In 2019, the investment programme to upgrade and further specialise the biopolymer operation at the biorefinery in Norway was completed. The investment included increased drying and storage capacity, in addition to improved solutions for logistics, infrastructure and energy.

The positive impact from the investments started to materialise in 2019. The ramp-up of sales volume from the new biopolymer plant in Florida continued according to plan. The product mix for the Sarpsborg site improved due to increased sales of biofuel grade bioethanol from the new dehydration plant as well as increased sales of high purity speciality cellulose based on the recently installed Ice Bear technology.

Life cycle analyses confirm that Borregaard's products have a favourable environmental footprint and climate impact compared with oil-based alternatives. Customers are increasingly focusing on sustainability in terms of climate impact, health and safety aspects, and use of more natural ingredients. The demand for natural raw materials in food, beverages and cosmetics have increased significantly in recent years. As a result, Borregaard's biovanillin has seen strong market growth, and in 2019 it was decided to expand the production capacity by at least 250 tonnes with full impact from the second half of 2021.

In 2019, Borregaard's ambition to reduce greenhouse gas emissions was approved by the Science Based Targets Initiative. This goal is tied into UN's target for climate gas reductions, and commits Borregaard to complete a series of new climate actions. The investment in a facility to increase the production of bioenergy at the biorefinery is one of several steps in the realisation of this ambition.

To sustain Borregaard's position as the world's most advanced biorefinery, it is necessary to further develop production, innovation, technology and marketing competence. This also includes investments in infrastructure and the supply chain. The renewal and modernisation of the caustic soda production facility and the introduction of new technology to eliminate the use and storage of liquid SO₂, are examples of such investments.

Borregaard has made changes to the Group's segment reporting and the composition of the business areas in order to better align with value chains in production and internal

reporting structures. All lignin-based products, including biovanillin, have been organised under one management in *BioSolutions*. The new segment consists of the previous Performance Chemicals and the Ingredients part of Other Businesses. *BioMaterials* consist of products utilising wood fibres as the main raw material, and includes the speciality cellulose and cellulose fibrils businesses. *Fine Chemicals* includes pharma intermediates (mainly used for diagnostics) and bioethanol (mainly for biofuel). Corporate overhead and certain other costs that previously have been reported under Other Businesses, have been allocated to the three business segments. Segment performance, which previously has been measured based on EBITA¹, will primarily be measured based on EBITDA¹.

Innovation efforts are expected to further improve the Group's innovation rate (13% in 2019, see page 28) and market position. In 2019, Borregaard's gross expenditure on research and innovation was NOK 215 million, 4.2% of the Group's operating revenues. In 2019, Borregaard recognised NOK 61 million of public funding for ongoing research projects, both from the Norwegian Government and the European Union.

Environment, health and safety (EHS) are integral parts of Borregaard's business model. In 2019, the total recordable injuries per million worked hours (TRI) was 8.4 (8.6)². Sick leave was 3.6% (3.5%). Reduced production volume due to incidents with the water supply pipes and reduced heat recovery due to problems in the condensate recovery system resulted in an increase in the specific energy consumption. The Group's investments and activities to reduce emissions showed good results for several compounds in 2019. The emission of organic compounds (COD) was reduced by 9%, phosphor was reduced by 46%, halogenic organic material (AOX) was reduced by 16% and NOx was reduced by 25%. The copper emission increased by 25%. Technology to reduce this emission will be installed in 2020. Greenhouse gas emissions (scope 1 and scope 2) increased by 2.7%, mainly due to the increased production from the new site in Florida. See the Sustainability and Corporate Responsibility Report from page 17.

MARKET TRENDS

Borregaard's diversified product portfolio and global market exposure provide flexibility and an inherent hedge against the impact of market fluctuations.

For *BioSolutions*, sales of biopolymers to concrete admixtures continued to be affected by strong competition and price pressure also in 2019. In the second half of 2019, competition also increased within low-value applications of Industrial products. Sales of Specialities increased significantly in 2019, mainly from further price increases for biovanillin. Biovanillin was a major contributor to both top-

line growth and improved result in *BioSolutions*.

In *BioMaterials*, the cellulose ether market continued to develop positively in 2019. Borregaard's sales of acetate cellulose increased in a slightly declining market, partly due to improved product quality from the Ice Bear technology. The impact of low prices for textile cellulose was limited due to reduced exposure to this market segment. Borregaard experienced strong interest for cellulose fibrils from the market. The number of active sales prospects continued to grow and the number of commercial customers approached 50 by the end of 2019. However, the sales volume was still low and the lead-times for conversion of sales prospects to regular customers continued to be quite long.

For *Fine Chemicals*, the end-market for pharma intermediates for diagnostics continued to grow in 2019. Bioethanol sales and product mix improved in 2019. The demand for second-generation bioethanol in automotive fuel was strong.

FINANCIAL PERFORMANCE IN 2019

Borregaard's operating revenues reached NOK 5,063 million (NOK 4,785 million). EBITDA was NOK 1,007 million (NOK 903 million). Results in both *BioSolutions* and *Fine Chemicals* improved, whereas *BioMaterials* had a decline. The operational incidents affecting the production at the Sarpsborg site in the 4th quarter had a negative impact on EBITDA of about NOK 35 million. Leakages in the water supply system resulted in reduced production volume and declassified speciality cellulose products. The net currency impact was positive. The implementation of IFRS 16 Leases had a positive impact of NOK 72 million on EBITDA, see Note 12.

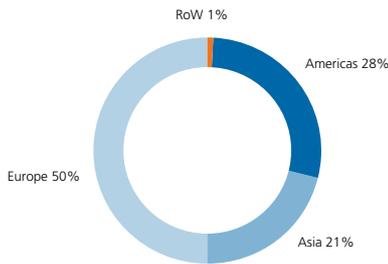
In *BioSolutions*, higher sales prices of biovanillin more than compensated for higher costs for biopolymers, especially related to the ramp-up of the Florida plant. Higher wood costs and the operational incidents in the 4th quarter were the main reasons for a weaker result in *BioMaterials*. *Fine Chemicals'* result improved. Other income and expenses¹ were NOK -27 million (NOK 0 million) due to restructuring of the German biopolymer operation and write-downs and costs related to the discontinuation of the SenseFi project.

Net financial items amounted to NOK -91 million (NOK -14 million). Net interest expenses increased by NOK 37 million due to the implementation of IFRS 16 Leases, higher net interest-bearing debt and increased interest rates. Other financial items had a negative change of NOK -31 million, mainly related to an increase in committed return on the Group's unfunded pension plan in 2019 (see Note 14) and a NOK 20 million gain on sale of a minority stake in a US chemical company in 2018. Profit before tax was NOK 467 million (NOK 562 million). Tax expense was NOK -116 million (NOK -137 million), giving a tax rate of 25% (24%).

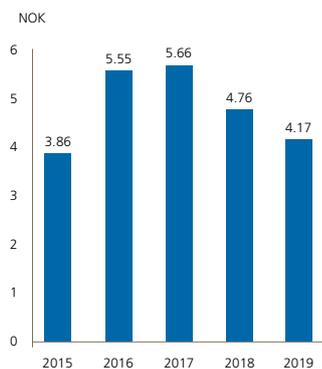
¹ Alternative performance measures, see page 134 for definition.

² Figures in parentheses are for the corresponding period in the previous year

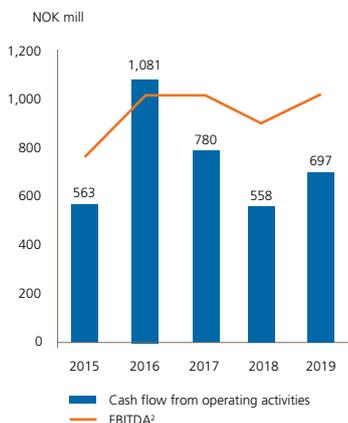
SALES REVENUES BY GEOGRAPHICAL AREA 2019



EARNINGS PER SHARE



CASH FLOW FROM OPERATING ACTIVITIES



The tax rate is affected by accounting treatment of partly owned companies and carry forward losses not recognised as deferred tax asset, see Note 15.

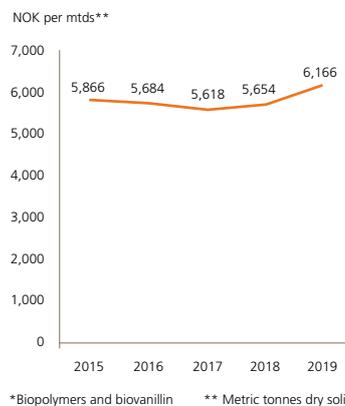
The Borregaard Group had a profit for the year of NOK 351 million in 2019 (NOK 425 million). Earnings per share were NOK 4.17 (NOK 4.76).

Borregaard ASA's share price was NOK 95.00 at the end of 2019. Compared with the end of 2018, the share value increased by 30.3% assuming reinvestment of dividends.

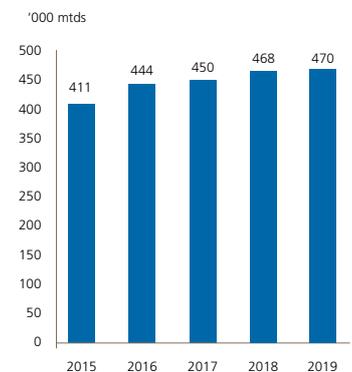
CASH FLOW AND FINANCIAL STRUCTURE

Cash flow from operating activities was NOK 697 million (NOK 558 million). The increase was due to the positive cash effect of an increased EBITDA, a favourable development in net working capital compared with 2018 and lower tax payments, partly offset by an increase in net interest payments and other financial expenses. Investments amounted to NOK 583 million (NOK 762 million). Replacement investments were NOK 370 million (NOK 346 million). Expansion investments, totalling NOK 213 million (NOK 416 million), were mainly related to the upgrade and specialisation of the biopolymer operation in Norway and completion of the investment project in Florida. Dividend of NOK 224 million (NOK 199 million) was paid out in the 2nd quarter. Realised effect of hedging of net investments in subsidiaries was NOK -26 million (NOK -22 million). The Group has sold and repurchased treasury shares with a net payment of NOK 25 million (NOK 9 million).

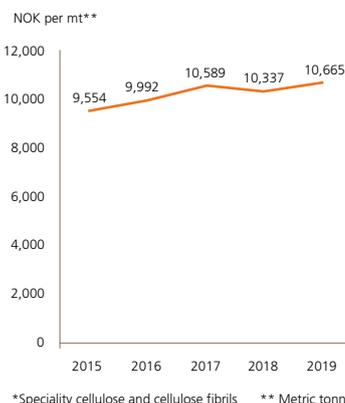
GROSS AVERAGE PRICE



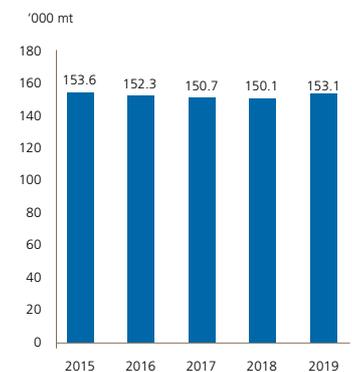
SALES VOLUME³



GROSS AVERAGE PRICE



SALES VOLUME



³ Average sales price and sales volume reflect 100% of sales and volume from the I/V in South Africa. Average sales price is calculated using actual FX rates, excluding hedging impact.

At year-end, the Group had net interest-bearing debt¹ totalling NOK 1,489 million (NOK 1,297 million), an increase of NOK 192 million from year-end 2018. The Group was well capitalised with an equity ratio¹ of 51.4% and a leverage ratio¹ of 1.59. The implementation of IFRS 16 Leases had a negative impact on the equity ratio of 3.1%-points (see Note 12). As of 31 December 2019, the undrawn portion of available long-term credit facilities amounted to NOK 1,500 million.

BUSINESS SEGMENTS

BioSolutions had operating revenues of NOK 2,982 million (NOK 2,775 million) in 2019. EBITDA was NOK 647 million (NOK 499 million). The significant increase in EBITDA was due to higher sales prices for biovanillin, favourable productmix for biopolymers and positive currency effects, partly offset by higher costs related to the Florida operation. Sales volume of biopolymers increased marginally compared with 2018 with growth for Industrial products, stable volume for Specialities and a decline for Construction. Within Construction, sales to concrete admixtures declined while other construction applications had good growth. The average price in sales currency of biopolymers was slightly below 2018. Sales volume from the Florida plant was in accordance with the ramp-up plan. However, the profitability of the plant was below expectations, mainly due to an unfavourable product mix and higher distribution and fixed costs. The demand for biovanillin has been strong in 2019.

Operating revenues for *BioMaterials* were NOK 1,712 million (NOK 1,661 million) in 2019. EBITDA was NOK 234 million (NOK 312 million). The reduced EBITDA was mainly due to increased wood costs and the operational incidents at the Sarpsborg site, which mainly affected *BioMaterials*. Net currency effects were positive. The average price in sales currency for *BioMaterials* was below 2018, mainly as a result of sales of declassified cellulose from the operational incidents. Highly specialised cellulose grades increased to 73% (62%) of sold volume. Cellulose fibrils had a result in line with 2018, as reduced cost coverage from the EU grant was compensated by higher sales and improved productivity. The SenseFi project was discontinued in the 4th quarter. In 2019, this project had an EBITDA impact of NOK -7 million. Operating revenues in *Fine Chemicals* was NOK 406 million (NOK 374 million). EBITDA was NOK 126 million (NOK 92 million). Sales revenues and EBITDA in pharma intermediates increased compared with 2018. The result for bioethanol increased due to higher sales and production volume, improved product mix and lower production costs.

CORPORATE GOVERNANCE

Borregaard's governance systems are based on principles set out in the Norwegian Code of Conduct for Corporate Governance. The Compliance Board reviews and controls

compliance matters and reports to the Board annually. See report on Corporate Governance at Borregaard from page 16. This report is an integral part of the Report of the Board of Directors.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Sustainability is an integral part of Borregaard's business model. This is reflected in the Group's main objective: Providing sustainable solutions based on renewable raw materials and unique competence. Borregaard's 2019 report on sustainability and corporate responsibility from page 26 outlines ambitions and achievements within climate and EHS, and Borregaard's commitment to business ethics and compliance. This report is an integral part of the Report of the Board of Directors.

FINANCIAL AND OPERATIONAL RISKS

Borregaard is financially exposed to currency risk for most of its sales, primarily in USD and EUR. A substantial part of this exposure, defined as estimated net cash flow in USD and EUR, is routinely hedged with a nine-month time horizon. Subject to certain criteria being met, the hedging horizon for USD and EUR exposure may be extended up to 36 months. In 2019, substantial EUR and USD amounts were hedged within a 3-year time horizon. See Note 28.

Borregaard is also exposed to price risk for energy, wood and other strategic raw materials. There is also a supply risk for lignin raw material. In sales, all Borregaard's business segments are exposed to price risk in international and domestic markets. Furthermore, there are production, environmental and safety risks inherently associated with the operation of manufacturing sites. To mitigate these risks, Borregaard has a strong commitment to continuous improvement throughout its worldwide operations, calling on a wide range of measures affecting both revenues and costs. Climate risk assessment comply with the Task Force on Climate-related Financial Disclosures (TCFD). The short and medium-term climate risk is considered to be low.

Credit risk for Borregaard is perceived to be modest due to the quality of its customer base and its stringent credit management policy. Short-term liquidity risk associated with cash flow fluctuations is low because Borregaard has ensured ample short-term and long-term credit facilities from a group of leading Scandinavian banks. As of 31 December 2019, the undrawn portion of available long-term facilities amounted to NOK 1,500 million.

The company's business activities and financial position, together with the factors likely to affect its future development and performance, are set out above. With its considerable financial resources, together with long-standing relationships with customers and suppliers across different geographic

¹ Alternative performance measures, see page 134 for definition.

areas and industry sectors, the company is well placed to manage its ongoing business risks. With a strong equity ratio and good liquidity, the company has adequate resources to continue its operations for the foreseeable future. Hence, in accordance with the Norwegian Accounting Act §3-3a, we confirm that the financial statements have been prepared under the assumption of a going concern. See Note 28 for further disclosure of financial and operational risks.

REMUNERATION OF GROUP EXECUTIVE MANAGEMENT

The Board of Directors has established a Compensation Committee which deals with all important matters related to salary and other remuneration of senior executives before such matters are decided by the Board. In accordance with Norwegian legislation, the Board has also established guidelines for salary and other remuneration of senior executives. The Guidelines for 2019 are included in Note 9 to the consolidated financial statements.

SHAREHOLDER MATTERS

All shares in Borregaard ASA have equal rights and are freely traded. The company has established a programme enabling employees to purchase shares at a discounted price. In connection with this programme and the share option programme for the Group Executive Management and other key employees, Borregaard ASA held 366,775 treasury shares as of 31 December 2019 and 408,097 as of 18 March 2020. See Note 9 regarding share options.

Total number of shares outstanding as of 31 December 2019 was 100 million, including 366,775 treasury shares. Total number of shareholders was 6,342. Borregaard ASA's share price was NOK 95.00 at the end of 2019, compared with NOK 74.80 at the end of 2018.

IMPLEMENTATION OF IFRS 16

In 2019, Borregaard has implemented IFRS 16 and the effects are presented in Note 12.

OTHER MATTERS AND SUBSEQUENT EVENTS

Shares to employees

As part of the employee share programme, Borregaard sold a total of 238,604 shares to employees in February 2020. The share price was NOK 77.95 per share after deduction of a 25% discount. See *notifications to the Oslo Stock Exchange on 10, 17 and 26 February 2020*.

Share options issued

In February 2020, 400,000 share options at a strike price of NOK 104.40 were granted under the long-term incentive programme. The options will expire after five years, the vesting period is three years and the options may be exercised during the last two years. See *notification to the Oslo Stock Exchange on 13 February 2020*.

Treasury shares

From 2 to 18 March 2019, Borregaard has purchased 300,000 shares under a programme aimed at repurchasing a total of 300,000 own shares. The total amount of treasury shares held by Borregaard as of 18 March 2020 is 408,097. See *notifications to the Oslo Stock Exchange from 28 February 2020 and onwards*.

Spanish lignin partner Sniace declares intention to apply for liquidation

The Board of the Sniace Group, Borregaard's partner and supplier of lignin raw material to the jointly owned company LignoTech Ibérica, informed the Madrid Stock Exchange Commission on 13 February 2020 of its intention to apply for liquidation of the company and its subsidiaries. According to the notice, this is a consequence of the fact that Sniace is unable to fulfil the agreement with its creditors from 2015, which ended the bankruptcy proceedings opened in 2013. Depending on the court decision on the request for liquidation an administrator will be appointed, who will then decide on the further steps. It is currently not known how this development will affect the operation of LignoTech Ibérica. See *notification to the Oslo Stock Exchange on 14 February 2020*.

Manufacturing activities at the Sniace dissolving pulp and viscose fiber mill in Torrelavega stopped on 25 February. As a consequence, the supply of lignin raw material from Sniace to the jointly owned company LignoTech Ibérica was discontinued. Production of lignin was therefore stopped. It is currently not known whether operations at the Sniace mill will be resumed under the administration of a liquidator. See *notification to the Oslo Stock Exchange on 26 February 2020*.

Coronavirus (COVID-19)

Borregaard is following the development related to the coronavirus closely. Contingency measures are put in place to reduce potential consequences for the company, the business partners and the employees, and additional measures are continuously considered.

As of the date of this report, the direct effects for Borregaard's business of the coronavirus are limited. However, indirect consequences may occur in case customers are affected and have to reduce their activity. Transport and supply chain services may be disturbed and infrastructure services may become limited. To the extent that the consequences of the corona situation leads to lower growth in the world economy, Borregaard, as a global supplier of products, will be affected. However, it is not possible to quantify such effects for the time being.

Currency

Since year-end 2019, NOK has weakened significantly against EUR and USD. As a consequence, unrealised losses from

currency derivatives have increased and lead to a reduction in the book value of the Group's equity. Borregaard's sales are primarily in USD and EUR, and a weakening of the Norwegian currency will over time be positive for the Group's competitive position.

There have been no events after the balance sheet date that have had a material impact on the financial statements or the assessments carried out.

ALLOCATION OF PROFIT

The Board has proposed a dividend for 2019 of NOK 2.30 (NOK 2.25) per share to the General Meeting. This corresponds to 55% of net earnings per share. Dividend payment is estimated at NOK 229 million. The exact amount will depend on the number of treasury shares held at the date of the General Meeting.

In 2019, Borregaard ASA had a profit of NOK 232 million (NOK 240 million). Borregaard ASA is well capitalised with an equity ratio of 65.7% after payout of the proposed dividend. The Board proposes the following allocation (NOK million):

Dividend	229
Retained earnings	3
TOTAL	232

OUTLOOK FOR 2020

In BioSolutions, continued strong competition and further price pressure for biopolymers to the concrete admixture market and certain low value Industrial applications are expected to be partly compensated by diversification and specialisation in 2020. Total sales volume of biopolymers in 2020 is forecast to increase by 0-5%. Cost savings of NOK 40 million from the upgrade in Norway will be gradually

realised through 2020 with full effect from 2021. The NOK 20 million cost savings from restructuring of the German biopolymer operation will have full effect in 2020. The current price level for biovanillin is expected to continue. The ongoing capacity expansion will be gradually realised in 2020 with full effect from the second half of 2021.

In BioMaterials, the average speciality cellulose price in sales currency is expected to increase 2% from the 2019 level, mainly from improved product mix. Borregaard's wood costs in the first half of 2020 will be NOK 25-30 million lower than in the first half of 2019. In the 1st quarter of 2020, total sales volume of speciality cellulose is expected to be higher than in the corresponding quarter of 2019, with similar product mix. Sales are gradually increasing for cellulose fibrils, but lead-times for conversion of sales prospects continue to be long. The remaining grant from EU Horizon 2020⁴ will end in April 2020, and will cover a smaller share of costs than in previous years.

No major changes are expected in the market conditions for Fine Chemicals.

The direct effects for Borregaard related to COVID-19 are limited as of today. Indirect consequences may occur in case suppliers, business partners and infrastructure are affected. To the extent that the consequences of the corona situation leads to lower growth in the world economy, Borregaard, as a global supplier of products, will also be affected. However, it is not possible to quantify such effects for the time being. In the meantime, Borregaard will focus on maintaining sufficient financial capacity to responsibly manage and mitigate any potential effects from COVID-19 and will closely monitor the situation in the coming weeks and months.

Sarpsborg, 18 March 2020

THE BOARD OF DIRECTORS OF BORREGAARD ASA



JAN ANDERS OKSUM

Chair



TERJE ANDERSEN



TOVE ANDERSEN



MARGRETHE HAUGE



HELGE AASEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLIE
President and CEO

⁴ This project has received funding from the Bio-Based Industries Joint Undertaking (BBI) under the European Union's Horizon 2020 research and innovation programme under grant agreement No 709746.



CORPORATE GOVERNANCE

Borregaard's principles for good corporate governance form the basis for long-term value creation, benefitting shareholders, employees and society. These principles promote a healthy corporate culture where sustainability, long-term perspective and integrity are fundamental values. Our sustainability agenda covers social, environmental and economic responsibility. The Board of Directors is responsible for corporate governance.

01 Implementation and reporting on corporate governance

Borregaard is subject to the requirements of Section 3–3b of the *Norwegian Accounting Act*, the *Norwegian Code of Practice for Corporate Governance* and the *Continuing Obligations of Stock Exchange Listed Companies*. Electronic versions of the Accounting Act, Code of Practice and Continuing Obligations are freely available at www.lovdata.no, www.nues.no and www.oslobors.no, respectively.

This report follows the system used in the Code of Practice from 17 October 2018. It covers all clauses of the Code of Practice and describes how Borregaard complies with them. If there is a deviation, the reason for the deviation is explained.

The Board of Directors approved this report at its meeting on 18 March 2020. The statement is cited on page 114. The General Meeting will consider the statement at its meeting on 15 June 2020.

The Board will ensure that the Company complies with the requirements of the Accounting Act and the Code of Practice. The principles of good corporate governance are integrated into the Board's decision-making process, and the Board will continually discuss and evaluate the principles and their implementation.

02 Business

According to the Articles of Association, Borregaard's purpose involves: *"... the development, production and sale of biochemicals, bio-based speciality products and other chemicals, as well as other business operations that are naturally related therewith."*

The Board of Directors has clear objectives, strategies and risk profiles for the company's business activities. Borregaard's

activities focus on BioSolutions with biopolymers and biovanillin from lignin, BioMaterials which is speciality cellulose and cellulose fibrils, and Fine Chemicals that consists of pharma intermediates and second-generation bioethanol. For a more detailed description, see the section The Borregaard Group on page 4. Borregaard's goal is to deliver good profitability with a targeted return on capital employed¹ (ROCE) of minimum 15% pre-tax over a business

¹ Alternative performance measures, see page 134 for definition.

cycle. For a more detailed account of corporate goals and strategies, see the section The Borregaard Group on page 4.

The Borregaard Group will contribute to the sustainable development of society through responsible commercial operations and continuous improvement. The Group has ethical guidelines and guidelines for corporate responsibility, available at www.borregaard.com.

The Sustainability and Corporate Responsibility Report can be found from page 26 in this Annual Report. From page 52, the Annual Report gives an account of Borregaard's systematic work in areas important for stakeholders such as employees, business partners and the community.

The Board evaluates the objectives, strategies and risk profiles yearly.

03 Equity and dividends

The Group's equity as of 31 December 2019 was NOK 3,464 million. The capital structure is appropriate for the company's objective, strategy and risk profile. The Board has made the following statement about the dividend policy:

"Under the current dividend policy adopted by the Board, Borregaard intends to pay regular and progressive dividends reflecting the expected long-term earnings and cash flows of the Borregaard Group, targeting an annual dividend between 30% and 50% of the Company's net profit for the preceding financial year".

For the financial year 2019, the Board proposes a dividend of NOK 2.30 per share, up from NOK 2.25 per share in 2019. Dividend will be paid on 24 June 2020 to shareholders registered in the Company's shareholders' register as evidenced in a transcript as of 17 June 2020. Acquired shares subject to ordinary settlement in the Norwegian Securities Register (VPS), will carry the right to receive dividends if acquired up to and including 15 June 2020.

The Board has no authority to issue new shares. The authority to purchase treasury shares is limited to defined purposes and applies until the next General Meeting. The General Meeting votes on each individual purpose to be covered by the authorisation. At the General Meeting in 2019, the Board was authorised to buy treasury shares up to a total nominal value of NOK 10 million, corresponding to 10% of the current share capital. The authorisation is valid until the General Meeting in 2020, but no longer than 30 June 2020.

The authorisation may only be used in connection with share-based incentive programmes, shares for employees and for repurchase of shares for cancellation. As of 31 December 2019, Borregaard held 366,775 treasury shares to be used in share-based incentive programmes.

There are no provisions in Borregaard's Articles of Association concerning the buy-back or issue of shares. Transactions in treasury shares have taken place on the market at stock exchange prices, according to the Oslo Stock Exchange safe harbour rules and according to good stock exchange practice in Norway.

04 Equality of treatment of shareholders and transactions with related parties

Borregaard has one class of shares, and each share entitles the holder to one vote. The nominal value is NOK 1.00.

A more detailed account of the terms and conditions relating to the entitlement to vote at the General Meeting is given below under item 6.

It is Borregaard's policy that shareholder value shall not be diluted by the issuance of new shares. If the Board proposes a deviation from the pre-emption rights of existing shareholders in the event of an increase in capital, it must be possible to justify this as being in the common interest of the Company and its shareholders. This justification must be stated in the notice of the General Meeting.

The Instructions for the Board of Borregaard ASA include rules for dealing with cases of transactions with close associates. The Instructions for the Board are publicly available under "Investor Relations" on the Company's website. According to the Instructions, the Chair of the Board must be informed about the transaction and decide on how to deal with the case.

Transactions with related parties are disclosed in Note 33 to the Group accounts. In the case of transactions between Borregaard and a shareholder, the shareholder's parent company, a member of the Board, executive personnel or close associate of any of these, the Board will ensure that a value assessment is carried out by an independent third party.

05 Shares and negotiability

All of Borregaard's shares confer equal rights and are freely negotiable. There are no provisions in the Articles of Association restricting the free negotiability of shares.

06 General Meetings

The Board of Borregaard has taken steps to ensure that as many shareholders as possible may exercise their rights by participating in the General Meeting. The notice of the General Meeting and administrative documents must be available on Borregaard's website no later than 21 days before the General Meeting. The final date for registration is no more than three days before the General Meeting. The Board, the President and CEO, the external auditor and the Chair of the Nomination Committee will be present at the General Meeting.

Shareholders may either appoint a proxy or submit a vote in advance using the Internet, using either DNB or the Norwegian Central Securities Depository (VPS) investor services. There are links to these services on the Borregaard website. It is stipulated in the Articles of Association that the notice of the General Meeting must indicate the rules established by the Board for advance voting.

The Articles of Association contain no special provisions with regard to the opening and chairing of the General Meeting. In line with the Code of Practice, the Board will arrange for the General Meeting to be opened by an independent person. In the notice of the General Meeting, the Board will indicate who will open the meeting and propose a Chair who satisfies the independence requirements of the Code of Practice, to be elected by the General Meeting.

If shares have been transferred, the new shareholder may vote if the transfer has been registered with VPS before the final date for registration with the General Meeting. If the transfer has been notified to VPS and evidence of this can be

provided at the General Meeting, the shareholder will also be allowed to vote. According to Norwegian law, voting is only permitted in relation to shares registered in the owner's name. In order to confer voting rights, shares registered to a nominee account must be reregistered under the name of the beneficiary owner in VPS before the final date for registration with the General Meeting.

Shareholders unable to attend the General Meeting may vote by proxy. If the proxy has been given to the Company, the Chair of the Board or the Chair of the General Meeting will be appointed to vote on the shareholder's behalf. The proxy form has been designed in such a way that the shareholder may provide instructions for each item to be dealt with, and for each candidate to be elected. Information on the use of proxy voting and shareholders' rights to have items dealt with at the General Meeting, is given both in the notice of the General Meeting and on Borregaard's website.

According to the Articles of Association, Clause 7, the Board may decide that documents relating to items to be dealt with at the General Meeting should not be sent to shareholders, but instead be made available on the Borregaard website. The same applies to documents, which by law must be included in, or attached to, the notice of a General Meeting. A shareholder may at any time demand to have documents sent relating to items to be dealt with at the General Meeting. The provision in the Articles of Association is consistent with Section 5-11a of the Norwegian Public Limited Liability Companies Act. If the Board decides to make the documents available on the website, they will be available no later than 21 days prior to the General Meeting.

07 Nomination Committee

The Articles of Association stipulates that the Company shall have a Nomination Committee. The General Meeting elects the members and the Chair of the Committee. There is an option to vote for each individual candidate. The Instructions for the Nomination Committee are available under "Investor Relations" at www.borregaard.com. The members and Chair

of the Nomination Committee were elected in 2019 on the basis of a proposal from the Nomination Committee, as recommended by the Code of Practice.

The Nomination Committee consists of four members, elected for one year, i.e. until the General Meeting in 2020.

The Nomination Committee will propose:

- Candidates for shareholder-elected Board members and the chair
- Candidates for members of the Nomination Committee and the chair
- Remuneration for the Board and the Nomination Committee

The Nomination Committee has adapted its procedures to comply with the recommendations in the Code of Practice. The Instructions establish guidelines for the preparation and conducting of elections to the Nomination Committee and Board, as well as the criteria for electability, general requirements for the recommendations and rules for dealing with cases in the course of the Nomination Committee's work. When the Committee is considering candidates for the Chair of the Board, it is supplemented by a representative appointed by the employee-elected Board members.

Information about the composition of the Nomination Committee, which members are up for election and how input and proposals can be given to the Nomination

Committee, can be found under "Investor Relations" on the Company's website. The Nomination Committee has been composed in accordance with the Code of Practice to safeguard the interests of the shareholder community. The composition meets the Code's requirements for independence. None of the members of the Nomination Committee are members of the Board, nor does the Nomination Committee include the President and CEO or any other executive personnel.

The members are:

- Mimi K. Berdal (chair)
- Erik Must
- Rune Selmar
- Ola Wessel-Aas

Borregaard's SVP Organisation and Public Affairs serves as the secretary of the Nomination Committee.

08 The Board of Directors: Composition and independence

The Board has been put together with the aim of safeguarding the interests of the shareholder community and the Company's need for competence, capacity and diversity. The Board consists of the Chair, six members and two observers. The employees have elected two of the members and the two observers. The composition of the Board meets statutory requirements and the Code of Practice. All shareholder-elected members are independent of the Company's management, main shareholders and important business associates. No one from day-to-day management is a member of the Board. There have been no cases in which a member of the Board has been disqualified on the grounds of a lack of impartiality.

According to the Norwegian Public Limited Liability Companies Act, the Board's term of office is two years. Borregaard's Articles of Association comply with this requirement. The General Meeting may set a shorter term of office.

It is the task of the Nomination Committee to recommend the term of office of the Board. The shareholder-elected members of the Board have been elected for a period of one

year, as an annual evaluation of the composition provides the greatest flexibility. The current Board has been elected for the period leading up to the 2020 General Meeting.

The Articles of Association does not require members of the Board to own shares in the Company. However, according to a resolution at the General Meeting in 2018 shareholder-elected Board members are required to use part of their remuneration to acquire shares in the Company. The Annual Report provides information about Board members' share ownership, background, qualifications, terms of office, independence and the length of time they have been members of the Board of Borregaard. There is also information about any major positions in other companies and organisations, and participation in Board meetings at Borregaard. It has been agreed with the employees that there will be no corporate assembly in either Borregaard ASA or its main subsidiary, Borregaard AS. Instead, employees have extended representation rights on the companies' Boards. In accordance with the Norwegian Public Limited Liability Companies Act, employees are entitled to elect two members and two observers to the Board.



09 The work of the Board of Directors

THE DUTIES OF THE BOARD OF DIRECTORS

The duties of the Board are stated in the Public Limited Liability Companies Act and in the Instructions for the Board of Directors, which among other things define the responsibilities and obligations of the Board. The rules governing the handling of cases by the Board are also stipulated in the Instructions for the Board. The Instructions for the Board also include regulations governing the President and CEO's disclosure requirements and the duty to carry out the resolutions of the Board. There are also guidelines on the preparation of matters to be considered by the Board and provisions whereby employees must be informed of the Board's resolutions. Other instructions, and clarification of the obligations, authorisations and responsibilities of day-to-day management, are adopted on an ongoing basis.

The Board adopts an annual plan of meetings and work that includes its strategic work, commercial issues and control work. The Board held eight meetings and dealt with 69 agenda items in 2019. The Board's annual evaluation process includes discussions regarding the work in more detail, see section "Internal Evaluation by the Board".

The President and CEO prepares items for the Board in consultation with the Chair of the Board. The Instructions for the Board contain provisions for the handling of matters before the Board, as well as rules concerning impartiality, joint and parallel investments, see item 4. The Board has established two permanent committees, the Compensation Committee and the Audit Committee, both of which are described in more detail below. These committees pass no resolutions, but they supervise administrative work on behalf of the Board and prepare items for decision by the Board.

The committees may draw on the resources of the Company and obtain advice and recommendations from sources outside the Company.

COMPENSATION COMMITTEE

The Compensation Committee makes recommendations to the Board regarding the President and CEO's salary and terms, and supervises the general conditions for other executive personnel within the Group. It is chaired by Jan Oksum. Margrethe Hauge and Ragnhild Anker Eide are members. Borregaard's SVP Organisation and Public Affairs serves as its secretary. The composition of the Committee complies with the Code of Practice requirements for independence, and all members of the Committee are considered to be independent of the executive personnel.

The mandate of the Committee has been incorporated in the Instructions for the Board. The Committee will additionally deal with any specific questions relating to compensation for employees of the Group.

AUDIT COMMITTEE

The Audit Committee supports the Board in fulfilling its responsibilities with respect to financial reporting, internal accounting controls and auditing matters. It is chaired by Terje Andersen. Tove Andersen, Helge Aasen and Åsmund Dybedahl are members, and the Vice President Finance serves as its secretary. The composition of the Committee complies with the requirements of the Code of Practice for independence and competence. The recommendations of the Nomination Committee provide information as to which members of the Board meet the independence and competence requirements for members of the Audit Committee. The mandate of the Committee has been incorporated in the Instructions for the Board.

INTERNAL EVALUATION BY THE BOARD

The Board has carried out the annual evaluation of its own activities and competence. The results have been made available to the Nomination Committee.

The Board reviews the Company's guidelines on ethics, anticorruption and corporate responsibility annually. The Group companies must perform regular reviews of the risk factors linked to Borregaard's corporate responsibility at a general level, and review the risk of breaches of the ethical requirements.

IMPARTIALITY AND CONFLICT OF INTEREST

The Instructions for the Board have regulations about impartiality. They establish that members of the Board may not take part in the handling of, or decisions in, cases in which the member of the Board or a close associate has a prominent personal or financial interest. Members of the Board shall also at all times consider whether there are any circumstances which, from an objective point of view, are likely to weaken confidence in the member's impartiality, or which may lead to conflicts of interest in connection with the Board's handling of the case. Such circumstances must be discussed with the Chair of the Board.

With regard to the Group's ethical guidelines, employees must, on their own initiative, inform their superiors of any case of impartiality or conflict of interest, and they must not take part in the processing of such cases.

10 Risk management and internal control

The Board of Directors is the ultimate responsible for Borregaard's internal control system. Each member of the Group Executive Management is responsible for internal control within their respective areas. Borregaard's main objective is to provide sustainable solutions based on renewable resources and unique competence. The risk management system is essential for achieving the overall objective.

RISK MANAGEMENT

Identifying and managing risks and opportunities are integrated multidisciplinary parts of the Group's business processes.

Risk management shall ensure that risks relevant to Borregaard's objectives are identified, analysed and dealt with at the earliest possible stage and in a cost-effective manner.

A sound risk culture in Borregaard's operating units is a prerequisite for a successful risk management process. An operating unit may be a plant, an organisational department, a subsidiary or a business unit.

Comprehensive risk assessments related to either operations or projects are carried out on an ongoing basis in all units and reported to the next management level. Top-down risk evaluations are mainly focused on climate change, environment, health and safety (EHS), and profitability.

The risk picture is presented and reviewed by the Board when needed, and at least annually, and quarterly by the Audit Committee.

An operating unit's risk picture identifies the principal risk factors associated with the unit's value chain. The individual unit managers in the Group are responsible for acquainting themselves with all significant risk factors within their area of responsibility, thus contributing to a financially and administratively sound handling of these risks. A central risk management function has been established at Group level headed by the Chief Risk Officer (CRO), who is responsible for Borregaard's risk management model and implementation support. Furthermore, the Group CRO shall facilitate the risk assessment process and contribute to the identification, analysis and handling of risks across business areas and disciplines.

The Board conducts a review of the Group's risk picture at least annually. The CRO consolidates the aggregate risk picture which the Group Executive Management reviews

before it is submitted to the Audit Committee and finally to the Board.

The stakeholders' perspective is taken into consideration when assessing and managing risks with potential environmental, social and economic impacts throughout the company's value chain.

Climate risk comply with the Task Force on Climate-related Financial Disclosures (TCFD). Risks (physical, regulatory, market, cost, and legal) associated with climate change are featured on page 41 of the Sustainability and corporate responsibility report as well as on Borregaard's webpage.

INTERNAL CONTROL

Borregaard has documented its internal procedures, including a description of authority, in the quality management system. The Group has a dual control principle for approvals, and the main accounting and purchasing system (SAP) enforces this requirement.

Personnel within finance and controlling functions perform internal control reviews in the Group's legal entities.

Monthly financial reports are sent to the Board. Each legal entity submits reports into the consolidation system in accordance with the annual financial calendar. There are monthly meetings among key finance personnel to review financial results, incidents, projects, estimates, etc. This input is used in the monthly reporting to the Board and the quarterly meetings with the Audit Committee.

The Group's quarterly reports are reviewed by the Audit Committee prior to the Board meeting. The external auditor is also present at the Audit Committee meetings and attends the Board meeting when the Board approves the annual financial statements.

Internal control of EHS issues are compliant with the Norwegian regulations relating to systematic health, environmental and safety activities in enterprises (Internal control regulation).

ETHICS AND CORPORATE RESPONSIBILITY

The Company and its subsidiaries work continuously with ethics, anti-corruption and corporate responsibility, which are integral parts of the basis for decisions.

Borregaard must comply with a number of guidelines and reporting procedures as part of its corporate responsibilities. The main documents have been approved by the company's

Board of Directors, which also sets the overarching goals for the areas covered by this report.

Guidelines :

- General Guidelines for Environment, Health, Safety and Climate
- Human Rights Policy
- Anti-Corruption Manual
- Corporate Responsibility
- Code of Conduct
- Corporate Governance Principles
- Responsible Sourcing Policy
- Competition Law Compliance Manual

The Group's executive management team bears overall responsibility for monitoring the company's goals, measures and results. Their daily implementation is a line management responsibility in Borregaard. This means that corporate responsibilities are an integral component of all of the operations of Borregaard's subsidiaries, as well as in various management teams, units and departments.

SUSTAINABILITY BOARD

The Sustainability board addresses and monitors important sustainability topics, and also initiates processes in which guidelines, goals and measures are developed within the areas covered by this report. The Sustainability Board reports

to the CEO and is chaired by the Senior Vice President of Organisation and Public Affairs.

The status of the work by the business areas involving corporate responsibility is included in the Sustainability and Corporate Responsibility Report.

COMPLIANCE BOARD

Borregaard has a Compliance Board consisting of the SVP Organisation and Public Affairs (Chair), General Counsel, Vice President Finance and CRO. The Compliance Board shall support the Group companies' management by raising awareness of compliance matters, reporting on its activity and findings and contribute to improvements. The Compliance Board reports to the President and CEO and the Board reviews the annual Compliance Report.

WHISTLEBLOWING

Borregaard has established a whistleblowing system and a separate channel, operated by Borregaard's General Counsel. Any unethical behaviour can be reported by e-mail or by phone in accordance with Borregaard's Code of Conduct, Section 4.2. Whistleblowers may request anonymity, which will be respected. Borregaard has written procedures that satisfy governmental requirements.

11 Remuneration of the Board of Directors

All remunerations of the Board have been disclosed in Note 5 to the financial statements of Borregaard ASA. The remuneration of the Board is not dependent on earnings, and no share options have been granted to members of the Board. The shareholder-elected board members shall use part of their remunerations to acquire shares in the Company.

In its recommendation, the Nomination Committee proposed the compensation to the Board for the period up to the General Meeting in 2020.

12 Remuneration of executive personnel

The Board's Compensation Committee makes recommendations to the Board regarding the President and CEO's compensation and terms, and supervises the general conditions for executive personnel. The Board assesses the President and CEO's remuneration annually.

The Board's statement on salaries and other remuneration of executive personnel (see Note 9 to the consolidated financial statement) contains an account of the

remunerations given to executive personnel and the Group's Remuneration Guidelines for 2019 including criteria related to share option schemes.

An annual cap has been placed on bonuses and long-term incentives. The Board's statement is available to shareholders at the same time as the notice of the General Meeting.

13 Information and communications

Borregaard's accounting procedures are transparent and in accordance with the International Financial Reporting Standards (IFRS). The Audit Committee monitors the Company's reporting on behalf of the Board.

Borregaard strives to communicate actively and openly with the financial market. The annual and quarterly reports contain information on the various aspects of the Company's activities. The quarterly presentations are published on Borregaard's website, along with the quarterly and annual reports, under "Investor Relations".

All shareholders and other financial market players are treated equally as regards access to financial information. The Group's Investor Relations Department maintains regular contact with shareholders, potential investors, analysts and other financial market stakeholders. Borregaard adheres to the Oslo Stock Exchange recommendation on reporting of relevant information to the investor community. The financial calendar for 2020 is published under "Investor Relations" at www.borregaard.com.

14 Take-overs

The Board's approach to takeovers is published on the Company's website under "Investor Relations". The Board will not seek to prevent or obstruct any takeover bid for Borregaard's operations or shares. In the event of such a bid, in addition to complying with relevant legislation and regulations, the Board will seek to comply with recommendations in the Code of Practice, including obtaining a valuation from an independent expert.

On this basis, the Board will recommend whether or not the shareholders should accept the bid. There are no other written guidelines in the event of a takeover bid. The Board has not found it appropriate to draw up any explicit principles other than the actions described above. The Board otherwise concurs with what is stated in the Code of Practice regarding this issue.

15 Auditor

The Board of Directors has determined the procedure for the external auditor's regular reporting to the Board. Annually, the external auditor presents to the Board an assessment of risk, internal control and an assessment of the quality of financial reporting. At the same time, the auditor presents the audit plan for the following year. The external auditor also takes part in the Board's discussions on the annual financial statements, including a session without the presence of management.

Both the external auditor and the President and CEO attend all meetings of the Board's Audit Committee. For further information, see Section 10 regarding risk management. Borregaard has guidelines for the management's use of the external auditor for services other than auditing. Responsibility for monitoring such use in detail has been delegated to the secretary of the Audit Committee, who

is the Vice President Finance. The secretary will approve significant assignments in advance and compile an annual summary of services other than auditing provided to the Company.

Details of the Company's use and remuneration of the external auditor are disclosed in Note 5 to the financial statements of Borregaard ASA. The General Meeting is informed about the Group's overall remuneration of the auditor.

In connection with the auditor's participation in the Audit Committee and the Board of Directors' consideration of the annual statements, the auditor also confirms his or her independence.







Sustainability and corporate responsibility

Responsible business	30
A: Sustainable business model	35
B: Climate, environment, health and safety	40
C: Employee and competence development	52
D: Suppliers and business partners	56
E: Contribution to society	60

2019



HIGHLIGHTS

CERTIFIED PART OF
PURCHASED WOOD

95%

OF 1,000,000 M³ WOOD



INNOVATION EFFORTS

220

MILL NOK



ENERGY

58%

RENEWABLE ENERGY



EMISSION REDUCTIONS

37%

REDUCTION IN CO₂
SINCE BASE YEAR 2009



CLIMATE RATING

A

CDP'S CLIMATE CHANGE A LIST



DIVERSITY

25%

FEMALE EMPLOYEES



RESPONSIBLE BUSINESS¹

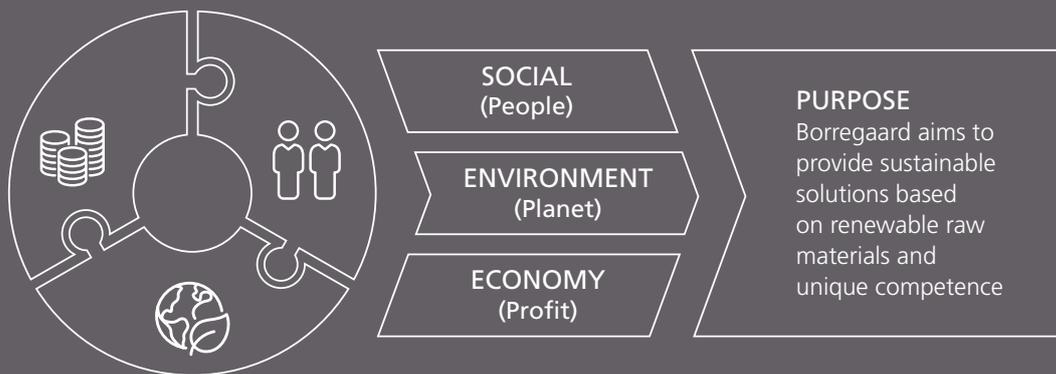
Borregaard's main objective is to develop sustainable solutions based on renewable raw materials and unique competence. Borregaard's entire business model centres around sustainability, and therefore this is always a natural component of the company's overarching goals. Borregaard's Board of Directors emphasises the importance of sustainability as an integral part of the company's operations and development.

BORREGAARD'S SUSTAINABILITY APPROACH

Sustainability is one of Borregaard's core values. Borregaard's approach to sustainability is based on the UN document "Our Common Future" (1987)²:

Operations and development that meet the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainability is composed of three pillars: environmental (planet), social (people) and economic (profits).



GLOBAL CHALLENGES AND SUSTAINABLE SOLUTIONS

Borregaard's innovative solutions can play an important role in addressing the world's greatest sustainable development challenges: population growth and climate change.

The UN predicts population growth of 9% by 2030³, which will generate an extraordinary demand for climate friendly solutions for infrastructure, housing, energy, jobs and food production.

One urgent challenge the world is currently facing is climate change⁴. The Paris Agreement and the UN Climate Panel have defined specific sustainability goals and measures within areas such as access to raw materials, energy, food and infrastructure. These initiatives are expected to increase demand for sustainable products and will present opportunities for Borregaard's innovative solutions in terms of creating good lives within a sustainable framework.

¹ Borregaard ASA has a statutory duty to comply with the reporting requirements for corporate social responsibility in Section 3-3c of the Norwegian Accounting Act. This requires Borregaard to account for "what the company is doing to integrate respect for human rights, labour rights and social issues, the environment and anticorruption in their business strategies, in their daily operations and in their relationship with stakeholders."

² (<https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>)

³ United Nations, Department of Economic and Social Affairs, Population Division (2019). *World Population Prospects 2019: Highlights (ST/ESA/SER.A/423)*.

⁴ IPCC, 2013: *Summary for Policymakers. In Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* [Stocker, T.F., D. Qin, G.-K. Plattner, M. Tignor, S.K. Allen, J. Boschung, A. Nauels, Y. Xia, V. Bex and P.M. Midgley (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA

Borregaard will take climate action and demonstrate how its business can help to advance sustainable development by both minimising negative and maximising positive environmental impacts. The Intergovernmental Panel on Climate Change (IPCC)⁵ provides a clear description of the world's challenges in its Special Report where it stresses the dramatic difference between an increase in the global average temperature to 2°C above preindustrial levels and pursuing efforts to limit the temperature increase to 1.5°C above preindustrial levels.

Borregaard has committed to major greenhouse gas reductions in the years to come. The Science Based Targets Initiative⁶ has approved Borregaard's target of reducing greenhouse gas emissions by 53% by 2030 and 100% by 2050, from a 2009 base year. The targets are in line with the ambitions in the Paris Agreement and well below the level required to limit the global temperature increase to 2°C. See page 40.

BORREGAARD'S CONTRIBUTION TO THE UN'S 2030 AGENDA

Borregaard has prioritised six of the seventeen Sustainable Development Goals (SDGs) set out in the UN 2030 Agenda for Sustainable Development. The priorities were selected based on the global challenges the world faces, as well as the solutions the company can contribute. The six prioritised SDGs are: (2) Zero hunger; (8) Decent work and economic growth; (9) Industry, innovation, and infrastructure; (12) Responsible consumption and production; (13) Climate

action; and (15) Life on land. Borregaard can have a positive impact in these areas through its unique biorefinery concept and its sustainable products.

The six prioritised SDGs are closely linked to Borregaard's core operations and are in line with the company's business strategy. These are reflected in the company's stakeholder and materiality analysis. The six SDGs are used as a framework for guiding, communicating and reporting on the company's strategy, goals and activities. Borregaard will continue its work on identifying future business opportunities associated with specific SDGs.

Specific targets and KPIs are presented in this report under the relevant topics. You will find a complete overview of Borregaard's contributions to all seventeen Sustainable Development Goals on pages 64 and 65.

DID YOU KNOW THAT...

by replacing oil-based compounds with Borregaard's biopolymers from wood in growth stimulants for food production the farmers can reduce the CO₂ emissions by **90%**

90%

DID YOU KNOW THAT...

Borregaard achieved a place on the CDP Climate Change "A list" both in 2018 and 2019? Only 2.1% of the reporting companies made the list last year.

⁵ IPCC, 2018: Summary for Policymakers. In: *Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [V. Mas son-Delmotte, P. Zhai, H. O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J. B. R. Matthews, Y. Chen, X. Zhou, M. I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, T. Waterfield (eds.)]. World Meteorological Organization, Geneva, Switzerland, 32 pp

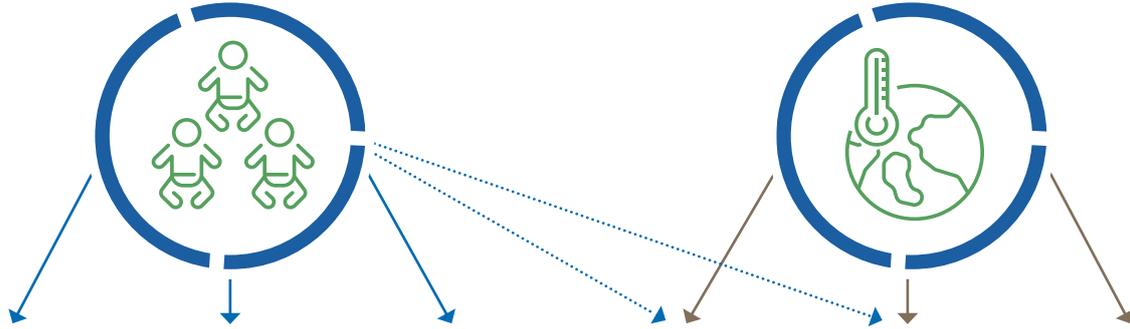
⁶ Partnership between CDP, UN Global Compact, WRI and WWF

BORREGAARD'S CONTRIBUTION TO THE SDGS

GLOBAL CHALLENGES

GROWING POPULATION

CLIMATE CHANGE



THE SIX PRIORITISED SUSTAINABLE DEVELOPMENT GOALS

<p>2 ZERO HUNGER</p>	<p>8 DECENT WORK AND ECONOMIC GROWTH</p>	<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<p>13 CLIMATE ACTION</p>	<p>15 LIFE ON LAND</p>
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SUSTAINABLE FOOD PRODUCTION	SUSTAINABLE BUSINESS	SUSTAINABLE INDUSTRY	SUSTAINABLE PRODUCTION	SUSTAINABLE BIOREFINERY	SUSTAINABLE RAW MATERIAL
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OUR CONTRIBUTION

<ul style="list-style-type: none"> • Efficient and sustainable feed products • Growth stimulants for food plants • Improved and sustainable crop solutions and protection • Raw materials do not compete with food production 	<ul style="list-style-type: none"> • Profitability as a prerequisite in addition to environmental and social dimensions in the sustainability scope • High value creation and local partners and suppliers create substantial ripple effects in society • Profitability allows investments, R&D and competence development 	<ul style="list-style-type: none"> • Market-driven innovation that involves the entire organisation • Uses a significant share of revenues on innovation • New and improved products with better performance • Delivers sustainable products and solutions to the construction industry 	<ul style="list-style-type: none"> • Full utilisation of raw materials • Continuously improved life-cycle impact • Sustainable sourcing programme • Continuous productivity improvements, including digitalisation • Improved chemical safety • Reduced emissions 	<ul style="list-style-type: none"> • The biorefinery concept with sustainable products is an essential part of the business model • Science-based target for reduced GHG footprint • Environmental/ climate impact part of investment project evaluation • Investments in renewable energy and reduced emissions 	<ul style="list-style-type: none"> • Bio-based raw materials from responsibly managed and certified sources • Chain of Custody certified in accordance with FSC® and PEFC forest certification standards
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SPECIFIC TARGETS⁷

Target: 2.4	Target: 8.2, 8.5	Target: 9.4, 9.5	Target: 12.2, 12.4	Target: 13.2	Target: 15.1, 15.2
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⁷ The UN SDGs consists of 17 goals with 169 targets covering a broad range of sustainable development issues. Borregaard has identified the targets the Group is specifically contributing to within the six prioritised goals. The results are shown on page 64 and 65. <https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals>

SUSTAINABLY MANAGED FORESTS – AN EVERLASTING RESOURCE

The world needs renewable solutions to reach a sustainable society. Black carbon needs to be replaced with “green” carbon. Resources such as fossil fuels (oil, coal and gas) need to be replaced by renewable resources such as wind, water, sun and plants.

Wood is one of the few renewable raw materials that can be produced in large quantities. Trees reduce emissions in more than one way. While trees are growing, they capture and store CO₂ from the atmosphere. As the trees grow old, they capture less CO₂ and are ready to be harvested to become biomass for sustainable products that can replace oil-based alternatives. In that way, the photosynthesis is the natural carbon capture and utilisation.

At Borregaard’s biorefinery in Norway the most important raw material is wood, more specifically Norway spruce harvested from certified woods. Norway

operates one of the world’s most sustainable forestries. For every tree that is harvested, new ones are planted. Today, Norway has three times as much forest as it did a hundred years ago. Every year the Norwegian forests, which have been meticulously monitored since the 1920s by the Land Resource Surveys, grow by 15 million cubic metres⁸.

If we use biomass to produce products we currently make from oil, we can save the planet from large greenhouse gas emissions. As long as forests are managed in a sustainable way, the world is sitting on a huge, everlasting resource.

STAKEHOLDER AND MATERIALITY ANALYSIS

Borregaard fulfils its corporate responsibilities by developing and running its operations profitably and in a manner that conforms with fundamental ethical values and respect for individual people, society as a whole and the environment.

This approach includes maintaining a dialogue with the Group’s most important stakeholders. They are considered when running the business and when decisions are made. Maintaining contact with the company’s various stakeholders is an important means of building trust in Borregaard, as well as understanding the role the company plays in local communities and society as a whole.

Borregaard has conducted a stakeholder and materiality analysis based on the Group’s sustainability strategy, including the six prioritised Sustainable Development Goals set out in the UN 2030 Agenda for Sustainable Development (see illustration on page 31). This analysis identifies the economic, social, climate and environmental consequences of the company’s operations that have the greatest impact on stakeholders’ assessments and decisions.

As a basis for this analysis, Borregaard surveyed the groups, organisations and individuals that are either impacted by the company’s operations or which, in a variety of ways, have an impact on the company’s strategy and goal achievement. Borregaard’s stakeholders include investors and lenders, current and potential employees, the authorities, current and potential customers, suppliers, local communities and

neighbours, partners, organisations and the media. The model below shows which groups of stakeholders are regarded as most important for Borregaard:



Borregaard has identified the company’s most important risks and opportunities based on the company’s core operations and the geographical locations of its units, customers and suppliers. The results are based on Borregaard’s values, guidelines, risk assessments and strategy, as well as how Borregaard as a company impacts its stakeholders financially, environmentally and socially.

⁸ <https://sciencenorway.no/emiroment-forest-forskningno/norwegian-woods-triple-since-ww2/1409508>

The areas also reflect the topics the company’s stakeholders are interested in.

Each unit in the Borregaard Group must assess issues that are relevant to the relationship between the company and society as a whole, facilitate good dialogue and ensure that complaints and other enquiries from external stakeholders are dealt with in a proper manner. The need to implement improvement projects in areas with specific challenges must be assessed on an ongoing basis.

The material topics defined as the most important are described in more detail through chapters A to E in this sustainability report and reflect the company’s five main areas:

- A. A sustainable business model
- B. Climate, environment, health and safety
- C. Employee and competence development
- D. Suppliers and business partners
- E. Contribution to society

Borregaard’s Sustainability Board (see page 23 in the annual report) addresses and monitors important topics, and initiates processes in which guidelines, goals and measures are developed within the areas covered by this report. The Sustainability Board reports to the CEO and is chaired by the Senior Vice President of Organisation and Public Affairs.

The illustration below is based on Borregaard’s stakeholder and materiality analysis, and specifies the degree of significance for Borregaard’s stakeholders, as well as what is significant and relevant for Borregaard.

More important



The coloured boxes refer to the main areas described in the Sustainability Report, and the corresponding SDGs (see page 32)

MAIN AREAS

Sustainability and corporate responsibility is a broad concept that covers many areas. Based on the stakeholder

and materiality analysis, Borregaard has defined the following main areas:



A SUSTAINABLE BUSINESS MODEL



Borregaard’s understanding of sustainability and corporate responsibility derives from the fact that the business model itself, how the Group is run, and the company’s products are sustainable and meet global needs. Borregaard’s wood-based products are alternatives to petroleum-based products. The wood is harvested from sustainable sources and the company is constantly working to reduce its carbon footprint and the total environmental impact of its production processes. Innovation plays an important role in improvements, both in terms of reducing process emissions and improving product performance.

DOCUMENTED SUSTAINABLE PRODUCTS

Borregaard has engaged an independent third party, Østfold Research, to conduct a life cycle assessment (LCA) based on the ISO 14044/48 standard. The LCA analyses the environmental impacts of Borregaard’s products, from raw

materials to finished products. The study was carried out for the first time in 2008 and has since been updated on several occasions, most recently in 2015. The LCA confirms that the environmental and climate impacts of Borregaard’s products and processes have diminished over time.

Assessments in which Borregaard’s products were compared with competing products have also been conducted. All of the comparisons covered a number of environmental impact categories. The analysis confirmed that Borregaard’s products provide better environmental performance than the alternatives in almost all environmental categories and indicate environmental benefits from replacing the alternatives with the company’s products.

In 2020, Borregaard will update the LCA calculations.

SUSTAINABILITY DIMENSIONS IN CUSTOMER SOLUTIONS

Borregaard's products solve different challenges for different customers. Most customers buy the company's products primarily for their performance. However, some markets are showing signs of a shift towards an increased emphasis on sustainable procurement.

Some of Borregaard's customers buy its products because of their low carbon footprint. Borregaard's wood-based bioethanol is a good example of this. Compared with diesel, this second-generation alternative has 92% lower emissions.

Other customers, especially those who operate in consumer markets, prefer using natural ingredients or ingredients made from natural raw materials in their products. The market for Borregaard's biovanillin is growing rapidly. This trend is expected to continue and is likely to be reinforced in parallel with the world's growing sustainability focus.

Health and safety aspects influence customers' purchasing behaviour. Borregaard's wood-based products represent a non-toxic substitute for chemicals with negative health exposure. Borregaard's biopolymers and cellulose fibrils are good examples of products replacing harmful chemicals in applications such as coatings, agriculture and adhesives.

Borregaard produces sustainable crop solutions, including crop protection. According to the United Nations Food and Agriculture Organization (FAO), wheat gives the world's population one-fifth of the calories and protein it needs. With a growing population and a rapidly changing climate, wheat is more important than ever. Scientists and farmers must succeed in increasing global wheat cultivation by 60 percent over the next 30 years. When used in grain production, Borregaard's lignin products improve efficiency, increase plants' resistance to stress and enhance crop quality.

These examples show that Borregaard's products are part of the solution to the global sustainability challenges and are some of the reasons why Borregaard has prioritised the UN Sustainable Development Goals 2: Zero hunger and 13: Climate action, in its sustainability strategy.

SUSTAINABILITY DILEMMAS

Although Borregaard's products consistently have good climate and environmental performance, some end applications still represent dilemmas. Examples of such applications are oil extraction, fossil energy systems and cigarette filters.

Borregaard's exposure to such applications is limited. However, Borregaard's products either represent an

improvement in an established value chain or can with further development efforts be used in the manufacturing of products to more sustainable applications. Consequently, these products may represent new sustainable long-term opportunities.

SUSTAINABLE INNOVATION AND R&D

Innovation and R&D are important for renewing operations and also necessary to strengthen the company's financial and environmental sustainability. Borregaard's R&D and innovation efforts in 2019 amounted to NOK 220 million. This represents 4.3% of the company's revenues.

Borregaard has an R&D team of 97 employees, including 33 PhDs. R&D primarily takes place at the Group's research centre in Norway, which at year-end 2019 employed 72 people from 10 different countries. R&D activities also take place at the sites in Spain, South Africa, India and the US. Targeted collaboration with customers, universities and research institutes in several countries contributes to more sustainable solutions.

In 2019, Borregaard recognised NOK 60 million (NOK 90 million) in support for ongoing R&D projects, mainly from the EU's Horizon 2020⁹ programme, the Research Council of Norway, Innovation Norway and Skattefunn¹⁰.

THE CIRCULAR ECONOMY AND CASCADING USE OF BIOMASS IN BORREGAARD

In a circular economy, the aim is to make the best possible use of society's resources for as long as possible. This can be done by reducing the use of raw materials, waste, emissions and energy consumption, as well as by reusing products. One of the basic principles is to view waste as a resource and design products in a way that ensures materials can be recovered more efficiently.

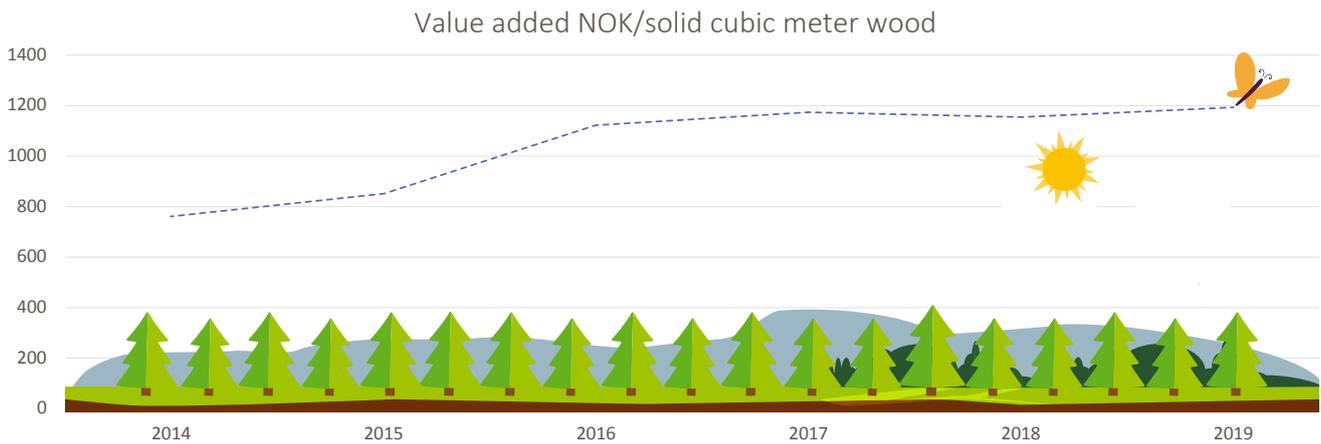
The efficient utilisation of side streams and cascading use are cornerstones of a circular economy. In this context, cascading means that the biocarbon is utilised in several stages instead of it being emitted. Biomass to high value added products should be prioritised.

In the final stage, the energy value of the products is utilised. This allows the raw materials and final products to be used for as long as possible by society before their life cycle ends.

Both circular economy and cascading use are natural components of Borregaard's operations. The company's most important raw material, Norway spruce, is sustainable and harvested from certified forests with short transport routes. Wood chips represent a side stream from sawmills but are an important raw material for Borregaard.

⁹ Support from the Bio-Based Industries Joint Undertaking (BBI) under the EU's Horizon 2020 research and innovation programme in grant agreement no. 709746

¹⁰ A government program designed to stimulate research and development (R&D) in Norwegian trade and industry



The figure shows the increase in value creation in NOK per solid cubic meter wood from Borregaard's biorefinery in Sarpsborg. Value creation is defined as the value of products sold from the biorefinery minus the cost of materials, services and depreciation.

Borregaard utilises about 85% of the raw material to make commercial products, the remainder is used for energy purposes. Wood consists of cellulose, lignin and sugar. The sugar and lignin, which are traditionally viewed as side streams from cellulose production, are used in the production of bioethanol, biopolymers and biovanillin. The residual streams are used as raw materials in the production of biogas, which is used as a source of energy in Borregaard's production processes.

Because of the high utilisation of wood at the biorefinery in Norway, there is a limited quantity of residual biomass and biogas for energy. Therefore, Borregaard also obtains heat energy from renewable electricity, energy from the incineration of sorted household waste (58% bioenergy), as well as energy from natural gas. Constantly increasing Borregaard's energy efficiency, as well as streamlining production, decreases the input factors per tonne of product produced and thus continually reduces the products' CO₂ footprint.

Some side streams from production are also sold to other industries, which in turn use them as raw materials in their production. Knot pulp, which is removed from the cellulose and sold to manufacturers of packaging materials and bark for bioenergy use are examples of utilisation of such side streams.

The residual energy from Borregaard's production processes is the main source of energy for the district heating plant in Sarpsborg, replacing previous oil heating. In this way, Borregaard, both internally and together with external suppliers and customers, is part of an intricate and well-established cascading system for bio-based products, intermediate products and side streams. In other words, Borregaard's biorefinery is built on the principles of both cascading and circular use.

CLEANTECH

Cleantech is an industry term used to describe products and services that improve operational performance, productivity or efficiency, while minimising costs, raw materials, energy consumption, waste or pollution. Borregaard is a good example of cleantech. The Group's bio-based products do well from a climate perspective when compared with petrochemical products. Borregaard has also made efforts to reduce greenhouse gas emissions in its production processes, including elimination of heavy fuel oil and increasing the amount of energy supplied from more eco-friendly energy sources.

Borregaard has developed the patented BALL concept, which could potentially provide additional sustainable raw materials in the long term. The concept is based on extracting lignin from various forms of biomass, including agricultural waste. The technology is not yet in commercial operation but represents a sustainable source of raw material for the future.

CONTINUOUS IMPROVEMENT AND DIGITALISATION

To maintain sustainability, continuous improvement is important and an integral part of Borregaard's strategy. Improvement efforts lead to better ways of making products through new use of technology, competence development and a more efficient organisation.

Digitalisation is one important approach to continuous improvement. Borregaard has increased the use of new technology and digital solutions to monitor, control and analyse its production systems. In addition, new digital solutions are being developed and implemented in marketing, finance and general administration. Several digitalisation projects are ongoing, and Borregaard exchanges knowledge and solutions across production units. Training and organisational development are important parts of these improvement projects.

SUSTAINABLE RAW MATERIALS

Borregaard attaches great importance to sourcing wood from forests that are certified and managed in a proper, sustainable and eco-friendly manner. The company complies with the applicable guidelines, laws and regulations in the countries where the wood is sourced.

One million solid cubic metres of wood is purchased each year for Borregaard's biorefinery in Sarpsborg. In 2019, 74% of the wood came from Norway, 21% came from Sweden and the remaining 5% came from Germany. All the wood is harvested in accordance with the country of origin's laws on felling, silviculture and biodiversity. 95% of the wood

purchased in 2019 was certified. The rest of the purchased wood was controlled in accordance with PEFC/FSC^{®11}. Borregaard's production units outside Norway receive lignin raw material from adjacent pulp mills which purchase wood from FSC certified sources. Borregaard is Chain of Custody (CoC) certified in accordance with the FSC[®] and PEFC forest certification standards.

Borregaard does not purchase wood that is:

- Harvested illegally
- Felled in protected areas or areas that are subject to review, unless the harvesting clearly complies with national conservation regulations

USE OF FORESTS AS A CLIMATE ACTION

Forests play an important role in the battle against climate change. The use of land as a climate action can be an important contribution to emission reduction.

The 2019 UN Special Report on Climate Change and Land¹² shows that land use plays an important role in the climate system. The use of land contributes to emissions, but also uptake of CO₂. Land provides the principal basis for human livelihoods and well-being, including the supply of food, freshwater and multiple other ecosystem services, as well as biodiversity.

Land is both a source and a sink of greenhouse gases and plays a key role in the exchange of energy, water and aerosols between the land surface and atmosphere. Land ecosystems and biodiversity are vulnerable to ongoing climate change. Sustainable land management can contribute to reducing the negative impacts of multiple stressors, including climate change, on ecosystems and societies. In the area of forestry, deforestation is a threat to both climate and biodiversity. Changes in forest cover, for example from planting and replanting trees and permanently removing forests, directly affect regional surface temperature.

Some land-related actions are already being taken that contribute to climate change adaptation, mitigation and sustainable development. Planting forests in new areas, reduced deforestation and increased use

of bioenergy are central among these. Depending on population growth and technology development, the report shows that forests cover must change by between -2 and 12 million km.

However, if bioenergy crops and forests are cultivated in new areas to a large extent, this can put pressure on the land, leading to reduced food security and water shortages. On the other hand, climate measures can be implemented in ways that do not compete with the land area, such as reduced crop losses and food waste, greater efficiency in food production, dieting, forestry and increasing the carbon content in soil.

The black carbon from oil, coal and gas for energy production must be replaced by sustainable alternatives such as water, wind and forests. Transitioning from a fossil-based society to a renewable society also means that the world will need all the wood that can be harvested within a sustainable framework from the world's forests. Deforestation must be substantially reduced, and forests must be planted in new areas. The CO₂ uptake in existing forest areas needs to increase through means such as better planting and more sustainable forestry. Sustainable use of the forest is a trump card in the fight against climate change.

¹¹ <https://www.fsc-uk.org/en-uk/business-area/fsc-certificate-types/controlled-wood>

¹² IPCC, 2019: Summary for Policymakers. In: *Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems* [P.R. Shukla, J. Skea, E. Calvo Buendia, V. Masson-Delmotte, H.-O. Pörtner, D. C. Roberts, P. Zhai, R. Slade, S. Connors, R. van Diemen, M. Ferrat, E. Haughey, S. Luz, S. Neogi, M. Pathak, J. Petzold, J. Portugal Pereira, P. Vyas, E. Huntley, K. Kissick, M. Belkacemi, J. Malley, (eds.)]. In press

- Harvested in forests with a high conservation value defined by the Living Forest standard in Norway or by the High Conservation Value Resource Network (HCVRN)
- Genetically modified (GMT/GMOs)

KEY INITIATIVES AND RESULTS IN 2019

Throughout 2019, Borregaard has implemented several measures that strengthen and develop the Group's business model from a sustainability perspective. Borregaard achieved this by continuously improving every link of its value chain, from raw material to production, in addition to developing products and markets.

On the production side, most emissions were reduced at the Sarpsborg site, in addition new logistics solutions improved the environmental footprint.

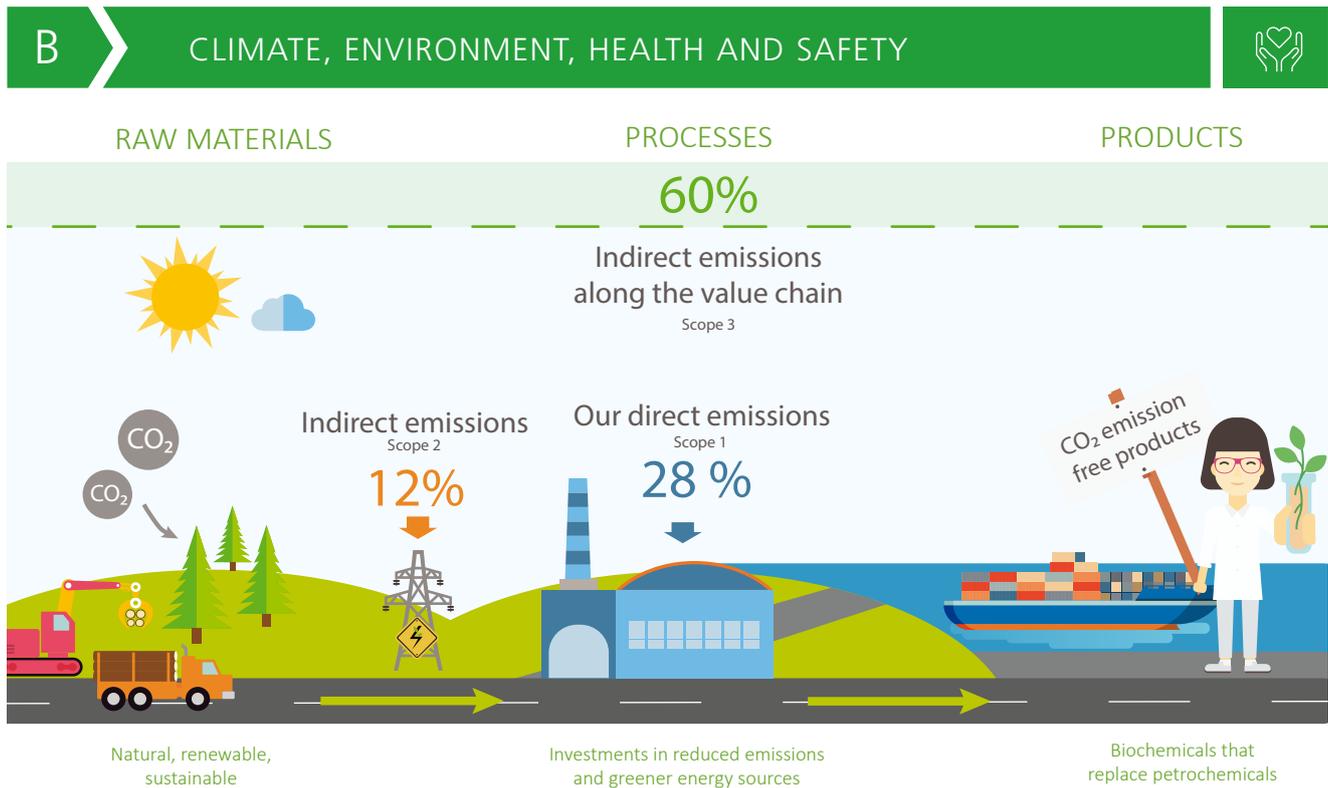
The development of new bio-based products continued and the innovation rate for 2019 was 13%. Borregaard also approved an expansion investment and initiated the building of new production capacity for biovanillin of at least 250 tonnes.

Borregaard emphasises documentation and verification of the sustainability profile of both production processes and the products themselves. In 2019, Borregaard's second-generation bioethanol achieved ISCC EU sustainability certification and Borregaard's bio-based road binder Dustex earned the US Department of Agriculture Certified Biobased Product label, with its 100% bio-based content.

KEY TARGETS 2019	RESULTS	COMMENTS
Continued development of new bio-based products	Achieved	R&D efforts to develop biopolymers for new and existing applications and new cellulose-based products
Increased sales and production of bio-based products	Achieved	Increased sales of bio-based products, substantially higher production of bioethanol, slightly lower production of cellulose and biopolymers, decision to expand biovanillin capacity by 250 tonnes
An innovation rate of 15%	13%	Increased innovation rate in BioSolutions, lower in BioMaterials
Further improvement of sustainability from an LCA perspective	Achieved	Lower emissions to water and air for most components at the Sarpsborg site, particularly COD, AOX and NOx

KEY TARGETS 2020

- Continued development of new bio-based products
- Increased sales and production of bio-based products
- An innovation rate of 15%
- Further improvement of sustainability from an LCA perspective



The figure shows Borregaard's carbon footprints. Scope 1 is the direct CO₂ emissions from Borregaard's operations, Scope 2 is the CO₂ emissions from purchased energy consumed in the Group's operations and Scope 3 is the CO₂ emissions from other sources along Borregaard's value chain.

Environment, health, safety (EHS) and climate are integral parts of both Borregaard's business model and its sustainability strategy. The Group is actively working on measures that can contribute to sound environmental and resource management. Borregaard's ambitions and guidelines within climate and EHS are set out in a separate policy document (see the overview on page 23). The General Guidelines for Environment, Health, Safety and Climate were updated in 2017 to emphasise Borregaard's ambitions in this area. Borregaard's overall EHS and climate goals are that the company and its activities will contribute to sustainable solutions, with no harm to people or to the environment.

Borregaard has dedicated support functions for EHS and risk management. The stakeholder analysis provides important data for the risk assessment process and is therefore revised frequently. Risk management covers every aspect of Borregaard's activities and self-assessments are conducted in relation to EHS. The risk management process systematically identifies injury, fire, explosions and unwanted hazardous substances emission risks. The Board of Directors reviews the Group's risk picture at least once a year.

Borregaard monitors EHS and climate parameters and reports on these in monthly KPI reports, as well as in expanded interim reports. EHS and climate results are reported monthly to the company's Board of Directors.

This is also a separate item on the agenda of each board meeting.

The Sustainability Board discusses ambitions and measures regarding EHS and climate to ensure common practices throughout the Borregaard Group.

CLIMATE CHANGE – GREENHOUSE GAS EMISSIONS

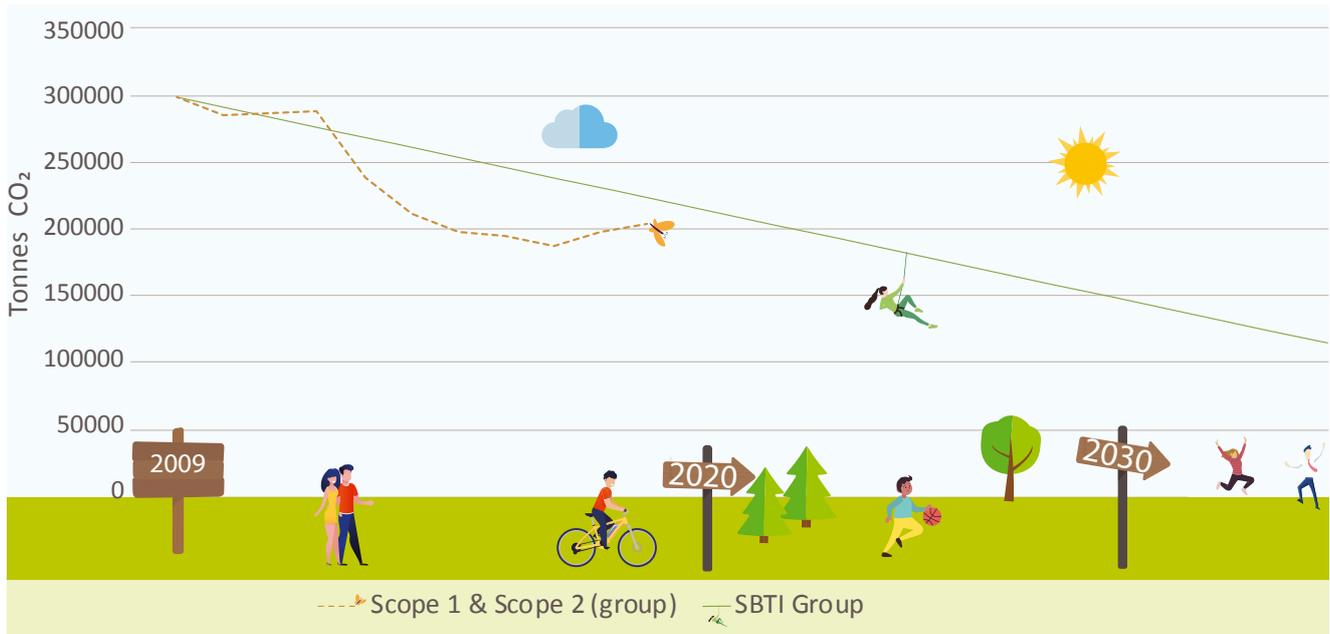
According to the IPCC¹³ Special Report on the impact of global warming of 1.5°C above pre-industrial levels it is possible to limit the temperature increase to 1.5°C if we act now. Borregaard contributes and The Science Based Targets Initiative has approved Borregaard's targets for reducing greenhouse gas emissions. Borregaard aims to reduce its scope 1 and scope 2 emissions by 53% by 2030 and 100% by 2050, from a 2009 base year.

Borregaard also commits to reduce indirect greenhouse gas emissions by 30 percent by 2030 and 75 percent by 2050 from a 2017 base year. Indirect emissions are emissions that do not occur directly in connection with Borregaard's production processes, such as emissions associated with transport of goods and production of raw materials.

The Borregaard Group has reduced its direct CO₂ emissions by 37% since 2009. Reduction in energy consumption with new technologies, availability of more renewable

¹³ IPCC, 2018: Summary for Policymakers. In: Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [V. Mas son-Delmotte, P. Zhai, H. O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J. B. R. Matthews, Y. Chen, X. Zhou, M. I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, T. Waterfield (eds.)]. World Meteorological Organization, Geneva, Switzerland, 32 pp

Science based target Borregaard Group



The figure shows the Group's reductions in Scope 1 and Scope 2 emissions from the base year 2009 and the Science based target (SBT) for 2030. The SBT for 2050 is 100% reduction.

sources like electricity from hydropower and wind, and biogas obtained from Borregaard's own or local producers are important measures to achieve the company's ambitious science-based GHG emission reduction targets.

Development in technologies for Carbon Capture and Storage (CCS) or sustainable Carbon Capture and Use (CCU) may be a prerequisite to achieve the target in 2050. Borregaard in Norway has signed an agreement with a cluster of companies in the region to make a feasibility study of technologies and value chains for CCS.

Cuts in scope 3 emissions will particularly apply to transport solutions and the procurement of goods and services. The biorefinery's products are made from wood (a renewable raw material) and therefore generate no extra CO₂ emissions, either in their usage phase or the end of life treatment phase.

Borregaard receives support for energy measures from various government support schemes to meet the needs of a low-emission society.

Borregaard has disclosed information to the non-profit CDP investor initiative since 2015. The initiative has evolved into an internationally leading system for climate and environmental reporting and is backed by more than 525 institutional investors and 125 major purchasers. The goal of CDP is to enable companies to measure and manage environmental impact. Borregaard has been highlighted as a global leader in corporate climate action by environmental impact, achieving a place on the CDP Climate Change "A List" for its reporting in 2018 and 2019, as one of a small number of high-performing companies out of thousands that were rated. Greenhouse gas emissions are reported in accordance

with the Greenhouse Gas Protocol (GHG Protocol), which is a standard for calculating and reporting greenhouse gas emissions associated with operations, both direct and indirect, from the production of products, as well as from all activities in the value chain. The measurement of GHG emissions is performed according to international standards. Borregaard's full year GHG emission data are approved by a third party by July the following year.

Climate risks and opportunities

Climate risk assessment complies with the Task Force on Climate-related Financial Disclosures (TCFD).

The opportunities lie in the products, which are climate-friendly alternatives to products from fossil raw materials. Borregaard's most important contribution will,

DID YOU KNOW THAT...

Borregaard, through The Science Based Targets Initiative, has committed to reducing greenhouse gas emissions by **100%** from 2050? (base year 2009)

100%

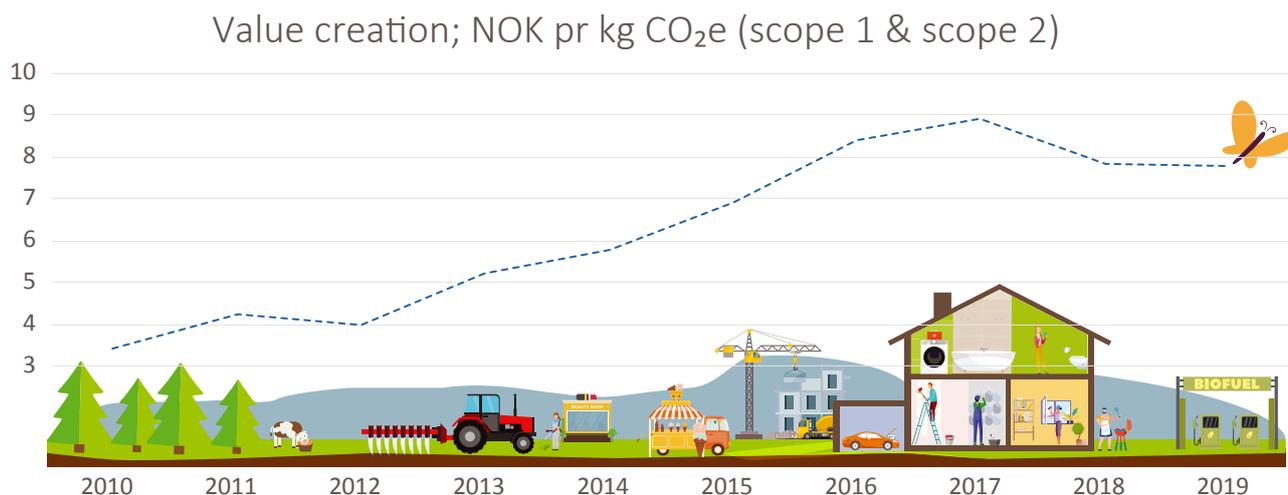
therefore, be the further development of its business model in order to meet future demand for advanced, renewable and climate-friendly biochemicals and biomaterials. Greenhouse gas emissions in production processes and throughout the value chain must be cut, in line with the science-based targets, to further strengthen the business model.

The potential physical impacts of climate change, such as extreme precipitation and drought, pose a relatively low operational risk for Borregaard. However, milder winters could raise the cost of harvesting and transporting wood in the Nordic region.

Increased competition for wood in connection with the transition to a more bio-based society is an important transitional risk factor. There is a limited amount of wood available for new businesses, and it is important that utilisation is within sustainable business opportunities. Borregaard is therefore working together with other partners in the bio-based industry in Norway to make a fact-based documentation of the opportunities in the bioeconomy.

To reduce the operational risk, Borregaard sources wood from several different areas and the Group has well-established solutions for transporting wood by road, rail and sea, in addition to flexible storage of wood.

Another important transitional risk factor is the increase in costs associated with greenhouse gas emissions. The direct emissions from Borregaard in Norway are covered by the EU-ETS system of climate allowances. Borregaard has managed this risk by establishing a long-term climate and energy strategy in which heavy oil has been replaced by use of more climate friendly and renewable energy sources, while energy consumption in production has decreased. In the period 2020-2030, the EU-ETS will provide fewer free allowances and it is likely that energy costs will increase. Borregaard's favourable position with respect to the use of renewable energy, as well as the Group's planned measures for cutting CO₂ in the long term, have substantially reduced the risk associated with an increase in CO₂ costs (see page 72).



The Figure shows an increase in value creation per tonnes of direct (Scope 1) and indirect (Scope 2) CO₂ emissions from the operations in the Borregaard Group. Value creation is defined as the value of products sold (revenues) minus the cost of materials, services and depreciation.

Energy consumption and greenhouse gas emissions

Borregaard's direct emissions of the greenhouse gas CO₂ mainly stem from fossil fuels used in the production of heat energy. 89% of Borregaard's direct CO₂ emissions in 2019 originated from the operations in Norway, 4% from the German operations and the remaining 7% from the company's operations in the US, Spain, the Czech Republic and the UK. Borregaard's operations in Norway and Germany hold ISO 50001 certification for energy management. 92% of the Group's total energy consumption is thus covered by certified management systems.

Borregaard's operations in Norway currently meet the company's base need for heat energy (base load) in the form of steam through energy recovery from waste, bioenergy

and heat recovery from production. Borregaard stopped using heavy fuel oil for steam production in 2013 when a new multifuel boiler that mainly uses liquefied natural gas (LNG) was installed. Peak load production is now based on a combination of LNG and electricity. The CO₂ emissions associated with the production of heat energy will, therefore, vary from year to year, depending on the energy source for peak load and production volume. Borregaard's operations in Germany and Florida use LNG in steam production and focus on energy optimisation.

Indirect emissions that occur in the value chain (scope 3)

Borregaard aims to reduce the environmental impact from the value chain. The transport sector is a major contributor of CO₂ emissions into the atmosphere, and the biggest source

of air pollution in large cities. This is also an area where low emission, carbon neutral and emission free solutions are rapidly picking up pace. Being a user and buyer of transport services, Borregaard wants to contribute to climate friendly transport.

The Group has set up an interdisciplinary long-term task force, "Borregaard Emission Free Transport 2020-2050", aiming to implement alternatives for more environmentally friendly transport solutions in the short and long term. A broader and more focused approach to sustainable transport will lead to changes already in 2020. The task force reports to Borregaard's Sustainability Board.

Borregaard has committed to assuming its share of the effort needed for a green shift in heavy goods transport by signing the environmental organisation ZERO's declaration: "A green shift for renewable heavy goods transport". The Norwegian company's contracts with road transport service providers require eco-friendly transport that uses engines that, as a minimum, satisfy the Euro 5 emission standard. In 2019, 100% of Borregaard's transport in Sarpsborg satisfied the Euro 5 standard or higher.

Marine transport and combined transport solutions are integral parts of Borregaard's eco-friendly logistics solutions. Around 540,000 tonnes of Borregaard's transport is already by sea, and efforts to increase the use of the most environmentally friendly alternatives will continue. In 2019, Borregaard's operations in Norway transported 50% of its products by sea, 35% by road and 15% by rail. Rail transport has generally played a steadily decreasing part in the design of the European transport network in recent decades. However, rail is important for Borregaard's transport of wood for its operations in Norway. In 2019, 190,000 tonnes (22%) of wood were transported by rail. The goal is to transport 23% by rail in 2020, which is equivalent to cutting greenhouse gas emissions by 1,700 tonnes.

Borregaard has increased its fleet of electric vehicles (EV) for local transport and has installed a number of EV charging stations at the company's site in Norway to reduce CO₂ emissions associated with employees' vehicle use.

During 2019, Borregaard qualified for the regional programme "Home-Work-Home", an initiative run by the local county aiming to reduce the use of cars between home and work. So far about 70 Borregaard employees bought or leased e-bikes on payroll deduction, and almost 100 have bought subsidised tickets for public transport. The programme will continue with new initiatives during 2020.

Key initiatives and results in 2019

Borregaard's science-based targets for long-term GHG emission reductions were approved in 2019, and the Group started the work on a long-term action plan in order to

achieve the targets for 2030 and 2050.

A new spray dryer for lignin was completed at Borregaard's plant in Norway in 2019. At the same time, a more renewable energy mix was implemented for all of Borregaard's spray dryers. Due to an increase in production, direct emissions from drying rose. However, emissions associated with transport of lignin for drying elsewhere in the world will be cut, hence the effect will result in a total reduction in GHG emissions.

2019 was the first year of full operation of Borregaard's bio-boiler for producing steam with a new energy mix. This resulted in a reduction of 8,500 tonnes of CO₂. The various projects conducted in 2019 led to a reduction in the carbon intensity of the energy mix from 115 tonnes CO₂/GWh to 113 tonnes CO₂/GWh.

More LNG than electricity was used for peak-load energy at the plant in Sarpsborg compared with previous years; the total reduction in direct emissions was 1,100 tonnes, which means that the company achieved a reduction in its CO₂ emissions within the EU-ETS trading system.

The new lignin plant in Florida commenced in 2018 and increased its production in 2019. This resulted in an increase in direct emissions of 3,700 tonnes of CO₂.

In 2019, greenhouse gas emissions (scope 1 and scope 2) increased by 2.7%. The main reason was the increased production from the new site in Florida.

During the period 2015-2018, several energy efficiency projects were conducted at Borregaard's plant in Norway. The projects were successfully implemented, and specific energy consumption was reduced gradually in line with the targets. In 2019, reduced production volume due to incidents with the water supply pipes and reduced heat recovery due to problems in the condensate recovery system resulted in an increase in the specific energy consumption from 21.6 (2018) to 21.9 GJ/tonnes of cellulose. In 2020, Borregaard will gain the full effect of the implemented energy efficiency projects, and the target is set to 21.0 GJ/tonnes.

Overall, total energy consumption in Borregaard increased by 4%, from 1,665 GWh in 2018 to 1,732 GWh in 2019. This was due to the reduced effect of the energy efficiency projects at the plant in Norway as well as the increased production at the site in Florida.

Borregaard supplies surplus heat from low-temperature water to the district heating system in the municipality of Sarpsborg. In 2019, Borregaard supplied 11.1 GWh (10.3 GWh).

Energy and climate results are shown in the table on page 51 (GRI 302-1, 302-3, and 305-1 to 305-5).

Initiatives for 2020

Borregaard Sarpsborg is planning to carry out further rebuilding of the bioboiler with new technology for vapour recompression, to increase the utilisation of available renewable fuels from the biorefinery. This project will potentially result in the capture of 33 GWh of bioenergy, which is equivalent to a reduction in CO₂ emissions of 1,320 tonnes. The investment cost is NOK 131 million, with support from Enova¹⁴ of NOK 46.2 million.

To utilise more surplus heat from low-temperature water and integration with the district heating system, Borregaard will invest 40 million NOK in a heat recovery and integration system, with support from Enova of NOK 11.5 million. In addition, the surplus heat from the compressor station for the production of high-pressure instrument air will be utilised in another investment of NOK 18.6 million, supported by Enova with NOK 5.2 million.

Indirect emissions from purchasing goods and services are one of the scope 3 categories with the highest contribution. In 2020 Borregaard will ask selected suppliers for updated data on indirect emissions that occur in Borregaard's value chain.

In the project "Borregaard Emission Free Transport 2020-2050", the target for 2020 is to gain an overview of all emissions for the Group related to transport, prepare a list of possible actions to be taken in the short and long term, and act on the short-term actions. A broader and more focused approach to sustainable transport will lead to changes already in 2020.

DID YOU
KNOW THAT...

Borregaard's COD emissions
were reduced by **10%** from 2018
to 2019?

10%

ENVIRONMENT FOCUS – EMISSION REDUCTION

Environmental issues are material to Borregaard and its stakeholders, not only because of the environmental benefits of the products themselves, but also in view of the importance of managing the risk of emissions of substances to the environment.

Borregaard prioritises innovations and activities that can improve its products' environmental impact, such as reduced emissions and waste, and improved water and energy efficiency. These processes are supported by certified environmental management systems. The highest-risk production units are certified by ISO 14001 Environmental Management (see the overview of certifications on page 61). Emissions from the various production units are regulated by national and/or local authorities.

The highest environmental risk is associated with the main production facility in Norway. Emissions of organic compounds to water (chemical oxygen demand (COD) or biological oxygen demand (BOD)) affect the aquatic environment in the river Glomma. The organic material stems mainly from the washing and processing of biomass into advanced products.

Due to the use of sulphur dioxide (SO₂) in the biorefinery production process, there is a risk of negative impact on local air quality.

To improve the environmental performance of its products and to mitigate risks from emissions, Borregaard has established action plans to cut emissions in several areas, and substantial reductions in emissions have been achieved over time. COD has been cut by 44% and SO₂ has been cut by almost 90% in the past nine years.

Water management and substances in the effluent from operations

Borregaard has a sustainable water management system. Most of the water consumption and effluents are linked to Borregaard's biorefinery in Norway. The site is self-sufficient and has access to water from the river Glomma via its own water treatment facility. Water is important in the biorefinery, and is used for cooling, steam production and hot water production, as well as washing and transporting biomass in the production processes. However, almost all of the water used is returned to the river Glomma. Possibilities of reducing water consumption are assessed in connection with investment projects. This is also motivated by the potential gains associated with energy savings and more efficient water treatment. A large proportion of the process water is treated to keep levels of substances in the effluent, such as halogenated organic compounds (AOX) and COD,

¹⁴ Norwegian government agency that promotes eco-friendly changes in relation to energy use, renewable energy production and new energy and climate technology

below the discharge permits. The wastewater treatment facility reduces BOD by 98%.

The water volumes used at Borregaard's facilities for production of biopolymers from lignin outside Norway are relatively low, about 1% of the company's total water consumption. The water is sourced from public waterworks or adjacent industrial areas. Borregaard's lignin plant in Florida uses process water from a ground water source, the Floridan aquifer system, which is one of the world's most productive aquifers. Emissions to water are negligible in operations outside Norway.

The EU's BREF standards are a description of the relevant processes and their respective operating conditions and emission rates. Based on the latest review of these standards, Borregaard's operations in Norway received a new discharge permit from 01.07.2019. The permit has stricter limits for several substances in the effluent, not only for the total discharge flow, but including sub-streams, in shorter average periods. This means that the number of single limits in the permit has increased. The new permit for COD in the effluent is reduced from 69 tonnes to 59 tonnes per 24-hour period (on average over the year) in order to comply with BAT levels for emissions to water.

Borregaard and the Norwegian Institute for Water Research (NIVA) monitor the river Glomma in accordance with the requirements and standards in the EU Water Framework Directive (WFD). This monitoring shows that emissions of easily degradable organic matter (BOD) from Borregaard have caused a proliferation of bacteria covering riverbed sediments close to the plant. This causes poor oxygen conditions, which has implications for the growth of the river Glomma's wild salmon stock. As a result, its ecological status is classified as poor. NIVA's measurements of chemical status in accordance with the WFD standards show a good status. New analyses show that the conditions in the river Glomma downstream from Borregaard have improved, which shows that the reduction in emissions of several substances has had an effect.

Due to low natural reproduction of salmon in the river, Borregaard financed a salmon cultivation facility in 2012 and has covered a major part of the operating costs. Surveys conducted by NIVA show that the natural reproduction in the river has increased. Since the salmon stock is threatened by predators, such as seal and cormorant, continued operation is necessary to achieve a sustainable stock.

The long-term goal of the WFD regulation is to achieve a good ecological status in the river Glomma in 2027. Borregaard has identified both short-term and long-term goals for cuts in COD emissions. The first goal is to comply

with the new water permit which applies from 2019. The next step involves R&D activities in the field of sustainable water treatment solutions as well as technological improvements that will have a positive effect on emissions of organic matter to water.

The risk of emissions to water from old landfills and areas with polluted soil from former operations are an important part of the emission control programme. A five-year programme to seal the Opsund landfill, a former waste disposal site on Borregaard's premises in Norway, will be finished by September 2020.

From 1949 to 1997, Borregaard used mercury-based technology for chlor-alkali production at the site in Norway. This process led to pollution of the soil in the area surrounding the plant. In 2015, mercury leakage from the area was detected. A programme to build stronger barriers, achieve more robust treatment capacity of polluted groundwater and to clean polluted areas was initiated. Borregaard made a provision in the financial statements according to estimated costs. The concentration of mercury in ground water wells and in the sewage systems has decreased due to these actions, and the emissions in 2019 was at a historical low level of less than 1 kg of mercury.

Waste management, recovery and circularity

Controlling the risk of emissions from waste and reducing the amount of waste produced are part of Borregaard's environmental policy. Borregaard's waste management system is covered by the ISO 14001 certification. The waste generated at operations outside Norway is negligible compared to the waste generated at the main site in Norway.

98% of the waste from operations in Norway was source separated and processed by certified waste treatment providers in 2019. Waste plans for the industrial facilities and the company's own harbour have been established and amounts of waste generated are reported monthly.

90% of the hazardous waste is fly ash from the waste incineration plant. The alkaline fly ash is treated externally to form a stable gypsum phase before it is landfilled.

Local air quality management, emissions to air from operations

Borregaard's emissions to air of SO₂, NO_x and dust particles affect local air conditions and derive from energy production, drying processes and the use of SO₂ in production processes (Sarpsborg).

SO₂ emissions from production processes derive from the cooking acid used to separate lignin from cellulose. These emissions are generally removed in scrubbers, but also result in some diffuse emissions. The authorities have set limits for

SO₂ concentrations in the air. The municipality of Sarpsborg measures local air quality with respect to SO₂ content. The measurements show a general reduction in concentrations of SO₂, and the air in Sarpsborg remains within current limits more than 98% of the time. Borregaard's programme for reducing SO₂ emissions from chimneys and scrubbers has lowered emissions by nearly 90% in the last nine years. Borregaard and the municipality of Sarpsborg maintain an ongoing dialogue regarding the implementation of corrective and preventive measures with respect to exceeding local air quality regulations. The target is zero instances of exceeding local air quality limits.

Burning fuels for heat energy produces NOx emissions. Switching from using heavy oil to more eco-friendly alternatives as well as technological installations has reduced these emissions by around 50% in the last ten years.

Spray drying of biopolymers from lignin results in some emissions of NOx (from the fuel) and dust particles (lignin).

Key initiatives and results in 2019

The major focus in 2019 has been to comply with the new emission permit for Borregaard's operations in Norway. One key activity has been to develop bleaching recipes with reduced addition of chlorine dioxide, reduced amounts of water needed for washing and reduced amounts of COD. Investments in an improved spill collection system, improved evaporation and washing have been made to meet the new requirements. The emissions have been reduced from 2018 to 2019 for several substances, see table on page 51. The new 24-hour period limit for sub-streams in the new permit was exceeded for some substances; all of these have been reported to the Norwegian Environment Agency, and measures have been taken to reduce emissions.

At Borregaard's facility in Norway, 3 (15) incidents were recorded where the hourly limits were exceeded and zero (two) incidents where the limits for a 24-hour period were exceeded for SO₂ levels in the air around the premises. The reduction was due to improvements in the recovery system for SO₂, according to the investment plan for emission reduction. NOx emissions have been reduced, and NOx cleaning with SNCR technology was successfully installed in October 2019. The target for emission reduction of 24% NOx in 2019 was achieved.

At the site in Sarpsborg, the amount of ordinary waste increased by 54% from 2018 to 2019. This was due to removal of more gypsum from the production processes as well as waste generated from the clean-up plan for mercury polluted areas, as described above. Due to more ordinary waste to landfill, the energy and material recovery rate was reduced to 41% (67%). In 2019, Borregaard became a member of a local circular economy initiative, in order to cooperate with other partners to find a solution for using

the gypsum and other types of waste as a resource in other production processes.

The figures in the table on page 51 show results for water discharges (GRI 303-1), emissions to air (GRI 305-7) emissions of substances to water (GRI 306-1) and waste (GRI 306-2).

Initiatives for 2020

The new permit for Borregaard's operations in Norway requires studies to find the best solutions for further reduction of emissions of substances to water and air. The environmental risk and the effects and costs of different measures will be evaluated. Borregaard will provide the Norwegian Environment Agency with an updated plan in March 2021, while most of the planning will be done in 2020. These activities are part of Borregaard's long-term plans to be in line with the WFD in 2027 and the local air requirements (SO₂) at the site in Norway.

At the biorefinery in Norway, copper is used as a catalyst in the production process and the recovery rate is more than 80%. The new emission permit for copper is demanding, which resulted in several cases (35) of exceeding the new short time limits in 2019. In the 4th quarter of 2020, a new filter press will be installed to remove copper containing sludge from the process and reduce the concentration of copper in the effluents.

An investigation of odorous compounds from the site in Norway is conducted every fifth year to check for any improvements or changes. The investigation is carried out according to the guidance documents from the Norwegian Environment Agency and will be conducted in 2020.

The Industry Emission Directive (IED) obliges Borregaard's plant in Norway to submit a baseline report for land and groundwater. The implementation plan will be sent to the Norwegian Environment Agency for approval in June 2020. The clean-up plan for historical mercury-polluted areas will continue.

SAFE PROCESSES AND PRODUCTS

Public and process safety management are important topics for both Borregaard and its stakeholders, in order to control and mitigate the risks involved in the company's operations. The Sarpsborg site is subject to the EU Directive 96/82/EC ("Seveso III"), intended to prevent accidents that could potentially cause large-scale harm.

Process safety at Borregaard's facilities has increased over time due to the systematic monitoring of risk and the implementation of measures aimed at mitigating risk. Borregaard has open communication with people who live and work near the production facilities regarding risk potentials and on-going improvement projects. Sometimes

risks can be eliminated through technical, organisational or business measures. Borregaard's elimination of chlorine risk by converting the elemental chlorine to hydrochloric acid, implemented in 2012, is one example of this.

Borregaard continuously assesses safety in relation to the wider community outside the company. This is based on the fact that Borregaard, in cooperation with independent expertise, has carried out extensive risk assessments in line with guidelines from the Norwegian Directorate for Civil Protection (DSB). Based on this work and recommendations by DSB, the municipality has established consideration zones for the area surrounding Borregaard's operations in Sarpsborg. Borregaard therefore expects the long-term development of the area surrounding the plant to be harmonised in line with the expectations of Seveso III.

Borregaard has several lignin spray dryers at its facilities. The risk of dust explosions has been surveyed and risk mitigation measures have been implemented.

All storage tanks, with some minor exceptions of low risk storage tanks, are now complying with the Norwegian Tank Regulations (Norwegian Pollution Regulations, Chapter 18) and are equipped with physical barriers for the collection of chemicals.

Product safety

Borregaard's main products are biopolymers and speciality cellulose, representing about 80% of revenues. Both are exempted from registration under the REACH regulation, which means they are associated with low risk in use. About 20% of revenues are from products that are subject to classification according to the Globally Harmonized System of Classification and Labelling of Chemicals (GHS).

Substances which are subject to registration under the REACH regulation undergo a thorough hazard and risk assessment according to regulatory requirements. An electronic chemical health, environmental and safety system is used for the identification and monitoring of substances of concern (REACH Candidate List, REACH Authorisation List). Borregaard does not produce substances included in those lists. The classification (according to the Classification, Labelling and Packaging (CLP) Regulation) of all products placed on the market is being evaluated based on intrinsic properties of the ingredients and/or toxicological data on the product. The Safety Data Sheets are regularly revised and updated. The risks for hazardous conditions and unexpected exposure due to use of chemicals at Borregaard are considered to be low.

International and national chemicals legislation requires tests and registrations with the authorities before products can be safely and legally placed on the market. Animal testing might therefore be necessary in some exceptional cases in order to ensure compliance with relevant directives. A procedure for approval and performance of animal testing is in place.

Borregaard has procedures to ensure that all new chemicals subject to labelling due to potential risk are assessed for possible substitution by a dedicated committee, before they are introduced in the production processes. The existing portfolio of chemicals is subject to periodical assessment for possible substitution. In the planning and development process for new products, substances used as input factors are evaluated with a view to risk and toxicity before they are approved.

Initiatives and results in 2019

Sulphur dioxide (SO₂) is an important input chemical in production processes at the operations in Norway and cannot be replaced by other chemicals. Risk analyses show that a large discharge of SO₂ could have serious consequences for third parties, especially from the storage of liquid SO₂. Borregaard has decided to introduce new technology which will eliminate the use and storage of liquid SO₂. The new plant will be commissioned in 2021.

In 2019, Borregaard updated its strategy for preventing major accidents in line with Seveso III (Section 7, Annex 3) and is currently implementing an updated process safety management system in line with OSHA 3132 for process safety. A cross functional process management team is supervising the implementation process.

Initiatives for 2020

Borregaard will continue implementation of the process safety management system in 2020. The priorities will be to conduct and update the process hazard analysis (PHA),



improve the mechanical integrity of the maintenance system, update the emergency planning and response procedures and train Borregaard employees and external contractors.

SAFE AND HEALTHY WORKING ENVIRONMENT

A safe and healthy working environment is essential for ensuring a sustainable business, and a prerequisite for attracting motivated and highly skilled people. Borregaard's ambition is to promote a safety culture that results in the avoidance of injuries to employees or third parties, as well as material damage resulting from its activities. This is achieved through good risk management, systematic efforts to prevent injuries and occupational diseases (both physical and mental), and the involvement of all employees. Safety is an integral component of all aspects of Borregaard's operations due to a proactive approach that involves safe job analyses, safety barriers and the principle of "safety first".

Norwegian EHS legislation (Internal Control Regulations) includes a requirement for a management system that systematically monitors safety, identifies hazards and involves employees. Borregaard has also added its own requirements and guidelines to ensure high EHS standards for its operations. A health and safety committee monitors and advises the occupational safety programs for all employees at Borregaard Sarpsborg in line with the Norwegian Working Environment Act (AMU).

Borregaard's overall target is zero lost time injuries (LTI). Some of Borregaard's production units have maintained a zero LTI level for many years. The management has long prioritised a focus on safety in the workplace to eliminate injuries. Borregaard has a worldwide safety management system called Zero Harm. Important measures for eliminating injuries include basic EHS training to strengthen the safety culture, focusing on personal responsibility for one's own safety, clear safety management, reviews of rules for, and the practical use of, protective equipment, and requirements for order and tidiness in the workplace.

All employees are encouraged to report safety incidents and unsafe conditions in a dedicated reporting system which is open and available in the whole organisation. The Group has a systematic procedure for investigating the root causes of incidents, before corrective and preventive measures are implemented. This provides valuable input for the risk assessment process and documents the lessons learned. Historically, exposure to chemicals has been the main category of injuries, but systematic efforts over many years to reduce chemical exposure through training and safety management are now showing results. Borregaard Sarpsborg holds a weekly safety meeting in which the management and employee representatives address various safety issues. One safety topic to which additional attention will be paid is selected each month. Topics include the risk associated with sharp objects, walking/tripping hazards in

connection with slippery conditions or the risk of chemical exposure. This systematic procedure means that the entire organisation becomes involved and is critical for improving the individual's understanding of risk. Borregaard strives to ensure that working conditions are conducive to the good health of its employees. The company makes every effort to provide a good, inclusive working environment with meaningful tasks, support and feedback from colleagues and managers. The health of employees is regularly monitored through medical examinations and working environment surveys. The working environment is generally considered to be good, and efforts are continually being made to improve it through various measures.

Borregaard particularly focuses on sick leave and has an ambitious goal of further reducing sick leave. This is why both preventive activities and initiatives have been introduced to reduce any stressful aspects in the working conditions. There is an emphasis on closely following up those on sick leave and on adapting tasks for individual employees. Temporary adaptations in the working environment, with suitable duties, or shorter working hours for a limited time, are examples of measures for employees with different needs. Training, health and lifestyle counselling, vaccinations and stress management are other examples. Most of the sick leave is due to musculoskeletal disorders, and there is a strong focus on ergonomic measures to prevent this.

The potential for exposure to substances that are harmful to health forms part of the risk assessment process. Measures are implemented to reduce or eliminate substances that may have a negative impact on health. The precautionary principle is fundamental and personal protective equipment is compulsory when a risk of exposure exists. In 2018, the Norwegian authorities introduced a new threshold value for SO₂ in the workplace atmosphere. Complying with the requirements is demanding and Borregaard has therefore reinforced its action plan for reducing concentrations of SO₂ in the working environment.

Results 2019

There were no fatal or high consequence injuries in Borregaard in 2019 (0). The number of LTIs was reduced from 2018 to 2019; there were four in the Group (7). At Borregaard UK an operator was splashed in the face and eyes with sodium hydroxide solution (5 days of absence). At the site in Norway, a logistics operator fell from 50 cm height and hurt his head and back (absent for 34 days) and a warehouse operator broke his leg due to a slippery floor (18 days of absence). At Borregaard LTUS an operator strained his back lifting 50 lb bags (absent for 3 days).

Proactive safety indicators show that the Group's safety culture is improving. During 2018 and 2019 Borregaard employed full-time safety professionals at two of its largest

foreign subsidiaries in order to improve the EHS work. These positions are now established at the Group's units in the US. This has raised the EHS standards at the individual units, as well as in the Group as a whole, through more qualified input in the Zero Harm collaboration.

The sick leave rate¹⁵ in Borregaard increased slightly in 2019 to 3.6% (3.5%). The figures in the table on page 51 show results for occupational health and safety (GRI 403-9). The reporting is based on requirement from ISO45001 and OSHA given in the guidance document from The Federation of Norwegian Industries.

Initiatives for 2020

In order to achieve the target of zero LTIs, Borregaard will continue its work to ensure that it has a motivated and proactive organisation in relation to safety, with a high degree of awareness of its responsibility to mitigate risk. The work on reporting, analysing underlying causes, implementing measures in connection with near accidents and hazardous situations, as well as frequent inspections at the facilities, will continue in 2020.

Borregaard's operations in Norway will focus on life saving rules, in order to build a strong safety culture and increase the understanding of risk. Safety among external workers is a particular area of focus for 2020, with the aim to provide information and guidance in addition to follow up

of external worker's fulfillment of safety instructions. Safety training for external workers will be improved in 2020 with a new e-learning tool.

Borregaard will continue to focus on appropriate health promotion measures and preventive working environment measures in close cooperation with employee representatives in 2020. The long-term target for the sick leave rate is 3.0%.

INFORMATION SECURITY

Borregaard's activities may be susceptible to various threats related to information management. The implementation of the Borregaard Information Security Policy ensures good information management practices in business processes, as well as compliance with applicable regulatory requirements, such as GDPR¹⁶. The Group's information management governs confidentiality, integrity and availability, both strategically and operationally.

The operationalisation of Borregaard's information management is supported by dedicated internal resources and technical solutions. Raising awareness within the organisation is a key element to safeguard against unwanted dissemination of information; hence, building a culture of information security in the company is prioritised in every area applicable.

KEY TARGETS 2019	RESULTS	COMMENTS
CLIMATE		
Establish specific action plans in order to achieve the science based target for 2030 (Group)	Achieved	SBTi target has been updated and approved. An initial study has identified the activities with highest priority/contribution
Reduce CO ₂ emissions to 100 kg CO ₂ /MWh of total energy consumed by 2025 (Sarpsborg)	Not Achieved	2% reduction in kg CO ₂ /MWh from 2018 to 2019. This long term target is a part of the SBTi action plan
ENVIRONMENT		
NOx reduction 24% run rate from base year 2018 to end 2019 (Sarpsborg)	Achieved	25% reduction in NOx emission from 2018 to 2019 due to installation of NOx cleaning at the bioboiler
COD emissions below 59 mt/day (Sarpsborg)	Achieved	55 mt/day (61 mt/day) in COD emission due to installation of spill collection systems and improved bleaching technology
Zero exceedances of local air quality SO ₂ , average emissions per hour (Sarpsborg)	Not Achieved	Three (fifteen) 1-hour period and zero (two) 24-hour period exceedings
HEALTH AND SAFETY		
Sick leave below 3.5% (Group)	Not Achieved	3.6% (3.5%)
LTI rate of 0 (Group)	Not Achieved	2.0 (3.5)
TRANSPORT		
Increase rail transport of logs to 23.5% (Sarpsborg)	Not Achieved	22%
Surpass 40,000 mt by sea to Europe in 2019 (Sarpsborg)	Not Achieved	38,000
85% of road transport by minimum Euro 6 engines (Sarpsborg)	Not Achieved	82%

¹⁵ Total hours of sick leave/possible work hours

¹⁶ <https://gdpr-info.eu/>

KEY TARGETS 2020

CLIMATE

Establish specific action plans in order to achieve the Science Based Target for 2030 (Group)

Reduce CO₂ emissions to 100 kg CO₂/MWh of total energy consumed by 2030 (Sarpsborg)

ENVIRONMENT

NOx reduction 11% from 2019 to 2020 (Sarpsborg)

COD emissions below 57 mt/day (Sarpsborg)

Zero exceedances of local air quality SO₂, average emissions per hour (Sarpsborg)

HEALTH AND SAFETY

Sick leave below 3.5% (Group)

LTI rate of 0 (Group)

TRANSPORT

Increase rail transport of logs to 23% (Sarpsborg)

Surpass 40,000 mt by sea to Europe in 2020 (Sarpsborg)

85% of road transport by minimum Euro 6 engines (Sarpsborg)



GRI ref*		UNIT	2019	2018	2017
302	ENERGY				
302-1	Total energy consumption	GWh	1,732	1,665	1,677
302-1	Renewable part of total energy consumption	GWh	1,010	1,079	1,148
302-1	Amount of heat energy consumption of total energy consumption	GWh	1,204	1,141	1,158
302-1	Amount of electricity consumption of total energy consumption	GWh	528	524	519
302-3	Heat energy consumption at Borregaard Sarpsborg pr tonnes of cellulose	GWh/tonnes cellulose	21.9	21.6	21.9
303	WATER				
303-3	Surface water usage Borregaard Sarpsborg (river Glomma)	mill m ³	24.8	24.5	23.9
303-3	Ground water usage Borregaard Sarpsborg	mill m ³	0	0	0
303-3	Surface water usage Borregaard other countries	mill m ³	0.10	0.09	n/a
303-3	Ground water usage Borregaard other countries (Florida)	mill m ³	0.19	0.15	n/a
305	EMISSIONS TO AIR				
305-1	Direct (Scope 1) GHG emissions (base year 2009)	tCO ₂ e	141,616	139,856	128,414
305-1	Direct (Scope 1) biogenic CO ₂ emissions	tCO ₂ e	131,683	129,303	133,092
305-1	GHG emissions within EU-ETS system	tCO ₂ e	125,135	126,284	114,259
305-2	Energy indirect (Scope 2) GHG emissions, location based (base year 2009)	tCO ₂ e	62,126	58,484	58,213
305-2	Energy indirect (Scope 2) biogenic CO ₂ emissions	tCO ₂ e	74,612	74,393	70,770
305-3	Other Indirect (Scope 3) GHG emissions (base year 2017) ^{*)}	tCO ₂ e	330,137	330,137	334,959
305-3	Biogenic CO ₂ (Scope 3)	tCO ₂ e	786,424	786,424	962,712
305-4	Direct and indirect GHG emission (Scope 1 og Scope 2) pr revenue	tCO ₂ e/mNOK	40	41	40
305-4	Direct and indirect GHG emission (Scope 1 og Scope 2) pr total energy consumption	tCO ₂ e/GWh	118	119	111
305-5	Reduction of direct GHG emissions (total scope 1) from base year (2009)	%	37	38	43
305-5	Reduction of GHG emissions (total Scope 1 og Scope 2) from base year (2009)	%	32	34	37
305-6	Emissions of ozone-depleting substances (ODS) in tonnes of trichlorofluorometahne eq (CF-11)	tonnes of CF 11	0.038	0.040	0.040
305-7	Emissions of SO ₂	tonnes	72	69	84
305-7	Emission of NOx	tonnes	149	197	167
305-7	Emissions of dust particles	tonnes	69	70	67
306	EFFLUENTS AND WASTE (BORREGAARD SARPSBORG)				
306-1	COD (organic material) in process water discharged to river Glomma	t/day	55	61	66
306-1	AOX (halogenic oranic material) in process water discharged to river Glomma	t/day	0.23	0.27	0.30
306-1	Suspended solids (fibers) in process water discharged to river Glomma	t/day	4.1	4	3.3
306-1	Phosphor in process water discharged to river Glomma	kg/day	20	36	37
306-1	Nitrogen in process water discharged to river Glomma	kg/day	397	369	436
306-1	Copper in process water discharged to river Glomma	kg/day	11.6	9.6	9.4
306-2	Ordinary waste	tonnes	27,581	17,856	15,044
306-2	Hazardous waste	tonnes	4,844	4,903	3,316
306-2	Total amount of waste	tonnes	32,425	22,759	18,360
306-2	Degree of waste sorting	%	98	99	98
306-2	Energy and material recovery rate of waste	%	41	67	71
307	ENVIRONMENTAL COMPLIANCE				
307-1	Non-compliance with environmental laws and regulations	Number	0	0	0
403	OCCUPATIONAL HEALTH AND SAFETY				
403-9	Number of fatal accidents	Number	0	0	0
403-9	LTI; Lost time injuries per millon worked hours	Number	2	3.5	1.1
403-9	TRI; Total recordable injuries per million worked hours	Number	8.4	8.6	8
403-9	Number of external injuries	Number	10	12	6
403-9	Lost days due to work related injuries	Number	75	87	46
403-9	Sickleave	%	3.6	3.5	3.8
403-9	Total number of hours worked	Hours	2,019,604	1,979,461	-

* GRI = Global Reporting Initiative

*) 2019 numbers will be calculated and verified before 01.07.2020 (305-3)

C

EMPLOYEE AND COMPETENCE DEVELOPMENT



The total number of full-time equivalents (FTEs) in Borregaard was 1,103 at the end of 2019 (1,097). Borregaard has employees at plants and sales offices in 15 countries in addition to South Africa which is reported separately (see page 20). The biggest units are located in Sarpsborg, Norway (757/70% of FTE), Rothschild in WI, USA (100/9% of FTE), Fernandina Beach in FL, USA (57/5.1% of FTE) and Maxau, Germany (49/4.4% of FTE). In the Group, 65% of the employees work in manufacturing, 16% in sales and marketing, 8% in innovation and R&D and 11% in support/other functions.

CORPORATE CULTURE

Borregaard has developed a strong corporate culture over many years and through changing times, which helps create a common mindset, core values and an understanding of the business across functions, business areas and geographical boundaries. A sound corporate culture that supports Borregaard's objectives and strategies provides a vital basis for the development of the company and its employees and is therefore regarded as material in the company's stakeholder and materiality analysis.

Borregaard's culture and values, "The Borregaard Way", are an integral part of the various introduction and development programmes. The corporate culture and core values also include standards and objectives for sound business ethics.

Borregaard has a set of guideline documents for corporate responsibility and ethical guidelines, as well as manuals and more specific guidelines for different areas such as anti-corruption, competition legislation, responsible sourcing, environment, health and safety, and human rights. The ethical guidelines, the Borregaard Code of Conduct, were revised in 2019 in a process that involved many parts of the organisation, including unions. The guidelines will also be implemented using a new e-learning system.

Borregaard's guidelines for corporate responsibility are integrated into the Group's introduction and managerial training programmes.

Borregaard values the commitment and initiative of all its employees and emphasises good collaboration between management, employees and their representatives. 87% of Borregaard employees work in units that have collective agreements with unions.

DEVELOPING CORE COMPETENCE

Borregaard's core competence lies within sales and marketing, R&D and production. Today, the Group's

competence in these areas, and the interaction between them, is Borregaard's most important competitive advantage. Therefore, it is crucial that the Group manages to retain and strengthen this unique base of competence, through both recruitment and employee development. The Group's introduction programme provides new employees with an introduction to Borregaard's strategy, corporate governance, culture and values. New employees also take continuous improvement and innovation courses.

Borregaard has set up internal training programmes in its areas of core competence. 14% of the company's employees work in sales, marketing and customer service. It is important to know the various customers' needs and the value of Borregaard's products and solutions. With a view to maintaining this knowledge, Borregaard operates an "Application Academy" and a "Sales Academy". In 2019 Borregaard arranged three sales academies for altogether 86 participants. The main topic was sustainability in sales and marketing.

Since Borregaard's production processes are very complex and involve a high degree of integration, great importance is attached to knowledge and competence in the areas of production and biorefining. Borregaard arranges extensive training programmes for its operators and apprentices (Norway and Germany). The Group also has a "Knowledge Plant" for training. In 2017, Borregaard established a "Production Academy" based on the LEAN method that focuses on continuous improvement in all parts of the Group. The aim is to offer this training to all of Borregaard's employees in order to strengthen the company's corporate culture within continuous improvement.

As part of Borregaard's commitment to competence building, the company also uses e-learning systems and programmes as part of its training concepts.

Borregaard Innovation Conference is a forum that is intended to contribute to inspiration and the exchange of ideas across internal R&D groups, departments and business areas. The conference is arranged every two years and the next one will be held in the spring of 2020.

The Group invests significant resources in management training. Borregaard's mission is to recruit most of its managers from within the company with the aid of career development plans and by having replacement candidates and programmes that combine management training and corporate culture development. In order to help increase the number of female managers and strengthen the company's

international competence, women and managers from operations outside Norway are overrepresented in these programmes.

Borregaard underlines the importance of creating an internal job market and favours a high degree of job rotation and internal recruitment to fill vacancies. There were several examples of internal recruitment between divisions and business areas in 2019. This is an important element of strengthening competence, innovation and continuous

improvement in the company, and also creates career opportunities for employees.

Two trainees were recruited to the trainee programme in 2019. The trainees work in R&D, marketing, sustainability and finance. Borregaard Sarpsborg took on twenty new apprentices in 2019. There were 42 apprentices at the operations in Sarpsborg, as well as three apprentices at Borregaard's operations in Germany.

PARTICIPANTS IN TRAINING PROGRAMME	2019	2018	COMMENTS (2019)
Introduction	19	19	Group
Sales Academy	86	-	
Production/Lean Academy	73	92	Programmes in Norway and the US
Global Management programmes	34		
Average cost of training per employee	4000 NOK		Average per employee in Norway (excl. cost of working hours)

RESTRUCTURING AND ORGANISATIONAL DEVELOPMENT

Borregaard makes a particular effort to maintain its global competitiveness through world-class innovation and productivity. Comprehensive training programmes, together with the introduction of new technologies and organisational development, are key elements of the company's continuous improvement work.

The Borregaard plant in Sarpsborg is also assuming greater responsibility for training skilled workers through targeted contact with schools, including giving lessons, as well as by increasing the number of apprentices it takes on. The company has a training and presentation centre, the "Knowledge Plant", available for this purpose.

Based on the current age composition of the workforce, Borregaard in Norway will experience a growing need for qualified employees in coming years. In order to meet these challenges, Borregaard has recruitment activities and school programmes to encourage interest in an industrial career and relevant qualifications.

As a result of a permanently changed raw material situation, the German operation underwent a restructuring programme during 2019. The number of FTEs will be reduced by 11, mainly by early retirement. The sales and customer service office in Düsseldorf was moved to the main site near Karlsruhe. The process was conducted through cooperation and negotiations with employee representatives and a social plan with financial support was implemented for those affected.

DIVERSITY

Borregaard wishes to enhance diversity among its employees and is committed to avoiding discrimination based on gender, ethnicity, religion and age. The Group has specific guidelines for this area. Borregaard has, among other things, initiatives aimed at promoting the recruitment of female managers and employees.

The Group deliberately has a high proportion of women in management and technical programmes, as well as in the company's recruitment base.

GENDER DISTRIBUTION	2019	2018	COMMENTS (2019)
Female employees	25%	25%	Group
Female new recruitments	28%	32%	Group (32% in 2019 when excluding the start-up of LignoTech Florida)
Female managers	24%	25%	Group
Females in executive management	22%	11%	2 out of 9
Females in Board of Directors	43%	43%	3 out of 7
Females in Sustainability Board	63%	57%	5 out of 8
Females in Compliance Board	25%	25%	1 out of 4

The lowest proportion of women is in production, while the proportion of women in R&D, customer service, HR and finance is above 50%.

Borregaard has gender-neutral guidelines and pay systems that provide equal pay for equal work. Borregaard has the same working hours for men and women. The degree of part-time employment is low. The ratio of basic salary and remuneration of women to men at the Group’s largest unit, Sarpsborg, is 110% (women: NOK 613,598/men: NOK 553,543).

Borregaard is a global organisation with people of 25 different nationalities. The company believes that employing people with diverse ethnic and cultural backgrounds is a strength and uses diversity as a resource within the organisation. The diversity of nationalities also affects how the Group’s training programmes are put together and staffed.

Borregaard has policies and guidelines for adapting working hours and conditions for employees in different phases of their careers.

WHISTLEBLOWING PROCEDURES

Borregaard wants transparency and a strong corporate culture to help ensure that difficult or undesirable situations are discussed and resolved. There may be situations where employees see or experience something that conflicts with the company’s guidelines or expectations.

Ideally, the company would like these issues to be dealt with where they occur. However, situations may arise where reports from employees about adverse situations do not reach the right person or where they feel unfairly treated and cannot find a solution to their problems. In such circumstances, there are established procedures for and guidelines on whistleblowing, both to various specific functions in the organisation or via a dedicated telephone number or email address. These guidelines are translated into several languages and distributed to the company’s units worldwide.

KEY TARGETS 2019	RESULTS	COMMENTS
Conduct 4 regional Sales Academies, including sustainability training	Achieved	(USA, Asia, Europe) 86 participants, 18 women and 68 men
Conduct Production Academy at minimum two production sites	Achieved	(USA, Norway), 83 participants, 18 women and 65 men
Increase the proportion of female employees to 30% and female managers to 35% by 2022	In progress	28% of new recruitments in 2019 were women (32% when excluding the start-up of LignoTech Florida)
KEY TARGETS 2020		
Minimum 35% of new hires to be female employees		
Implement e-training tool for Code of Conduct		
Conduct 3 competence academies? (sales/production/finance)		
Update whistleblowing policy and procedures		





D

SUPPLIERS AND BUSINESS PARTNERS



Following the stakeholder and materiality analysis, suppliers and business partners are regarded as material. They impact Borregaard's operations and goal achievement, represent important and relevant risks and opportunities and have implications for the company's sustainability performance.

Borregaard works with suppliers and business partners around the world. Some relationships are well-established and long-term. The contact and cooperation with suppliers and business partners must be characterised by trust, integrity and mutual respect, and transactions and business practices must comply with laws, regulations and internationally recognised ethical standards. The relationships must be reviewed and managed.

Borregaard strives to identify risks of violations of labour rights, EHS conditions, environmental legislation and anti-corruption legislation by the Group's suppliers. When such violations are identified, the Group implements measures to improve the situation. In this way, Borregaard contributes to sustainable business operations, while reducing commercial risk and strengthening its long-term competitiveness.

This commitment is embedded in Borregaard's top governing documents and guidelines are implemented to regulate activity and help employees cultivate good relationships and sound business practices. The guidelines cover all purchasing activities within Borregaard and are available for all employees in the company's Corporate Manual.

Results from the annual supplier evaluations together with assessments of the procurement process, including Procure to Pay, sourcing and supplier management are subject to standardised annual management reviews in which areas for improvement are identified. Further, internal audits and ISO audits are conducted. Reporting systems have been established to ensure completion of open actions from the reviews and audits.

New suppliers

Prior to approval, new suppliers are subject to due diligence in accordance with written procedures. This involves answering a questionnaire covering quality assurance, the environment, corporate social responsibility, responsible sourcing and risk assessment. Based on this risk assessment, suppliers are deemed either qualified or not qualified. Alternatively, suppliers are subjected to a more detailed analysis.

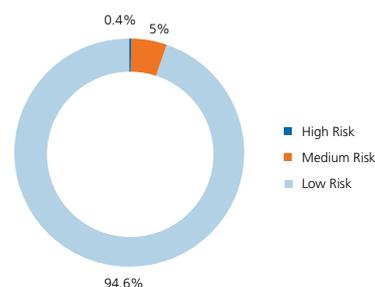
Borregaard also assesses and approves relevant products or services, documented in a change management system. Through the supplier approval process, Borregaard provides information to its suppliers and increases supplier awareness throughout the supply chain, as well as gathering information about the suppliers and applying this information when selecting suppliers. Suppliers must receive, sign and return the Supplier Code of Conduct (SCoC), which states that environmental impact should be considered throughout the value chain. The Supplier Code of Conduct is based on the principles of the UN Global Compact. Suppliers are required to comply with SCoC or its equivalent, irrespective of their country of origin. Suppliers must provide information as to whether they are ISO14001 certified or not. Evaluation of suppliers with respect to energy consumption and EHS is conducted when relevant and emissions from vehicles/engine type are considered in the approval process of transport services. In 2020, 100% of new suppliers were screened in this respect.

Existing suppliers

On behalf of Borregaard, Sedex¹⁷ has conducted an advanced assessment of the company's suppliers. Fewer than 0.5% of the company's suppliers belonged to the high-risk group, while 94% were in the low-risk group. Borregaard encouraged high and medium-risk suppliers to register with Sedex, complete a questionnaire and share the information with Borregaard. Relationships with three suppliers were terminated in connection with this process.

Borregaard conducts annual supplier evaluations. These evaluate registered suppliers' non-conformance and observations, any new legislation and specific areas for improvement. In 2019, Borregaard focused on environment, which is the continued area of focus also for 2020. The evaluation is summarised in a report with an action and

RISK ASSESSMENT



¹⁷ Sedex is a collaborative platform for sharing responsible purchasing data in supply chains. The system is used by more than 43,000 members in over 150 countries to measure their performance in relation to labour rights, EHS and business ethics.

audit plan. Ten audits were planned and eight conducted. 10 audits are planned for 2020.

Throughout 2019, Borregaard increased the level of communication to its suppliers about its goals and objectives with respect to sustainability, first by including a standard text containing Borregaard's objectives and expectations for suppliers in requests and documents sent out to external stakeholders. Secondly, by implementing a standard for supplier development, namely the process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organisation. Thirdly, by implementing Supplier Development Action plans (SDA) for suppliers classified as strategic or bottleneck suppliers, which also address issues such as climate/environment, responsible sourcing and safety, contract management, availability, capacity and security of supplies, credit risk and financial health. And finally, by presenting "Purchasing the Borregaard Way" to internal stakeholders.

Climate change and carbon information regarding transport of wood are collected by measuring payload and transport distance per m³ of supplied wood through an electronic reporting system. Twice a year, suppliers of wood report their use of Euro class trucks to Borregaard.

ECOVADIS RATING

Borregaard also subscribes to the services of EcoVadis¹⁸ to enable its customers to monitor its sustainability performance, divided in the topics Environment, Labor and Human Rights, Sustainable Procurement and Ethics. EcoVadis screening is a voluntary programme for suppliers where Borregaard shares the result with its customers. The average score in the EcoVadis database is 46.7% which includes 60,000 companies. In 2019, Borregaard achieved a score which earned a Silver rating, representing the top 20% of all companies represented in the database. Borregaard scored particularly well in the category "environment", with a result of 70%.

OTHER BUSINESS PARTNERS LIGNOTECH SOUTH AFRICA

LignoTech South Africa (LTSA) is a 50:50 joint venture between Borregaard and Sappi (for more information, see Note 6 to the Consolidated Financial Statements). The company employed 106 FTEs as of 31 December 2019, including trainees. Borregaard is represented on the board of the company. LTSA produces biopolymers based on raw material from Sappi Saiccor's pulp mill in Umkomaas, South Africa.

LTSA has its own Social and Ethics Committee tasked with monitoring social and economic development, corporate

citizenship, environment, health and public safety, customer relations and labour and employment issues. The Committee is composed of members of the company's management team and chaired by an LTSA director. LTSA subscribes to the OECD guidelines with respect to anticorruption measures. In addition, the company has an Audit and Risk Committee composed of LTSA directors, internal auditors (Sappi) and external auditors (Deloitte). The Committee is tasked with monitoring assurance arrangements, integrity of reporting, risk governance and delegation of financial responsibility to management.

The company has developed a comprehensive governance compliance programme to monitor legal and other compliance activities. Staff retraining on key policies, standards and procedures has been completed for 2019.

LTSA held its annual "Safety Day" in December, demonstrating how to care for its people and the planet by building and illustrating a Safety House concept consisting of actions as foundations and values as pillars. All new employees undergo hazard awareness training and testing and sign a safety pledge when joining the company as preparation for being absorbed into the Zero Harm systems. LTSA has achieved zero LTIs for the past seven years.

The company is involved in reducing the effects of the social and financial consequences of HIV/AIDS. One important area has been to prevent discrimination based on the disease, to disseminate information about the disease and its treatment, and to carry out voluntary counselling and testing for employees. In addition, the company supports education as a priority and supports local schools and day care centres for disadvantaged children and provides donor funding to the two largest universities in Durban for disadvantaged students.

LignoTech South Africa is consciously striving to ensure that the profile of its labour force reflects the country's demographics, with a particular focus on representation in management. The company is B-BBEE (Broad-Based Black Economic Empowerment) certified, with the common goal to distribute wealth across as broad a spectrum of previously disadvantaged South African society as possible. As part of the B-BBEE engagement, LignoTech South Africa has partnered with SAICA Enterprise Development (previously the Hope Factory) to support small and medium-sized enterprises and informal businesses to grow and develop. The company will continue its financial support to SAICA Enterprise Development in 2020.

LignoTech South Africa paid income taxes totalling NOK 22 million in 2019.

¹⁸ <https://www.ecovadis.com/>

Certifications in LignoTech South Africa:

- ISO 9001:2015 (Quality Management)
- ISO 14001:2015 (Environmental Management)
- GMP+ Production and Trade of Feed Additives and Premixes
- OHSAS 18001:2007 Health and Safety Management
- B-BBEE Broad-Based Black Economic Empowerment

KEY TARGETS 2019	RESULTS	COMMENTS
All new suppliers subject to approval in accordance with policies and procedures	Achieved	
10 supplier audits	Achieved	
Implement a tool for reviewing and addressing financial and compliance risk amongst suppliers/business partners	Partly achieved	Partly achieved, ongoing
Improved documentation of environmental and climate footprint for raw materials	Ongoing	

KEY TARGETS 2020
All new suppliers subject to approval in accordance with established policies and procedures
10 supplier audits
Improved documentation of environmental and climate footprint
Standardised text containing Borregaard's objectives and expectations included in requests and documents
Category specific requirements implemented
Actions completed for all SDAs



E

CONTRIBUTION TO SOCIETY



The Group's stakeholder and materiality analysis states Borregaard's contribution to society and economic ripple effects as material for the company's stakeholders. Profitable and sustainable jobs are a prerequisite for welfare and social security. This manifests itself through income and meaningful activity for individuals, as well as through financial contributions through taxes and duties that companies and their employees pay in the countries and local communities in which they operate. Those countries where Borregaard has production operations see significant ripple effects from suppliers and other activities around the plants.

As of 31 December 2019, Borregaard employed 1,103 FTEs in plants and sales offices in 16 countries. The Group has production units in Norway, the UK, Germany, Spain, the Czech Republic and the US, as well as a 50:50 joint venture in South Africa.

TAX PAYMENTS PER COUNTRY

Amounts in NOK million	Tax paid
Norway	-110
United Kingdom	-2
Germany	3
Austria	-2
Czech Republic	-3
Singapore	-2
India	-1
Brazil	-2
South Africa	-1
Other countries	-2
TOTAL TAX PAID	-122

Borregaard seeks to comply with the spirit as well as the letter of tax legislation in countries where Borregaard has commercial activity. The company will not enter into arrangements which could be considered artificial or which have tax avoidance as their sole or main objective. Borregaard uses the OECD guidelines for internal pricing, which is an important factor in ensuring that profits and taxes are distributed fairly among different countries.

SHARED INTERESTS WITH LOCAL COMMUNITY

Borregaard's companies impact and interact with the local communities where they are located. The Group's plants outside Norway are relatively small, while Borregaard has been a cornerstone company in Sarpsborg for generations. Borregaard still plays an important role in the city and region as an employer, a customer of many suppliers, and a socioeconomic contributor through taxes and duties from its operations.

SUPPORT FOR SOCIAL DEVELOPMENT

Borregaard has a broad contact network and many stakeholders in Sarpsborg and Viken County (formerly Østfold County). The company participates in various forums and organisations involved in urban and regional development and has also provided venues for socially beneficial activities.

In 2019, the company contributed around NOK 4.5 million to support measures that benefit both the company and the region, with the overall goal of strengthening the company's reputation as an employer. Borregaard's sponsorship strategy has two main pillars. One covers cultural and sports experiences and activities that help make the city and region more attractive. This is important to Borregaard in terms of creating a long-term source of recruitment. The other area supports measures intended to help young people understand and become interested in disciplines important to Borregaard and society as a whole. This is illustrated by Borregaard's support and cooperation with the Inspiria Science Centre, the Young Entrepreneurship scheme and the company's own Knowledge Plant.

COLLABORATION WITH EDUCATIONAL INSTITUTIONS

Borregaard works closely with schools and educational institutions in the Sarpsborg area. The Group has established its own Knowledge Plant, which functions as both an inhouse training centre and as a showroom and venue for school visits. It offers educational programmes that tie in with schools' curricula, using examples taken from the company. In 2019, 1,879 students visited the Knowledge Plant from schools taking part in an educational programme combining technical training, career advice and a company presentation.

Borregaard also contributes to a University Educated Teacher II scheme in chemistry for upper secondary schools in Viken County; here, researchers from Borregaard have created a company-related teaching plan in chemistry. Every year, students from a number of higher education colleges and universities carry out practical tasks and projects or get internships at the company.

Borregaard has programmes and instructors for apprenticeship schemes involving cooperation with vocational schools in the region. These provide apprentices with relevant experience to supplement their theoretical training. In 2019, Borregaard had 42 apprentices at the biorefinery in Sarpsborg and three at the plant in Germany.

AWARDS AND RECOGNITIONS

Borregaard has received several awards and honours from external bodies over the years. In 2019, Borregaard was named “Senior Profile of the Year” by the Norwegian Centre for Senior Policy. The recognition was for the company’s work on lifelong learning and internal mobility.

Borregaard was also awarded the Biorenewable Deployment Consortium’s (BDC) Spring 2019 Achievement Award for outstanding achievements and continuous contributions as the world leader in the development of lignin based renewable products.

Borregaard was ranked number one out of the hundred largest listed companies on the Oslo Stock Exchange in the field of sustainability communication by the Governance Group and BI Norwegian Business School. The companies are assessed in four areas: GRI reporting or similar, the companies’ CDP rating, the companies’ report on climate risk management and the integration of the UN’s sustainability goals. It is also considered to what extent the information is linked to the company’s goals, strategies, risks and opportunities.

Borregaard conducts an annual reputation survey among the general public in the local county for Borregaard’s operations in Norway. The survey looks at the local community’s opinion of Borregaard as a place to work, environmental conditions, contribution to the community and people’s general impressions of the company. Besides a very good reputation as a sound company with good products and competitiveness, the company also has a good reputation within the areas of environmental conditions and positive contributions to the local community. In 2019, the survey once again confirmed the company’s strong position in the local community around Borregaard’s largest plant.

CERTIFICATION AND AFFILIATION

Borregaard has established links with various external schemes that contribute to tighter control, improvements and inspiration for a systematic way of working. This also applies to issues and topics relating to corporate responsibility and sustainable development and operation.

The company has committed to the Responsible Care guidelines and objectives, which are the European chemical industry’s environmental responsibility initiative.

Borregaard also subscribes to the services of EcoVadis to enable its customers to monitor the Group’s sustainability performance.

Borregaard is certified in accordance with several standards:

- ISO 9001 Quality Management (Norway, Rothschild (US), Germany, Spain, UK)
- ISO 14001 Environmental Management (Norway, Germany)
- ISO 50001 Energy Management (Norway, Germany)
- FSSC 22000 Food Safety (Norway)
- GMP+ Feed Additives (Norway, Germany, Spain)
- UFAS Feed Additives (UK)
- FSC36 SFSF Feed Additives (Rothschild (US))
- SMETA Ethical Trade (Norway)
- Kosher certified for vanillin products, cellulose products, ethanol, acetic acid, acetic anhydride, hydrochloric acid and sodium hypochlorite (Norway and Rothschild (US))
- Halal certified for vanillin products (Norway and Rothschild (US))
- PEFC Chain of Custody (wood sourcing within speciality cellulose in Norway and lignin sourcing in Florida (US))
- FSC® Chain of Custody (FSC-C144372) (wood procurement for speciality cellulose) (Norway)
- COSMOS certification for Exilva CFM (Norway)
- ISCC EU, International Sustainability and Carbon Certification for bioethanol (Norway)

Borregaard is a member of the UN Global Compact and through this supports universal principles on human rights, labour, the environment and anti-corruption. Borregaard also reports progress in line with the Global Compact. Borregaard intends to report in accordance with GRI from 2020.





THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

Borregaard complies with the UN Global Compact's ten principles of doing business in the areas of human rights, labour, environment and anti-corruption. The ten principles are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

Per A. Sørli,
President and CEO, Borregaard

HUMAN RIGHTS

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.



ENVIRONMENT

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.



LABOUR STANDARDS

3. Businesses should uphold the freedom of association of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.



ANTI-CORRUPTION

10. Businesses should work against corruption in all its forms, including extortion and bribery.



1 NO POVERTY



END POVERTY IN ALL ITS FORMS EVERYWHERE

- Borregaard and the rest of the industry generate high added value creation. Through its purchases of goods and services and tax contributions, the industry creates positive ripple effects in the form of direct and indirect jobs
- Substantial tax payments. In 2019, the Borregaard Group's tax payments amounted to NOK 122 million
- Jobs provide a route out of poverty. Borregaard employs 1,103 FTEs in 16 countries

2 ZERO HUNGER



END HUNGER, ACHIEVE FOOD SECURITY AND IMPROVED NUTRITION AND PROMOTE SUSTAINABLE AGRICULTURE

- Effective and sustainable feed products
- Products for improved plant growth stimulants for food plants
- Improved and sustainable protection for crops
- Raw materials do not compete with food production
- Borregaard's Soyypass technology reduces soy in feed and increases milk production for dairy cattle (SDG 2.4)

3 GOOD HEALTH AND WELL-BEING



ENSURE HEALTHY LIVES AND PROMOTE WELL-BEING FOR ALL AT ALL AGES

- A number of Borregaard's products replace hazardous chemicals such as solvents (SDG 3.9)
- Products that contribute to fat reduction
- Diagnostics (pharma intermediates)
- Focus on the health and safety of employees

4 QUALITY EDUCATION



ENSURE INCLUSIVE AND QUALITY EDUCATION FOR ALL AND PROMOTE LIFELONG LEARNING

- Prioritising employee training – many training programmes in the Group
- Cooperation with schools (education, equipment, visitor programmes)
- Supporting a science centre

5 GENDER EQUALITY



ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

- Equal treatment rules. Active recruitment of women to all levels and positions.
- Overrepresentation of women in managerial development programmes, 24% (SDG 5.5)
- 25% of Borregaard's employees were women in 2019

6 CLEAN WATER AND SANITATION



ENSURE ACCESS TO WATER AND SANITATION FOR ALL

- A focus on reducing water consumption (SDG 6.3)
- Working with, and investing in, emission cuts (SDG 6.3)
- Producing products for use in water purification (SDG 6.3)
- Own water treatment facility at the plant in Sarpsborg (SDG 6.3)

7 AFFORDABLE AND CLEAN ENERGY



ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL

- 58% renewable energy use in 2019 (SDG 7.2)
- Increased production of bioethanol for fuel (SDG 7.2)
- Supplies surplus heat from low temperature water to district heating (SDG 7.2)

8 DECENT WORK AND ECONOMIC GROWTH



PROMOTE INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, EMPLOYMENT AND DECENT WORK FOR ALL

- Borregaard and the rest of the industry generate a high level of value creation and positive ripple effects in society. Borregaard employs 1,103 FTEs in 16 countries (SDG 8.2)
- Substantial tax contributions
- Good working conditions and training programmes (SDG 8.5)
- Over-recruitment of apprentices (in excess of internal needs)
- Financial sustainability secures investments, R&D and competence development

9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE**BUILD RESILIENT INFRASTRUCTURE, PROMOTE
SUSTAINABLE INDUSTRIALISATION AND FOSTER
INNOVATION**

- Substantial investments in innovation using internal resources, as well as contributions from institutes and universities (SDG 9.5)
- Sustainability is the main focus in innovation work (SDG 9.5)
- Developing new, sustainable bio-based industry through the innovation projects Exilva and BALI (SDG 9.5)
- Producing green chemicals used in the construction industry (SDG 9.4)
- Spending a substantial proportion of revenues on innovation (SDG 9.5)

10 REDUCED
INEQUALITIES**REDUCE INEQUALITY WITHIN
AND AMONG COUNTRIES**

- A high degree of collective welfare benefits in the company
- A high degree of mobility across the organisation – opportunities for all (SDG 10.2 & 10.3)

11 SUSTAINABLE CITIES
AND COMMUNITIES**MAKE CITIES INCLUSIVE, SAFE, RESILIENT
AND SUSTAINABLE**

- Social engagement in local areas
- Support for schools, recreational activities, social initiatives, urban and sustainable development (SDG 11.3)

12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION**ENSURE SUSTAINABLE CONSUMPTION AND
PRODUCTION PATTERNS**

- Sustainable business model with bio-based products (SDG 12.2)
- Investments in renewable energy (sustainability) (SDG 12.2)
- Energy strategy for increasing the use of green and renewable energy and energy efficiency (SDG 12.2)
- Environmental investments to cut emissions and waste (SDG 12.4)
- Improved chemical safety (SDG 12.4)
- COD emissions to water was reduced by 40% the last nine years and by 10% from 2018-2019 (SDG 12.4)

13 CLIMATE
ACTION**TAKE URGENT ACTION TO COMBAT
CLIMATE CHANGE AND ITS IMPACTS**

- The biorefinery concept is an integral part of the business model – an important climate measure (SDG 13.2)
- Established EHS/climate and energy strategy (SDG 13.2)
- Greenhouse gas emissions are assessed in relation to transport options (SDG 13.2)
- Established science-based targets for cutting greenhouse gas emissions (SDG 13.2)
- Investments in renewable energy (SDG 13.2)

14 LIFE
BELOW WATER**CONSERVE AND SUSTAINABLY USE
THE OCEANS, SEAS AND MARINE RESOURCES**

- Phosphor in the discharge is reduced by 44 % from 2018 to 2019 (SDG 14.1)
- Utilisation of lignin from pulp mills has led to lower emissions to water
- Built and financed a salmon cultivation facility on own premises

15 LIFE
ON LAND**SUSTAINABLY MANAGE FORESTS, COMBAT
DESERTIFICATION, HALT AND REVERSE LAND
DEGRADATION, HALT BIODIVERSITY LOSS**

- Sustainability criteria are stressed when purchasing wood (SDG 15.1)
- Active cooperation with stakeholders in the forest value chain (SDG 15.2)
- Chain of Custody certified in accordance with FSC and PEFC forest certification standards (SDG 15.1 & 15.2)

16 PEACE, JUSTICE
AND STRONG
INSTITUTIONS**PROMOTE JUST, PEACEFUL AND
INCLUSIVE SOCIETIES**

- Guidelines for ethics and corporate social responsibility (SDG 16.3)
- Respect for the law and active contribution to good dialogue with the authorities (SDG 16.3)

17 PARTNERSHIPS
FOR THE GOALS**REVITALISE THE GLOBAL PARTNERSHIP
FOR SUSTAINABLE DEVELOPMENT**

- Member of the Global Compact and Responsible Care
- Environmental reporting: CDP, Global Compact and annual report (SDG 17.14 & 17.16)
- Represented in various environmental forums, nationally and internationally

THE GROUP EXECUTIVE MANAGEMENT



PER A. SØRLIE

*President and Chief
Executive Officer (CEO)*

Born: 1957

Residence: Fredrikstad

Per A. Sørli has been with Borregaard since 1990 and was appointed President and CEO in 1999. He has served Borregaard as CFO (1990-1993) and Executive Vice President of the Fine Chemicals division (1993-1999). Previously, Mr. Sørli held positions as CFO at Bjølsen Valsemølle and Hafslund's US operations. Mr. Sørli holds a Degree in Business Administration (siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen, Norway.



TOM ERIK FOSS- JACOBSEN

*Executive Vice President
(EVP), BioSolutions*

Born: 1969

Residence: Sarpsborg

Tom Erik Foss-Jacobsen has served as EVP BioSolutions from May 2019. Prior to that he served as EVP of Speciality Cellulose since 2007. Since joining Borregaard in 1996, he has assumed various roles in sales and marketing. Previously, Mr. Foss-Jacobsen worked as a Business Development Manager EMEA at InFocus Corp and as Assistant Product Manager Soft Drinks at Borg Bryggerier. Mr. Foss-Jacobsen holds a Master's Degree in International Marketing and Strategy from the Norwegian Business School (BI) and a Bachelor's Degree in Civil Engineering.



GISLE LØHRE JOHANSEN

*Executive Vice President
(EVP) Speciality Cellulose
and Fine Chemicals*

Born: 1959

Residence: Sarpsborg

Gisle Løhre Johansen has served as Executive Vice President (EVP) Speciality Cellulose and Fine Chemicals from May 2019. Prior to that, he served as SVP of Business Development/R&D since 2007 and EVP of Pharma intermediates since 2013. Since joining Borregaard in 1991, Mr. Løhre Johansen has assumed various positions including Site Manager in Sarpsborg (1999–2007) and Site Director of Borregaard Schweiz (2006–2007). Mr. Johansen holds a Master's Degree in Organic Chemistry from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway.



**PER BJARNE
LYNGSTAD**

*Chief Financial Officer
(CFO)*

Born: 1961

Residence: Fredrikstad

Per Bjarne Lyngstad has been with Borregaard since 1988. He was appointed CFO

in 1998 and prior to that, he assumed various finance and administrative positions in Borregaard and LignoTech USA. Mr. Lyngstad has a Graduate Programme in Economics and Business Administration (siviløkonom HAE) from the Norwegian School of Economics and Business Administration in Bergen, Norway.



**OLE GUNNAR
JAKOBSEN**

*Plant Director
of Borregaard's Sarpsborg
Site (Norway)*

Born: 1969

Residence: Sarpsborg

Ole Gunnar Jakobsen has served as Plant Director of

Borregaard's Sarpsborg production site since 2006. Since joining Borregaard in 1995, he has assumed various positions in production management in various plants at the site in Sarpsborg. Mr. Jakobsen holds a Bachelor's Degree in Mechanical Engineering and a Master's Degree in Process Engineering from Telemark University College (HiT) in Porsgrunn, Norway.



**KRISTIN
MISUND**

*Senior Vice President
(SVP), R&D and Business
development*

Born: 1965

Residence: Sarpsborg

Kristin Misund has served as SVP R&D and Business

development since May 2019. Since joining Borregaard in 1993 she has assumed various positions within R&D, including 15 years as R&D Director and head of the Corporate R&D centre. Ms Misund holds a PhD in organic chemistry from Norwegian University of Science and Technology (NTNU) in Trondheim, Norway.



**DAG ARTHUR
AASBØ**

*Senior Vice President (SVP),
Organisation and Public
Affairs*

Born: 1961

Residence: Sarpsborg

Dag Arthur Aasbø has been SVP of Organisation and Public

Affairs since 2008. Since joining Borregaard in 1993, he has assumed positions in Borregaard relating to communications and public affairs. Mr. Aasbø also has experience as editor and in communication management roles in various organisations. Mr. Aasbø holds a Bachelor's Degree in Business Administration from the Norwegian Business School (BI) and has also studied Communications/Journalism and Religion/Ethics.



**TUVA
BARNHOLT**

*Senior Vice President (SVP),
Strategic Sourcing*

Born: 1962

Residence: Fredrikstad

Tuva Barnholt has been SVP Strategic Sourcing since 2005. Since joining Borregaard

in 1998, she has assumed various positions in Borregaard including Project Manager, Energy and Production Manager and Technical Director at the Sarpsborg site. Previously, Ms. Barnholt held positions in engineering management and energy systems development at Nexans, ABB and Oslo Energi. Ms. Barnholt holds a Master of Science Degree from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway.



**SVEINUNG
HEGGGEN**

General Counsel

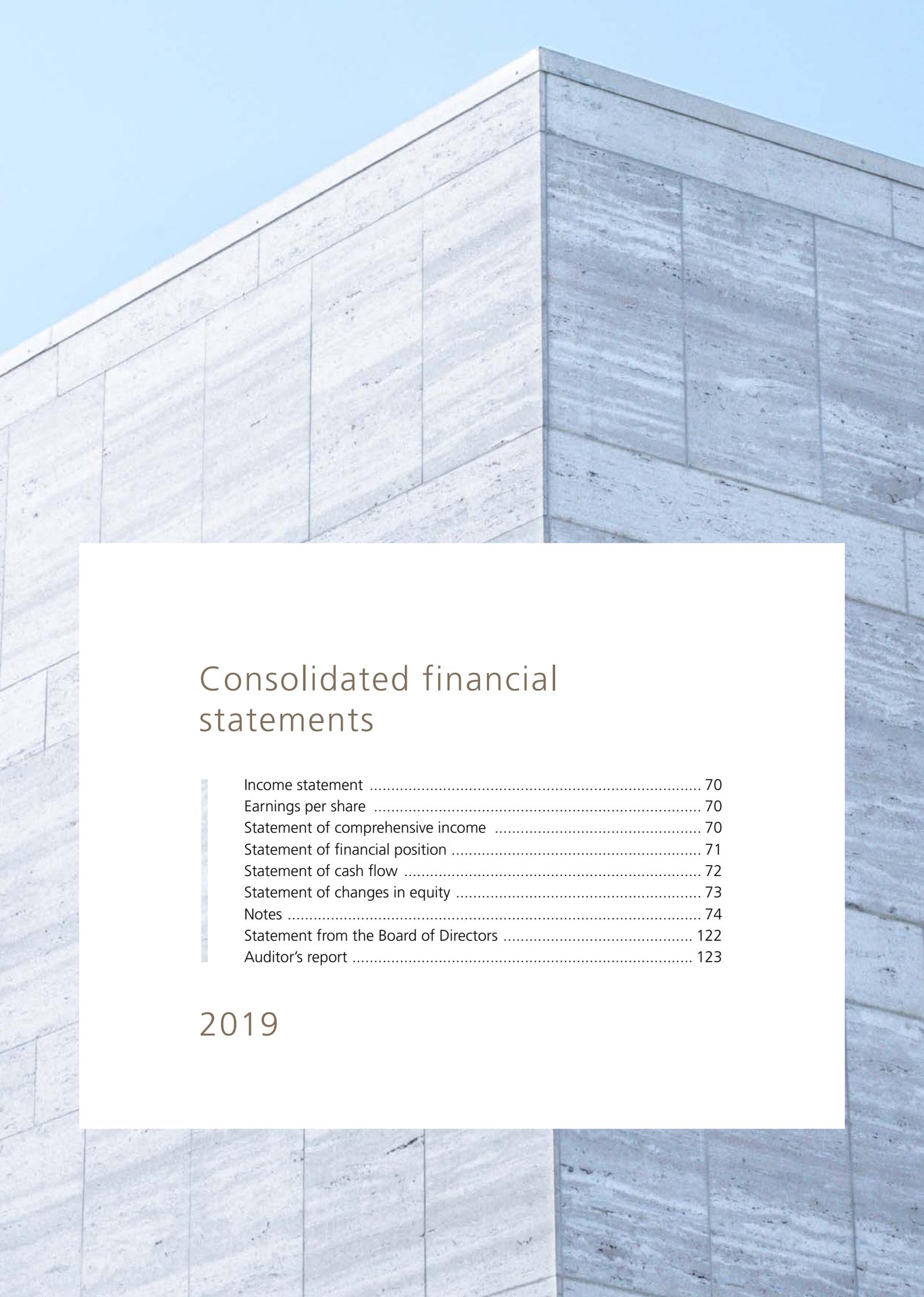
Born: 1958

Residence: Bærum

Sveinung Hegggen was appointed General Counsel of Borregaard 1 January 2013. Before joining Borregaard,

he served as attorney-at-law at Orkla ASA, Legal Department (from 1992). Prior to that, he held different positions in the Ministry of Finance, Tax Law Department (1985-1992). Mr. Hegggen holds a Cand. Jur. Degree from the University of Oslo.





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CONSOLIDATED FINANCIAL STATEMENTS 2019

INCOME STATEMENT

Amounts in NOK million	NOTE	2019	2018
Sales revenues	2, 8	4,951	4,705
Other operating revenues		112	80
OPERATING REVENUES	2, 7	5,063	4,785
Cost of materials	21	-1,890	-1,843
Payroll expenses	9,10	-1,025	-978
Other operating expenses	9,11	-1,141	-1,061
Depreciation and impairment property, plant and equipment	12,17,18	-418	-323
Amortisation intangible assets	17	-4	-4
Other income and expenses ¹	13	-27	-
OPERATING PROFIT		558	576
Finance income	14	277	313
Finance costs	14	-368	-327
Financial items, net	14	-91	-14
PROFIT/LOSS BEFORE TAXES		467	562
Taxes	15	-116	-137
PROFIT/LOSS FOR THE YEAR		351	425
Profit/loss attributable to non-controlling interests	31	-66	-51
Profit/loss attributable to owners of the parent		417	476
EBITDA ¹		1,007	903

EARNINGS PER SHARE

Amounts in NOK	NOTE	2019	2018
Earnings per share (100 million shares)	16	4.17	4.76
Diluted earnings per share	16	4.18	4.76

STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	NOTE	2019	2018
PROFIT/LOSS FOR THE YEAR		351	425
ITEMS NOT TO BE RECLASSIFIED TO P&L			
Actuarial gains and losses (after tax)	10, 15	-4	5
Total		-4	5
ITEMS TO BE RECLASSIFIED TO P&L			
Change in hedging reserve after tax (cash flow)	15, 29	9	-103
Change in hedging reserve after tax (net investment in subsidiaries)	15	-12	-25
Translation effects		7	32
Translation effects joint venture	6	4	-12
Total		8	-108
TOTAL ITEMS NOT TO BE AND TO BE RECLASSIFIED TO P&L		4	-103
THE GROUP'S COMPREHENSIVE INCOME		355	322
Profit/loss attributable to non-controlling interests	31	-64	-42
Profit/loss attributable to owners of the parent		419	364

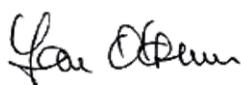
¹ Alternative performance measures, see page 134 for definition.

STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	31.12.2019	31.12.2018
ASSETS			
Intangible assets	17	93	100
Property, plant and equipment	18	3,852	3,623
Right-of-use assets	12	380	-
Deferred tax assets	15	11	2
Investment in joint venture	6	99	100
Other assets	20	240	228
NON-CURRENT ASSETS		4,675	4,053
Inventories	21	931	856
Receivables	22	991	956
Cash and cash equivalents	23	147	86
CURRENT ASSETS		2,069	1,898
TOTAL ASSETS		6,744	5,951
EQUITY AND LIABILITIES			
Group equity	30	3,306	3,123
Non-controlling interests	31	158	198
TOTAL EQUITY		3,464	3,321
Deferred tax	15	80	51
Provisions and other liabilities	24	214	220
Interest-bearing liabilities	27	1,419	1,115
NON-CURRENT LIABILITIES		1,713	1,386
Interest-bearing liabilities	27	608	272
Income tax payable	15	79	111
Other liabilities	25	880	861
CURRENT LIABILITIES		1,567	1,244
EQUITY AND LIABILITIES		6,744	5,951

Sarpsborg, 18 March 2020

THE BOARD OF DIRECTORS OF BORREGAARD ASA



JAN ANDERS OKSUM

Chair



TERJE ANDERSEN



TOVE ANDERSEN



MARGRETHE HAUGE



HELGE AASEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLIE

President and CEO

STATEMENT OF CASH FLOW

Amounts in NOK million	NOTE	2019	2018
Profit/loss before taxes		467	562
Amortisation, depreciation and impairment charges		432	327
Changes in net working capital, etc.		-85	-194
Dividend (share of profit) from joint venture	6	5	6
Taxes paid		-122	-143
CASH FLOW FROM OPERATING ACTIVITIES		697	558
Investments property, plant and equipment and intangible assets*	17,18	-583	-762
Other capital transactions		29	13
CASH FLOW FROM INVESTING ACTIVITIES		-554	-749
Dividends		-224	-199
Proceeds from exercise of share options/shares to employees		35	23
Buy-back of treasury shares		-60	-32
Gain/loss on hedges of net investments in subsidiaries		-26	-22
NET PAID TO SHAREHOLDERS		-275	-230
Proceeds from interest-bearing liabilities		2,100	1,292
Repayment of interest-bearing debt		-1,971	-960
Change in interest-bearing receivables/other liabilities		-3	-2
CHANGE IN NET INTEREST-BEARING LIABILITIES	27	126	330
CASH FLOW FROM FINANCING ACTIVITIES		-149	100
CHANGE IN CASH AND CASH EQUIVALENTS	23	-6	-91
Cash and cash equivalents as of 1 January		86	180
Change in cash and cash equivalents		-6	-91
Currency effect of cash and cash equivalents		1	-3
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	23	81	86

* INVESTMENTS BY CATEGORY

Amounts in NOK million	NOTE	2019	2018
Replacement investments	17, 18	370	346
Expansion investments ¹	17, 18	213	416
TOTAL		583	762

The cash flow statement has been prepared according to the indirect method and reflects cash flows from operating,

investing and financing activities and explains changes in “Cash and cash equivalents” in the reporting period.

¹ Alternative performance measures, see page 134 for definition.

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK million	Share capital (Note 30)	Share premium fund	Other paid-in equity	Retained earnings	Hedging reserve	Translation reserve	Actuarial gains/losses	Total Group equity	Non-controlling interests	Total equity
EQUITY 31 DECEMBER 2017	100	1,346	418	1,085	-120	82	-22	2,889	107	2,996
Profit/loss for the year	-	-	-	476	-	-	-	476	-51	425
Items in other comprehensive income	-	-	-	-	-128	11	5	-112	9	-103
The Group's comprehensive income	-	-	-	476	-128	11	5	364	-42	322
Paid dividend	-	-	-	-199	-	-	-	-199	-	-199
Buy-back of treasury shares (Note 30)	-	-	-	-32	-	-	-	-32	-	-32
Exercise of share options (Note 9, 30)	-	-	6	-	-	-	-	6	-	6
Shares to employees (Note 9, 30)	-	-	23	-	-	-	-	23	-	23
Option costs (share-based payment)	-	-	6	-	-	-	-	6	-	6
Additions of non-controlling interests (Note 31)	-	-	192	-126	-	-	-	66	133	199
EQUITY 31 DECEMBER 2018	100	1,346	645	1,204	-248	93	-17	3,123	198	3,321
Profit/loss for the year	-	-	-	417	-	-	-	417	-66	351
Items in other comprehensive income	-	-	-	-	-3	9	-4	2	2	4
The Group's comprehensive income	-	-	-	417	-3	9	-4	419	-64	355
Paid dividend	-	-	-	-224	-	-	-	-224	-	-224
Buy-back of treasury shares (Note 30)	-	-	-	-60	-	-	-	-60	-	-60
Exercise of share options (Note 9, 30)	-	-	18	-	-	-	-	18	-	18
Shares to employees (Note 9, 30)	-	-	23	-	-	-	-	23	-	23
Option costs (share-based payment)	-	-	10	-	-	-	-	10	-	10
Additions of non-controlling interests (Note 31)	-	-	-	-3	-	-	-	-3	24	21
EQUITY 31 DECEMBER 2019	100	1,346	696	1,334	-251	102	-21	3,306	158	3,464



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NOTE 01 General information

The consolidated financial statements for Borregaard ASA (Borregaard/Group), including notes, for the year 2019, were endorsed by the Board of Directors (the Board) of Borregaard ASA on 18 March 2020. Borregaard ASA is a public limited company and its offices are located in Hjalmar Wessels vei 6, 1721 Sarpsborg, Norway. Borregaard develops, produces and markets specialised biomaterials, biochemicals and biofuels to a wide range of customers in global niches. Borregaard's business model is linked to its advanced biorefinery that utilises the different components in the biomass to produce high value-added products that to a large extent can substitute petrochemical alternatives. Borregaard is an international company with production units and sales offices in the world's most important industrial markets.

The financial statements for 2019 have been prepared and presented in full compliance with the International Financial Reporting Standards (IFRS), as adopted by the EU. The valuation and recognition of the items in the financial statements have been carried out in accordance with current IFRS standards. The consolidated financial statements contain certain items that are crucial to understand the financial results for 2019. The most important principles are described below. Borregaard is exposed to currency risk for most of its sales, primarily in USD and EUR. A substantial part of this exposure, defined

as estimated net cash flow in USD or EUR, is routinely hedged on a rolling basis with a nine-month time horizon. Subject to certain criteria being met, the hedging horizon may be extended to three years in order to secure competitive margins. On the revenue side, most of Borregaard's business segments are exposed to price risk in international markets. The accounting policies regarding hedging are described in Note 29 and information regarding currency risks is provided in Note 28. Other income and expenses¹ (OIE) are presented as part of operating profit in the Income Statement, but are presented after EBITDA¹ in the segment information in Note 7, which are reported according to management reporting. See Note 13 for details and specifications. The accounting policies for business areas are described in segment information for the various business areas in Note 7.

Borregaard has made changes to the Group's segment reporting and the composition of the business areas, see Note 7. Borregaard has business areas as operating segments. The operating segments correspond to the way in which the business areas report figures to the Group executive management (key decision maker). The segments are BioSolutions, BioMaterials and Fine Chemicals.

NOTE 02 Basis for preparation

Borregaard ASA was incorporated as a public limited liability company on 22 August 2012. The Borregaard Group includes subsidiaries and a joint venture directly and indirectly owned by Borregaard ASA. The consolidated financial statements are primarily based on the historical cost principle.

Sales revenues from contracts with customers are recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements. However, Borregaard acts as an agent related to freight services where Borregaard invoices the customer on behalf of the carrier and has no risk related to the freight services. See Note 8.

Sales revenues are presented after deducting discounts, value-added tax and other government charges and taxes. Borregaard sells goods in many different markets, and revenues from the sale of goods are recognised in the income statement when the risk and rewards of ownership of the

goods are passed to the buyer, in accordance with delivery terms. Interest income is recognised in the income statement when earned, while any dividends are recognised on the date they are approved for payment. Interest income and dividends are presented under "financial income".

The Group has at all times various contracts for the sale and purchase of goods and services in connection with the production. These contracts are regarded as part of Borregaard's ordinary operating activities and are therefore not specified or indicated in any other way. The contracts are deemed to be strictly sale or purchase contracts with no embedded derivatives. The company also enters into currency derivatives contracts.

Hedging instruments which satisfy the criteria for hedge accounting, are reported at fair value in the statement of financial position and changes in fair value are recognised in comprehensive income. Derivatives which do not satisfy the criteria for hedge accounting, are recognised at fair value through profit and loss.

¹ Alternative performance measures, see page 134 for definition.

Assets that no longer justify their value are written down to the recoverable amount, which is the higher of value in use and fair value minus selling costs.

The accrual accounting principle and the going concern assumption are underlying assumptions for preparing the combined financial statements.

An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it falls due within 12 months and when it consists of cash or cash equivalents on the statement of financial position date. Other items are non-current. A dividend does not become a liability until it has been formally approved by the General Meeting. The amortisation of intangible assets and other income and expenses¹ are presented on separate lines, broken down by segment.

All amounts are in NOK million unless otherwise stated. The functional currency of the parent company (Borregaard ASA) is NOK and the Group's reporting currency is NOK. Currency exchange rates as of 31 December are used in the balance sheet, whereas average currency exchange rates are used in the profit and loss.

CONSOLIDATION PRINCIPLES

The consolidated financial statements show the overall financial results and the overall financial position when the parent company Borregaard ASA and its controlling interests are presented as a single economic entity. All the companies have applied consistent principles and all internal matters between the companies have been eliminated.

Interests in companies in which the Group alone has control (subsidiaries) have been fully consolidated, line by line, in the consolidated financial statements from the date the Group had control. These entities will be fully consolidated until the date such control ends. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. If the Group controls a subsidiary, the non-controlling interests' share of profit or loss after tax and their share of equity are presented on separate lines.

Interests in companies in which the Group together with others has joint control (joint ventures, see Note 6) are consolidated based on the equity method. The profit or loss from the joint venture is part of operating profit. Borregaard ASA does not have any interests in associated companies (normally 20-50% owned companies).

Business combinations are accounted for using the acquisition method. In connection with the acquisition of a subsidiary, the establishment of a joint venture or any acquisitions of significant influence in associates, a purchase price allocation is carried out. The acquisition is reported in the financial statements from the date the Group has control. The date of control is normally the date on which the acquisition agreement takes effect and has been approved by all relevant authorities. Assets and liabilities are measured at fair value at the time of acquisition. If there are non-controlling interests in the acquired company, these will be measured at their share of identified assets and liabilities. Goodwill allocated to non-controlling interests is considered separately in each acquisition. Goodwill is determined as the excess of the purchase price and the amount recognised as non-controlling interest over the fair value of identified assets and liabilities assumed.

OTHER MATTERS

Emission rights. Government granted and purchased CO₂ emission allowances are expected to be used towards Borregaard's own emissions. Purchased CO₂ emission allowances are recognised as intangible assets at nominal value (cost). In case there are actual CO₂ emissions exceeding the level covered by emission rights, those are recognised as a liability. Sale of government granted CO₂ emission rights are recognised at the time of sale at the transaction price. If purchased for trading, CO₂ emission allowances purchased for trading are measured and classified as inventory. As of 31 December 2019, Borregaard owns 787,239 CO₂ emission rights.

Contingent liabilities and contingent assets. A contingent liability or asset is a possible obligation or a possible asset whose existence is uncertain and will be confirmed by the occurrence or non-occurrence of a future event, such as the outcome of legal proceedings or the final settlement of an insurance claim. Liabilities are recognised in the financial statements if there is a more than a 50% probability that the liability has arisen; if the probability is lower, the matter is disclosed in notes to the financial statements unless the probability of payment is remote. An asset will only be recognised in the statement of financial position if it is virtually certain (95%) that the Group will realise the asset. The disclosure requirement applies to other contingent assets.

NOTE 03 New accounting standards

The consolidated financial statements will be affected by IFRS amendments in the future. Many IFRS projects are finalised, but some of them have either not been finally adopted or not been endorsed by the EU. It is highly likely that many of these projects will be adopted. The following section covers only the amendments that will or may be of relevance for accounting in Borregaard.

The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective and approved by EU.

In 2019, the Group applied IFRS 16, Leases, for the first time. The nature and effect of the changes as a result of adoption of the new accounting standard is described in Note 12.

Other amendments and interpretations that apply for the first time in 2019, do not have an impact on the consolidated financial statements of the Group.

IFRIC Interpretation 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Interpretation did not have a significant impact on the consolidated financial statements of the Group.

NOTE 04 Use of estimates

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

related to contingent liabilities. Areas where estimates have considerable significance are, for example:

Amounts in NOK million	NOTE	ESTIMATE/ASSUMPTIONS	CARRYING VALUE 31 DECEMBER 2019	CARRYING VALUE 31 DECEMBER 2018
Property, plant and equipment	18	Recoverable amount and estimation of correct remaining useful life	3,852	3,623
Right-of-use assets	12	Financial leases and discount rates used	380	-
Pension liabilities (net)	10	Economic and demographic assumptions	96	79
Environmental provisions	35	Provisions for permanent closure of the Opsund landfill and measures to strengthen ground water barriers and for handling polluted soil around the chlor-alkali plant in Sarpsborg	19	46

Property, plant and equipment are largely based on a directly paid cost price and depreciated over estimated useful life. In the case of several of Borregaard's tangible assets, changes in assumptions may lead to substantial changes in value.

Other estimates and assumptions are reported in various notes and any information that is not logically included in other notes is presented in Note 35 "Other matters".

Future events and changes in operating parameters may make it necessary to change estimates and assumptions. New interpretations of standards may result in changes in the principles chosen and presentation. Such changes will be recognised in the financial statements when new estimates

are prepared and whenever new requirements with regard to presentation are introduced. These matters are discussed in both the section on new accounting standards and other notes.

EXERCISE OF JUDGEMENT

The financial statements may also be affected by the choice of accounting principles and the judgement exercised in applying them. This applies, for instance, to the assessment of items presented as other income and expenses on a separate line. It is important to note that a different set of assumptions for the presentation of the financial statements could have resulted in changes in the lines presented.

NOTE 05 Impairment assessments

Goodwill and intangible assets with an indefinite useful life must be tested annually for impairment to assess whether the values are recoverable. Borregaard carries out this test prior to preparing and presenting its financial statements for the 3rd quarter. If there are indications of impairments, the assets are tested immediately. A new impairment test is carried out in the 4th quarter when necessary, for instance if the underlying assumptions have changed.

Borregaard has substantial non-current assets in the form of tangible (property, plant and equipment) and some minor intangible assets. An explanation of the details of and changes in these assets is presented separately in Note 17 and 18.

Estimate uncertainty, in some cases considerable, attaches to both property, plant and equipment and intangible assets. Both valuation and estimated useful lifetime are based on future information that is always subject to a great degree of uncertainty.

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

Cash flows relating to the assets are identified (see table below) and discounted. Future cash flow is based on specified assumptions and the plans adopted by the entity. If the discounted value of future cash flows is lower than the capitalised value of the unit's capital employed, the assets are written down to the recoverable amount. If the discounted value is higher than the capital employed, this means that the value of the intangible asset or goodwill is recoverable.

Borregaard's goodwill is related to the prior acquisition of Borregaard Austria Group and no impairment charges are identified:

	GOODWILL	
Amounts in NOK million	2019	2018
Borregaard Austria Group	32	32
TOTAL GOODWILL	32	32

ESTIMATE ASSUMPTIONS AND CASH-GENERATING UNITS

A cash-generating unit (CGU) is the lowest level at which independent cash flows can be measured. Based on the forecasts, expectations and assumptions that were applied, Borregaard Austria Group's CGU justify the capitalised value of goodwill at 31 December 2019 and the fair value exceeds the book value.

Calculations of future cash flows are based on a number of assumptions regarding both economic trends and the estimated useful life. Borregaard is affected by fluctuating markets and estimates made in weak markets can differ substantially from estimates made in stronger markets.

The discount rate applied is based on the Group's cost of capital, which in general has been estimated to be in the range of 6-11% before tax, based on a weighted average of required rates of return for the Group's equity and debt (WACC).

The required rate of return on the Group's equity is estimated by using the capital asset pricing model (CAPM). The required rate of return on debt is estimated on the basis of a long-term risk-free interest rate to which is added a credit margin derived from Borregaard's marginal long-term borrowing rate. The discount rate is adjusted for country risk, the level of inflation and operational risk, depending on the particular value being calculated.

Future cash flows are estimated on the basis of the budget for next year and the following two forecast years. As from year four a terminal value is calculated. Cash flow estimates are sensitive to changes in sales revenues, raw material and energy prices and the coherent ability to maintain margin assumptions. The sensitivity of the estimates, even when there is a reasonable possibility of a change in assumptions, did not give grounds for impairment charges.

NOTE 06 Joint venture

The Group has a 50% interest in Umkomaas Lignin Ltd (LignoTech South Africa). The Group's interest in the joint venture is accounted for using the equity method in the consolidated financial statements. The result from the joint venture is accounted for as part of operating revenues. Summarised financial information of the joint venture, based on its IFRS financial statements, eliminating sales and costs for transactions with the Borregaard Group, and reconciled with the carrying amount of the investment in the consolidated financial statements, are set out below. For guarantees, see Note 32.

The consolidated financial statements include the entire Borregaard Group, where the joint venture is accounted for using the equity method. The consolidated figures in the Sustainability and Corporate Responsibility Report do not include the joint venture as Borregaard does not control the operation of LignoTech South Africa. LignoTech South Africa is however important for Borregaard and its relevant stakeholders and is therefore referred to in Chapter D of the Sustainability and Corporate Responsibility Report.

Amounts in NOK million	2019	2018
Operating revenues	324	301
Operating expenses	-261	-237
Net financial items	-1	-6
Profit before taxes	62	58
Taxes	-18	-16
Profit/loss for the year before dividend	44	42
Borregaard's share of profit for the year	22	21
Non-current assets	183	154
Current assets	136	116
Cash and cash equivalents	20	52
Total assets	339	322
Equity	198	200
Non-current liabilities	40	46
Current liabilities	101	76
Equity and liabilities	339	322
Borregaard's carrying amount of the investment	99	100
	2019	2018
Share in joint venture 1 January	100	118
Share of profit after tax	22	21
Dividend	-27	-27
Currency translation effect	4	-12
Share in joint venture 31 December	99	100

NOTE 07 Segments

Borregaard has business areas as operating segments. The operating segments correspond to the way in which the business areas report figures to the Group executive management (key decision maker). Borregaard has made changes to the Group's segment reporting and the composition of the business areas in order to better align with value chains in production and internal reporting structures. All lignin-based products, including biovanillin, have been organised under one management in BioSolutions. The new segment consists of the previous Performance Chemicals and the Ingredients part of Other Businesses. BioMaterials consist of products utilising wood fibres as the main raw material, and include the speciality cellulose and cellulose fibrils businesses. Fine Chemicals include pharma intermediates mainly used for diagnostics and bioethanol (mainly for biofuel). Corporate overhead and certain other costs that previously have been reported under Other Businesses, have been allocated to the three business segments. Segment performance, which previously has been measured based on EBITA¹, will primarily be measured based on EBITDA.

BioSolutions develops, produces and sells biopolymers and biovanillin from lignin.

BioMaterials develops, produces and sells speciality cellulose mainly for use as a raw material in the production of cellulose

ethers, cellulose acetate and other speciality products. BioMaterials also includes cellulose fibrils for industrial applications, which are in the market introduction phase.

Fine Chemicals consists of pharma intermediates and second-generation bioethanol.

BioSolutions and BioMaterials contribute more than 90% of the revenue and EBITDA in the Borregaard Group.

Corporate overhead and certain other costs that previously have been reported under Other Businesses, have been allocated to the three business segments. The arm's length principle is applied to pricing of transactions between the various segments and companies. Borregaard AS provides services to the companies in the Group and charges them for these services.

Figures for the geographical distribution of non-current operating assets, investments in property, plant and equipment, sales revenues and the number of man-years are also presented. See Note 8.

The Group applies the same principles for the presentation of segment information as for the rest of its consolidated financial statements, and the operating profit/loss in the segment

¹ Alternative performance measures, see page 134 for definition.

information is identical to the information presented in the income statement for the Group. There is therefore no need for further reconciliation of these income statement items. Borregaard has a central finance function, and the financing of the various segments does not necessarily reflect the real financial strength of the individual segments. Financial items are therefore presented only for the Group as a whole.

The segment information tables show the key figures in which management monitors the business, such as total operating revenue, operating expenses, EBITDA, depreciation, amortisation and impairment of intangible assets, other income and expenses and operating profit for each business area. It does not disclose internal sales between the various segments

as it is considered immaterial.

The table below shows the revenues generated by BioSolutions, BioMaterials and Fine Chemicals. Operating revenues consist of sales revenues (Note 8) and other revenues such as commissions, revenues from waste received for incineration etc.

The segment information also includes cash flow from operations¹, replacement investments, expansion investments¹ and working capital for each area.

The 2018 figures are restated to reflect the new business segments.

SEGMENTS 2019

Amounts in NOK million	BIO-SOLUTIONS	BIO-MATERIALS	FINE CHEMICALS	ELIMINATIONS	BORREGAARD GROUP
INCOME STATEMENT					
Total operating revenue	2,982	1,712	406	-37	5,063
Operating expenses and depreciation	-2,335	-1,478	-280	37	-4,056
EBITDA ¹	647	234	126	-	1,007
Depreciation and write-down	-183	-203	-32	-	-418
Amortisation and impairment intangible assets	-4	-	-	-	-4
Other income and expenses ¹	-16	-11	-	-	-27
Operating profit	444	20	94	-	558
Net financial items					-91
Profit before tax					467
CASH FLOW					
Cash flow from operations ¹	559	253	93	-	905
Replacement investments	-123	-216	-31	-	-370
Expansion investments ¹	-176	-34	-3	-	-213
CAPITAL STRUCTURE					
Working capital at year-end	717	287	139	-	1,143
Capital employed ¹ at year-end					5,435
Return on capital employed ¹					10,9%

SEGMENTS 2018

Amounts in NOK million	BIO-SOLUTIONS	BIO-MATERIALS	FINE CHEMICALS	ELIMINATIONS	BORREGAARD GROUP
INCOME STATEMENT					
Total operating revenue	2,775	1,661	374	-25	4,785
Operating expenses and depreciation	-2,276	-1,349	-282	25	-3,882
EBITDA ¹	499	312	92	-	903
Depreciation and write-down	-113	-189	-21	-	-323
Amortisation and impairment intangible assets	-4	-	-	-	-4
Other income and expenses ¹	-	-	-	-	-
Operating profit	382	123	71	-	576
Net financial items					-14
Profit before tax					562
CASH FLOW					
Cash flow from operations ¹	403	261	45	-	709
Replacement investments	-151	-169	-26	-	-346
Expansion investments ¹	-277	-110	-29	-	-416
CAPITAL STRUCTURE					
Working capital at year-end	617	317	101	-	1,035
Capital employed ¹ at year-end					4,937
Return on capital employed ¹					12.7%

¹ Alternative performance measures, see page 134 for definition.

RECONCILIATION CAPITAL EMPLOYED¹

Amounts in NOK million	2019	2018
CAPITAL EMPLOYED¹	5,435	4,937
Right-of-use assets (IFRS 16 Leases)	380	-
Other non-current assets	57	228
Cash and cash equivalents	147	86
Net deferred tax	-69	-49
Interest-bearing liabilities	-1,640	-1,387
Interest-bearing liabilities IFRS 16 leases	-387	-
Income tax payable	-79	-111
Accumulated write-down and amortisation of goodwill and intangible assets	-162	-157
Other (derivatives, accruals, etc.)	-218	-226
EQUITY	3,464	3,321

RECONCILIATION CASH FLOW FROM OPERATIONS¹

Amounts in NOK million	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES	697	558
Financial items, net	91	14
Taxes paid	122	143
Share of JV dividend/profit after tax	-5	-6
CASH FLOW FROM OPERATIONS¹	905	709

RECONCILIATION WORKING CAPITAL

Amounts in NOK million	2019	2018
Receivables	991	956
Inventories	931	856
Other liabilities	-880	-861
Derivatives etc. not included in above items	101	84
WORKING CAPITAL	1,143	1,035

NOTE 08 Revenues and geographical breakdown

IFRS 15, Revenue from contracts with customers, was implemented from 1 January 2018. Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g. disposals of property, plant and equipment).

For contracts with customers, sale of Borregaard's products is generally expected to be the only performance obligation. The Group's revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally on

delivery of the goods. Borregaard also have some contracts that include volume rebates to some customers. The Group currently recognises rebates based on the most likely amount method which is also in line with IFRS 15.

Borregaard has operations in several countries and below is a summary showing the geographical breakdown of non-current operating assets, investments, number of man-years based on the geographical location of the operation. Sales revenues are based on the location of the customers.

¹ Alternative performance measures, see page 134 for definition.

Amounts in NOK million	NON-CURRENT OPERATING ASSETS		INVESTMENTS		NUMBER OF MAN-YEARS ²		SALES REVENUES	
	2019	2018	2019	2018	2019	2018	2019	2018
Norway	3,354	2,835	513	605	776	757	245	234
Rest of Europe	79	74	4	3	119	124	2,247	2,095
Asia	7	3	1	1	58	57	1,025	989
America	885	811	65	153	173	159	1,383	1,328
Rest of the world	-	-	-	-	-	-	51	59
TOTAL	4,325	3,723	583	762	1,126	1,097	4,951	4,705

SALES REVENUES PER PRODUCT GROUP

Amounts in NOK million	2019	2018
BioSolutions	2,873	2,708
BioMaterials	1,679	1,630
Fine Chemicals	400	369
Eliminations	-1	-2
TOTAL REVENUES	4,951	4,705

Operating revenues consist of sales revenues and other revenues such as commissions, revenues from waste received for incineration etc.

NOTE 09 Payroll expenses and remuneration

Amounts in NOK million	2019	2018
Wages	-834	-799
Share-based payments (options and discounted shares)	-13	-12
Employer's national insurance contribution	-106	-99
Pension costs (Note 10)	-69	-65
Remuneration to Board Members	-3	-3
PAYROLL EXPENSES	-1,025	-978
Average number of man-years	1,106	1,084

REMUNERATION OF THE EXECUTIVE MANAGEMENT

2019

Amounts in NOK thousand	BASE SALARY	BONUS	PENSION COST	BENEFITS IN KIND	TOTAL
Per A. Sørli	3,613	430	756	253	5,052
Tom Erik Foss-Jacobsen	2,149	285	370	216	3,020
Gisle Løhre Johansen	1,823	221	264	230	2,538
Ole Gunnar Jakobsen	1,768	211	247	172	2,398
Tuva Barnholt *	958	190	201	222	1,571
Per Bjarne Lyngstad	1,830	217	257	220	2,524
Dag Arthur Aasbø	1,585	190	212	165	2,152
Sveinung Heggen	2,185	167	324	233	2,909
Kristin Misund **	1,460	191	217	153	2,021
Liv Longva *	1,256	93	140	178	1,667
Morten Harlem ***	1,108	-	146	109	1,363
TOTAL REMUNERATION	19,735	2,195	3,134	2,151	27,215

* Liv Longva has acted as a member of the Group Executive Management in parts of 2019 during Tuva Barnholt's absence.

** Member of the Executive Management since May 2019, remuneration for entire year

*** Left position and Borregaard in May 2019, remuneration is for period as part of the Executive Management

² Excluding employees in joint venture in LignoTech South Africa.

2018

Amounts in NOK thousand	BASE SALARY	BONUS	PENSION COST	BENEFITS IN KIND	TOTAL
Per A. Sørli	3,239	695	680	252	4,866
Morten Harlem	2,317	504	374	255	3,450
Tom Erik Foss-Jacobsen	1,687	364	240	219	2,510
Gisle Løhre Johansen	1,691	365	251	161	2,468
Ole Gunnar Jakobsen	1,582	341	221	195	2,339
Tuva Barnholt	1,563	337	243	203	2,346
Per Bjarne Lyngstad	1,778	383	268	217	2,646
Dag Arthur Aasbø	1,558	337	225	163	2,283
Sveinung Heggen	2,163	204	337	232	2,938
Liv Longva *	1,268	101	153	174	1,696
TOTAL REMUNERATION	18,848	3,631	2,992	2,071	27,542

* Liv Longva has acted as a member of the Group Executive Management in parts of 2018 during Tuva Barnholt's absence. Remuneration is actual paid remuneration in the respective years and includes vacation pay on salary earned the previous year. Bonuses however is accrued bonuses the respective years to be paid the next year

REMUNERATION GUIDELINES – 2019

Borregaard's remuneration guidelines for persons in managerial positions cover base salary, pensions, annual bonus and long-term incentives (LTI).

In general, remuneration shall be competitive and simple with long-term arrangements that have appropriate flexibility. Furthermore, there should be consistency between the personal compensation elements and the Company's goals and results. Borregaard uses recognised external job assessment systems to benchmark its remuneration programme. In addition to the executive management, a few key persons are also included in the annual bonus and LTI plan.

The base salary level should be close to the median for comparable companies and positions.

The pension scheme

The pension scheme is based on a defined contribution plan for all employees in Norway. In general, the intention is that the system should give the same relative pension independent of salary level. The contribution level is 5% of salary between 0 and 7.1G and 20% of salary over 7.1G. 1G is Norwegian National Insurance Scheme's basic amount and was NOK 99,858 as of 31 December 2019.

Annual bonuses

Annual bonuses are based on performance within financial results (ROCE¹ and EVA-improvement³) and EHS (total recordable injuries and sick leave) in addition to specific personal goals. Maximum annual bonus is 50% of the annual base salary. A defined "good performance level" should, over time, give a bonus of 30%. Annual bonus includes holiday payment, but does not provide basis for pension contributions. If, during a period of three years after the bonus is paid out, it appears that the basis for the bonus calculation was wrong, the company has the right to make corrections in the form of reduced future bonus payments.

Share-based options

Key employees (including Group Executive Management) receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of share-based options is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given below. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for share-based options at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. The share-based options are settled as part of equity and not cash.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

¹ Alternative performance measures, see page 134 for definition.

³ Economic value added.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of a share-based option award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 16).

General information about the long-term incentive (LTI) scheme
The Borregaard LTI scheme is a share option scheme related to the share price and is part of an overall remuneration programme for senior management and key personnel. The share option scheme implies that employees can obtain options that entitle them to purchase a defined number of shares at a given value after a fixed period of time. In order to adapt the scheme to its objectives, allocation of new share options and opportunities for gain are subject to a number of limitations.

The Board will consider on an annual basis whether to allocate options, and can provide guidance for such allocation in accordance with the framework of these guidelines. The Board may decide whether the options are to be actual or synthetic.

The share option scheme must be approved at Borregaard's General Meeting. The Board and its compensation committee will ensure that the allocation of options and the administration of the scheme comply with the intentions.

The purpose of the scheme

The scheme is based on two main factors:

- Strengthening of the ownership perspective, in that the development of shareholder value (share price) and investment in shares are the criteria for this compensation.
- Retention; Providing senior managers and other key personnel an incentive for staying with the company over the long-term.

Members of the Group Executive Management team are expected, including through the share option scheme, to build up and retain a holding of Borregaard shares corresponding

to two annual base salaries for the CEO and one annual base salary for the other members of the Group Executive Management.

Allocation criteria

Options may be granted to employees in certain senior positions where there is a particular need for an ownership perspective and a long-term attachment to the company. This applies to the President and CEO and other members of the Group Executive Management as well as key personnel and specialists in the business areas and corporate staff based on a number of defined criteria:

- The employee/position is particularly important/critical for achievement of the company's goals.
- The employee has delivered a good performance in line with the company's culture and values.
- The employee is considered difficult to replace, and there may be a risk that he/she will leave the company.

Restrictions on allocations

- Annually, the total allocation of new share options can only account for a maximum of 0.8% of the company's shares. The total number of outstanding options can at a maximum represent 2.0% of the company's shares.

Restrictions on gains

- Share options shall have a pre-defined strike price based on a minimum share price increase determined at allocation, where actual interest rates are part of the assessment of the strike price. The strike price shall be adjusted for dividends and other factors relevant to share capital (e.g. amortisation and new share issues).
- The total individual gain on redemption per calendar year can amount to a maximum of two annual base salaries for the President and CEO and one annual base salary for other employees.

Time limits

- The share options will expire after five years, the vesting period is three years and the options can be exercised during the last two years.

Requirements for the purchase of shares

- Employees must use at least half of the gain (after tax) to purchase Borregaard shares, with a lock-in period of three years. This requirement will remain in place for the Group Executive Management team until a shareholding equivalent to two annual base salaries for the CEO and one annual base salary for the other members is acquired.

ISSUED AND OUTSTANDING SHARE OPTIONS AS OF 31 DECEMBER 2019:

YEAR ISSUED	NUMBER OF SHARE OPTIONS ISSUED	EXERCISED/ FORFEITED SHARE OPTIONS	NUMBER OF OUTSTANDING SHARE OPTIONS	STRIKE PRICE*	EXPIRE DATE	NUMBER OF EMPLOYEES**
2015	500 000	187 000	313 000	42.24	27 Oct 2020	19
2017	364 000	33 000	331 000	96.36	17 Feb 2022	22
2018	400 000	30 000	370 000	75.75	7 Feb 2023	26
2019	400 000	30 000	370 000	80.10	6 Feb 2024	27
	1,664,000	280,000	1,384,000			

* The strike price has been adjusted for dividends. Strike prices were set at 10% above the share price at the time of allocation.

** Including Group Executive Management.

Share-based related costs for 2019 for the Group Executive Management was NOK 6 million in total for all programs.

365,000 share options issued in 2014 and 102,000 share options issued in 2015 have been exercised in 2019. 45,000 share options issued in 2015, 21,000 share options issued in 2017, 30,000 share options issued in 2018 and 30,000 share

options issued in 2019 have been forfeited in 2019. 20,000 share options issued in 2014, 20,000 share options issued in 2015 and 12,000 share options issued in 2017 have been forfeited prior to 2019.

Changes in outstanding share options for Borregaard's employees are shown in the table below:

NUMBER OF SHARE OPTIONS	2019		2018	
	NO.	WAEP*	NO.	WAEP*
Outstanding at the beginning of the year	1,577,000	64.26	1,344,000	59.90
Exercised during the year	-467,000	-	-135,000	-
Granted during the year	400,000	80.10	400,000	78.00
Forfeited during the year	-126,000	-	-32,000	-
Outstanding at year-end**	1,384,000	74.26	1,577,000	64.26
Exercisable options at year-end**	313,000	-	825,000	-

* Weighted average exercise price adjusted for dividend. Amounts in NOK.

** Expire dates are 27 October 2020 for 313,000 options, 17 February 2022 for 331,000 options, 7 February 2023 for 370,000 options and 6 February 2024 for 370,000 options.

Borregaard has used the Black-Scholes model when estimating the value of the options. The volatility is calculated on the basis of the average volatility the past years for Borregaard and Borregaard peers. See Note 35 for share options issued in 2020.

ASSUMPTIONS	2019	2018
Expected dividend-yield (%)	-	-
Expected volatility (%)	37.6	28.0
Historical volatility (%)	37.6	28.0
Risk-free return (%)	1.7	1.5
Expected life of option (years)	5.0	5.0
Weighted average share price (NOK)	76.47	74.16

SHARE OPTIONS AND SHARES HELD BY GROUP EXECUTIVE MANAGEMENT AND RELATED PARTIES AS OF 31 DECEMBER

	ISSUED 2015		ISSUED 2017		ISSUED 2018		ISSUED 2019		SHARES	
	STRIKE NOK 42.24*		STRIKE NOK 96.36*		STRIKE NOK 75.75*		STRIKE NOK 80.10*			
	No. of share options		No. of share options		No. of share options		No. of share options		No. of shares**	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Per A. Sørli	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	157,649	147,439
Tom Erik Foss-Jacobsen	30,000	30,000	17,000	17,000	20,000	20,000	20,000	20,000	38,071	37,064
Gisle Løhre Johansen	-	25,000	15,000	15,000	15,000	15,000	15,000	15,000	21,055	20,708
Kristin Misund	-	20,000	12,000	12,000	10,000	10,000	-	-	58,726	57,719
Ole Gunnar Jakobsen	-	25,000	15,000	15,000	15,000	15,000	15,000	15,000	30,819	29,812
Tuva Barnholt	20,000	25,000	15,000	15,000	15,000	15,000	15,000	15,000	19,624	30,617
Per Bjarne Lyngstad	30,000	30,000	17,000	17,000	20,000	20,000	20,000	20,000	56,052	55,045
Dag Arthur Aasbø	25,000	25 000	15,000	15,000	15,000	15,000	15,000	15,000	50,552	47,545
Sveinung Heggen	-	25 000	15,000	15,000	15,000	15,000	15,000	15,000	16,560	9,553
Liv Longva ***	15,000	15 000	-	-	15,000	15,000	15,000	15,000	7,358	6,351
TOTAL	180,000	280,000	181,000	181,000	200,000	200,000	190,000	190,000	456,466	435,502

* The strike price has been adjusted for dividends.

** Total share ownership including related parties.

*** Has acted as a member of the Group Executive Management during Tuva Barnholt's absence.

DISCOUNTED SHARES FOR EMPLOYEES

The Group has a programme that gives employees, including the members of the Group Executive Management, the opportunity to buy a limited number of shares at a discount in relation to the market price. In 2019, Borregaard sold a total of 297,756 shares to employees. The share price was NOK 57.64 per share including a 25% discount. Costs in 2019, including administration costs, related to the programme in 2019 amounted to approximately NOK 6.5 million.

SPECIAL AGREEMENTS WITH THE PRESIDENT AND CEO AND OTHER MEMBERS OF THE GROUP EXECUTIVE MANAGEMENT TEAM

If the President and CEO, Per A. Sørli, by mutual agreement and in the best interest of the company, terminates the employment contract, the employee will receive pay and contractual benefits for up to 18 months after the period of notice. 75% of any income from another permanent post during the 18-month period will be deducted. The President and CEO is included in the company's ordinary pension schemes and in addition has a pension agreement to recover 60% of annual pay including benefits from 65 to 67 years with no deduction for income from other permanent post.

There are no loans to the members of the Group Executive Management.

There are no other special agreements with the Group Executive Management team.

REMUNERATION OF THE BOARD OF DIRECTORS

In the General Meeting of the Company's shareholders in April 2019 it was determined that The Board of Directors is remunerated at annual rates for the period up to the next General Meeting in 2020:

BOARD OF DIRECTORS			
Board chair	NOK	525,000	per year
Board member, shareholder-elected	NOK	313,900	per year
Board member, employee-elected	NOK	281,400	per year
Observer, employee-elected	NOK	93,700	per year
Deputy for observer	NOK	7,200	per meeting
AUDIT COMMITTEE			
Committee chair	NOK	87,800	per year
Member	NOK	58,800	per year
COMPENSATION COMMITTEE			
Committee chair	NOK	52,600	per year
Member	NOK	41,000	per year

According to a resolution at the General Meeting in 2018, shareholder-elected Board members are required to use 20% of their annual remuneration to acquire shares in the Company, until the share value reaches an amount equivalent to one year's remuneration.

REMUNERATION OF EMPLOYEE-ELECTED BOARD MEMBERS

2019

Amounts in NOK thousand	BASE SALARY	BOARD ALLOW-ANCE	BENEFITS IN KIND/ BONUS	PENSION
Åsmund Dybedahl	671	279	42	36
Ragnhild Anker Eide	824	279	30	64

REMUNERATION OF THE NOMINATION COMMITTEE

The chair of the Nomination Committee receives NOK 58,200 per year and an additional NOK 9,400 per meeting exceeding 4 meetings. Other members receive NOK 41,000 per year and an additional NOK 7,700 per meeting exceeding 4 meetings.

For shares held by the Board of Directors, see Note 5 in the Financial Statement of Borregaard ASA.

FEEES TO GROUP EXTERNAL AUDITOR

Amounts in NOK million	2019	2018
Statutory audit	5	4
Other attestation services	-	1
Tax consultancy services	1	1
Other non-audit services	1	1
TOTAL FEES TO EY	7	7

NOTE 10 Pensions

Borregaard has a policy to use defined contribution pension plans. However, there are some defined benefit pension plans, primarily in the USA and Norway.

DEFINED CONTRIBUTION PLANS

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

Contribution plans also comprise pension plans that are common to several companies and where the pension premium is determined independently of the demographic profile in the individual companies (multi-employer plans). The company is obligated to follow the Act on Mandatory company pensions in Norway and the company meets the requirements.

DEFINED BENEFIT PLANS

Defined benefit plans are measured at the present value of accrued future pension benefits at the end of the reporting period. Pension plan assets are measured at their fair value.

Changes in accounting estimates for defined benefit plans are recognised in other comprehensive income and the net interest costs for the period is calculated by using the discount rate for the liability at the beginning of the period on the net liability. As such, the net interest cost consists of interest on the liability and the return on the plan assets, whereas both have been calculated by using the discount rate. Changes in net pension liabilities as a result of payments of premiums and pension payments have been taken into consideration. The difference between the actual return and the accounted return is recognised continuously through other comprehensive income. The current service cost and net interest income/costs are recognised immediately. The financial part of the pension cost is recognised as part of financial items, the other part is recognised in the salary and personnel cost in the income statement. Changes in value, both in assets and liabilities, are recognised through other comprehensive income.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised through profit and loss when the curtailment or settlement occurs. A curtailment occurs

when the Group decides to make a material reduction in the number of employees covered by a plan or amends the terms of a defined benefit plan such that a considerable part of the current employees' future earnings will no longer qualify for benefits or will qualify only for reduced benefits.

The introduction of a new defined benefit plan or an improvement to the current defined benefit plan will lead to changes in the pension liabilities. These will be charged to expenses in a straight line during the period until the effect of the change has been accrued. The introduction of new plans or changes to existing plans which take place with retroactive effect so that the employees immediately accrue a paid-up policy (or a change in a paid-up policy) are recognised in the statement of comprehensive income immediately. Gains or losses linked to curtailments or terminations of pension plans are recognised through profit and loss when they arise.

Borregaard has pension plans that are classified as funded benefit plans and unfunded benefit plans. Expected contributions for the next year, 2020, to the defined benefit plan obligation is NOK 13 million. The largest part of the benefit plans are in the USA and Norway.

USA

The pension plans in the USA contain three different plans; two defined benefit plans for salaried and hourly employees and one supplemental post-retirement plan. In 2016, the defined benefit plans were closed for new employees and replaced with a contribution plan.

NORWAY

The net pension liabilities consist of unfunded pension plans for key personnel and liabilities related to contribution-based plans for employees who earn more than twelve times the Norwegian National Insurance Scheme's basic amount (12G). The pension plan for employees in Norway who earn more than 12G is a contribution-based plan. The sum of the accrued contributions and the return on the plan assets are presented as a pension liability in the company's statement of financial position. The pension plan is therefore presented as a defined benefit plan.

The early retirement scheme, AFP, is recognised as a multiemployer defined contribution plan. This may change if there are sufficient reliable, consistent data to be able to recognise it as a defined benefit plan. In 2019, the premium for the early retirement scheme is 2,5% of total payments of wages between 1 and 7.1 times the average basic amount (G). All employees in Norway younger than 62 years are included, in average 779 employees in 2019, and the cost in 2019 was NOK 11 million.

PENSION PLAN ASSETS

The pension plans with pension plan assets are located in the USA. Pension plan assets are mainly invested in bonds and shares. The estimated return will vary depending on the composition of the various classes of assets. The breakdown of pension plan assets is presented below.

ASSUMPTIONS DEFINED BENEFIT PLANS

Borregaard uses the covered bonds interest rate on the Norwegian benefit plans. The discount rate is fixed at the rate

on high quality corporate bonds with the same lifetime as the pension liabilities (AA-rated corporate bonds). As a rule, parameters such as wage growth, growth in G (future social security wage base) and inflation are set in accordance with recommendations on the various countries. The mortality estimate is based on up-to-date mortality tables for the various countries. Norway: K2013, USA: Pri-2012 collar base tables from 2012 projected forward using MP-2019.

ASSUMPTIONS DEFINED BENEFIT PLANS	NORWAY		USA	
	2019	2018	2019	2018
Discount rate	2.3%	2.5%	3.1%	4.1%
Rate of return on assets	NA	NA	3.1%	4.0%
Future salary adjustment	2.25%	2.25%	4.0%	4.0%
G-multiplier*/Future social security wage base	2.25%	2.25%	3.5%	3.5%
Turnover	2.0%	2.0%	2.5%	2.5%
Expected average remaining vesting period	11.00	10.4	2.05	2.51

* 1G is NOK 99,858 as of 31 December 2019.

BREAKDOWN OF NET PENSION COSTS

Amounts in NOK million	2019	2018
Contribution plans	-55	-54
Current service cost	-14	-11
NET PENSION COSTS (incl. national insurance contributions)	-69	-65

BREAKDOWN OF NET PENSION LIABILITIES AS OF 31 DECEMBER

Amounts in NOK million	2019	2018
Present value of funded pension obligations	-435	-399
Pension plan assets (fair value)	435	399
Net funded pension assets	-	-
Present value of unfunded pension obligations	-96	-79
CAPITALISED NET PENSION LIABILITIES	-96	-79

CHANGES IN THE PRESENT VALUE OF PENSION OBLIGATIONS DURING THE YEAR

Amounts in NOK million	2019	2018
Pension obligations 1 January	-478	-507
Current service cost (incl. national insurance contributions)	-14	-11
Interest on pension obligations *	-26	-14
Actuarial gains and losses	-61	43
Benefits paid during the year	52	39
Currency translations	-4	-28
PENSION OBLIGATIONS 31.12	-531	-478

* The increase in interest expense is mainly due to increase in returns on the plan for employees with salaries over 12G, where the return was negative in 2018. See Note 14.

CHANGES IN PENSION PLAN ASSETS DURING THE YEAR

Amounts in NOK million	2019	2018
Pension plan assets (fair value) 1 January	399	422
Expected return on pension plan assets	16	15
Contributions and benefits paid during the year	-40	-26
Actuarial gains and losses	56	-38
Currency translations	4	26
PENSION PLAN ASSETS (FAIR VALUE) 31.12	435	399

BREAKDOWN OF PENSION PLAN ASSETS (FAIR VALUE)

AS OF 31 DECEMBER	2019	2018
Cash and cash equivalents and money market investments	1%	1%
Bonds	40%	40%
Shares	59%	59%
Total pension plan assets	100%	100%

SUMMARY OF NET PENSION LIABILITIES AND ADJUSTMENTS IN PAST FIVE YEARS

Amounts in NOK million	2019	2018	2017	2016	2015
Pension obligations	-531	-478	-507	-484	-484
Pension plan assets	435	399	422	388	380
Net pension liabilities	-96	-79	-85	-96	-104

SENSITIVITY

The above pension cost and pension liabilities related to defined benefit schemes, are based on the assumptions outlined above. The actuarial calculations are sensitive to any changes in the assumptions. A 1% increase in wage adjustment would imply a 3% increase in pension liability and 5% increase in pension cost (defined benefit schemes). A 1% increase in discount rate would imply a 11% decrease

in pension liability and 3% decrease in pension cost while a 1% reduction in discount rate would imply an 11% increase in pension liability and 3% increase in pension cost. The calculation is based on the weighted average of the defined benefit schemes. For the pension cost sensitivity shown only the service cost and interest cost on plan obligations components of cost are reported.

NOTE 11 Other operating expenses

The Borregaard Group has chosen to present its income statement based on the nature of the item of income or expense. Operating expenses have been broken down into the following main items: Cost of materials, payroll expenses, depreciation, amortisation and other operating expenses. Thus other operating expenses comprises all operating expenses that are not related to cost of materials, employee payrolls and capital costs in the form of depreciation. The most important items have been grouped into the following main items.

Amounts in NOK million	2019	2018
External distribution costs	-448	-437
Repair and maintenance costs	-187	-173
Consultants, legal advisors, temporary staff, etc.	-114	-87
Rental/leasing (Note 12)	-73	-105
Other	-319	-259
TOTAL OTHER OPERATING EXPENSES	-1,141	-1,061

NOTE 12 Leases and leasing

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees, if any. The lease payments

also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease of buildings have lease terms that vary from 10 years to 25 years, and several agreements involve a right of renewal which may be exercised during the last period of the lease terms. The Group assesses at the commencement whether it is reasonably certain to exercise the renewal right.

Group's lease liabilities are included in interest-bearing liabilities. See Note 27.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less) that Borregaard has adopted. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term, see table below.

Borregaard applied the following transition methods when implementing IFRS 16 from 1 January 2019:

- There were no reassessment of contracts already assessed under IAS 17 of whether a contract is or contains a lease.
- The opening balance as of 1 January 2019 was adjusted with the cumulative implementation effect ("the modified retrospective method").
- Prior year comparatives were not restated.
- Lease liabilities were measured at the present value of remaining lease payments, discounted using incremental borrowing rate as of 1 January 2019.
- Right-of-use assets were measured at an amount equal to the lease liability.

- Leases for which the lease term ended during 2019 were expensed as short term leases.
- Borregaard takes advantage of the general low value exemption in IFRS 16. This means that no low value leases (USD 5,000) will be capitalised and that lease payments will be expensed as earlier.

The incremental borrowing rate is based on interbank interest rate (NIBOR, EURIBOR or LIBOR) plus margin plus country risk mark-up.

In summary, the impact of IFRS 16 adoption was as follows on the statement of financial position as of 1 January 2019:

Item	BALANCE SHEET AMOUNT AS OF 31 DECEMBER 2018	BALANCE SHEET AMOUNT AS OF JANUARY 2019 (after implementation)
Total assets	5,951	6,184
Equity	3,321	3,321
Equity ratio	55.8%	53.7%

Operating lease commitments as at 31 December 2018	345
Weighted average incremental borrowing rate as at 1 January 2019	4.60%
Discounted using the incremental borrowing rate 1 January 2019	265
Commitments relating to short-term leases	-31
Commitments relating to leases of low-value assets	-1
Lease liability recognised at 1 January 2019	233

Discount rates used: Machinery, vehicles and equipment:
Incremental borrowing rate.

Buildings: Implicit interest rate if available. The incremental borrowing rate is based on interbank interest rate (NIBOR, EURIBOR or LIBOR) plus margin plus country risk mark-up.

Right-of-use assets

The Group leases several assets such as offices and other facilities, machinery and equipment and vehicles. The

Group's right-of-use assets are categorised and presented in the table below:

RIGHT-OF-USE ASSETS	LAND, BUILDINGS AND OTHER PROPERTY	MACHINERY, PLANT, EQUIPMENT	FIXTURES, FITTINGS, VEHICLES ETC.	OTHER ASSETS	TOTAL
Amounts in NOK million					
BALANCE AT 01 JANUARY 2019	115	8	97	13	233
Depreciations	-20	-5	-33	-4	-62
Additions	184	-	25	2	211
Termination	-	-3	-	-	-3
Currency translations	-	-3	1	-	1
BALANCE AT 31 DECEMBER 2019	279	0	90	11	380

LEASE LIABILITIES

Amounts in NOK million	2019
BALANCE AT 01 JANUARY	233
Additions	211
Payments	-55
Terminations	-3
Currency translations	1
BALANCE AT 31 DECEMBER	387

LEASE LIABILITIES cont.

Amounts in NOK million	2019
MATURITY ANALYSIS - CONTRACTUAL UNDISCOUNTED CASH FLOWS	
Less than one year	71
One to two years	59
Two to three years	49
Three to four years	34
Four to five years	27
More than five years	349
TOTAL UNDISCOUNTED LEASE LIABILITIES AT 31 DECEMBER	589
LEASE LIABILITIES INCLUDED IN THE STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER	387
Current	53
Non-current	334

AMOUNTS RECOGNISED IN PROFIT OR LOSS

Figures in NOK	2019
Depreciation expense of right-of-use assets	-61
Interest on lease liabilities	-17
Variable lease payments not included in the measurement of lease liabilities	-5
Expenses relating to short-term leases	-67
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-1
TOTAL AMOUNT RECOGNISED IN PROFIT OR LOSS	-151

AMOUNTS RECOGNISED IN THE STATEMENT OF CASH FLOW

Figures in NOK	2019
TOTAL CASH OUTFLOW FOR LEASES	145

The Group is committed to fulfil future cash outflows relating to leases amounting to NOK 60 million which is not recorded in the financial position as of 31 December 2019.

The effect of implementation of IFRS 16 from 1 January 2019 is not restated in the 2018 figures. In the table below, you will see the effects of the implementation of IFRS 16 on the Consolidated Financial Statements for Borregaard.

INCOME STATEMENT

Amounts in NOK million	BORREGAARD (IAS 17) 1.1-31.12.2019	TOTAL IFRS 16 IMPACT 1.1 - 31.12.2019	BORREGAARD (IFRS 16) 1.1-31.12.2019
EBITDA	935	72	1,007
Depreciation	-356	-62	-418
Operating profit	548	10	558
Net financial items	-74	-17	-91
Profit before tax	474	-7	467
Earnings per share	4.24	-0.07	4.17

BALANCE SHEET

Amounts in NOK million	AS OF 31.12.2018 (IAS 17)	AS OF 1.1.2019 (IFRS 16)	AS OF 31.12.2019 (IAS 17)	AS OF 31.12.2019 (IFRS 16)
Total assets	5,951	6,184	6,364	6,744
Equity	3,321	3,321	3,471	3,464
Equity ratio	55.8 %	53.7 %	54.5 %	51.4 %

NOTE 13 Other income and expenses¹

Other income and expenses largely consist of material positive and negative non-recurring items, restructuring costs and any substantial write-downs of both tangible and intangible assets. The main purpose of this line is to present material

non-recurring items and items substantially relating to other periods separately to ensure that the changes in and comparability of the lines presented in EBITDA, depreciation and amortisation are more relevant to the company.

Amounts in NOK million	2019	2018
Write-downs and costs related to discontinuation of the SenseFi project	-11	-
Restructuring of the German lignin operation	-16	-
TOTAL OTHER INCOME AND EXPENSES¹	-27	-

NOTE 14 Net financial items

Interest income and interest costs on loans and receivables are calculated using the effective interest method. Commitment fees and costs related to borrowings are reported as part of interest costs. The financial element of pension costs is included in other finance costs, and is disclosed in Note 10. Borrowing costs related to plant under construction are recognised in the statement of financial position together with the asset. Foreign currency gains or losses arising from operational assets and liabilities, and the hedging of such, are reported as operating revenues or operating costs. Other foreign currency gains or losses are reported as foreign exchange gain and foreign exchange loss. The foreign currency gains or losses related to net investments in subsidiaries are disclosed in Note 29.

FINANCE INCOME AND FINANCE COSTS

Amounts in NOK million	2019	2018
Interest income	8	4
Foreign exchange gain	269	287
Other finance income	-	22
TOTAL FINANCE INCOME	277	313
Interest costs	-77	-36
Foreign exchange loss	-281	-290
Other finance costs	-10	-1
TOTAL FINANCE COSTS	-368	-327
NET FINANCIAL ITEMS	-91	-14

An increase in committed return on the Group's unfunded pension plan was recognised as other finance costs in 2019.

See note 10. A gain of NOK 20 million related to the sale of a minority stake in Polycarbon Industries, Inc. was recognised as other finance income in 2018.

NOTE 15 Taxes

Income tax expense consists of the total of current taxes and changes in deferred tax. Current taxes are recognised in the financial statements at the amount that is expected to be paid to the tax authorities on the basis of taxable income reported for entities included in the combined financial statements. Current taxes and changes in deferred tax are taken to other comprehensive income to the extent that they relate to items that are included in other comprehensive income.

Deferred tax in the statement of financial position have been calculated at the nominal tax rate based on temporary differences between accounting and tax basis of assets and liabilities on the statement of financial position date.

Deferred tax liability relating to goodwill has not been recognised in the statement of financial position. Deferred tax assets are continuously assessed and are only recognised in the statement of financial position to the extent it is probable that future taxable profit will be large enough for the asset to be usefully applied. Deferred tax liability and deferred tax assets are offset as far as this is possible under taxation legislation and regulations.

TAX EXPENSE

Amounts in NOK million	2019	2018
Profit before tax	467	562
Current tax expense	-100	-129
Deferred tax expense	-16	-8
TOTAL TAX EXPENSE	-116	-137
Tax as % of Profit/loss before taxes	24.8%	24.4%

RECONCILIATION OF THE GROUP'S TAX RATE

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

Amounts in NOK million	2019	2018
22% (23%) of profit before taxes (tax rate in Norway)	-103	-129
Foreign operations with other tax rates than 22% (23%)	4	-2
Changes in tax rate	-	4
Joint venture	5	5
Permanent differences	-13	-9
Other current taxes	-1	1
Correction previous years	-1	-
Other deferred taxes	-7	-7
THE GROUP'S TOTAL TAX EXPENSE	-116	-137

The corporate income tax rate in Norway was 22% in 2019. The corporate income tax rate in Norway was reduced from

23% to 22% from 1 January 2019. The reduction in tax rate was reflected in the calculation of deferred tax as of 31 December 2018.

Entities in countries with tax rates other than 22% have the net effect of decreasing the tax expense. LignoTech Florida is a limited liability company (LLC) which is taxed on the owners' hand. Profit before tax is 100% consolidated in the Borregaard Group, whereas the tax expense is calculated based on Borregaard's 55% ownership.

As the profit after tax from the joint venture, LignoTech South Africa, is accounted for as part of operating profit, this does not impact the Group's tax expense and thus reduces the Group's tax rate.

There are carry forward losses in the Group which will not be recognised as deferred tax assets, and hence increase the Group's tax rate.

DEFERRED TAX LIABILITIES

Deferred tax liability consists of the Group's tax liabilities that are payable in the future. The table below lists deferred tax assets and liabilities relating to the timing differences between tax accounting and financial accounting. The table below shows the composition of the Group's deferred tax.

Amounts in NOK million	2019	2018
DEFERRED TAX ON TAX INCREASING/(REDUCING) DIFFERENCES		
Hedging taken to comprehensive income	-34	-39
Intangible assets and Property, plant and equipment	148	115
Net pension liabilities	-21	-17
Gain and loss tax deferral	2	2
Other non-current items	-11	-16
Total non-current items	84	45
Current receivables	-1	-2
Inventories	40	30
Provisions	-4	-5
Other current items	-18	-13
Total current items	17	10
Losses carried forward	-54	-21
Net deferred tax	47	34
Deferred tax assets, not recognised	22	15
NET DEFERRED TAX, RECOGNISED	69	49
Change in deferred tax	-20	22
Change in deferred tax taken to comprehensive income	3	-31
Acquisitions/sale of companies, translation effects, etc.	1	1
CHANGE IN DEFERRED TAX INCOME STATEMENT	-16	-8

NET DEFERRED TAX PRESENTED IN STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	2019	2018
Deferred tax	80	51
Deferred tax assets	11	2
NET DEFERRED TAX	69	49

LOSSES CARRIED FORWARD BY EXPIRY DATE

Amounts in NOK million	2019	2018
Without expiry date	202	82
TOTAL TAX LOSSES CARRIED FORWARD	202	82

TAX REDUCING TIMING DIFFERENCES WITH CORRESPONDING DEFERRED TAX ASSETS

2019

Amounts in NOK million	TAX REDUCING TIMING DIFFERENCES	RECOGNISED DEFERRED TAX ASSETS	UNRECOGNISED DEFERRED TAX ASSETS	TOTAL DEFERRED TAX ASSETS
LOSSES CARRIED FORWARD BY COUNTRY				
Spain	89	-	22	22
USA	81	22	-	22
Germany	32	10	-	10
TOTAL	202	32	22	54
Other tax reducing timing differences	391	90	-	90
TOTAL TAX REDUCING TIMING DIFFERENCES	593	122	22	144
Netted deferred tax	-434	-111	-	-111
NET TAX REDUCING TIMING DIFFERENCES	159	11	22	33

Deferred tax assets are only capitalised to the extent that it is probable that there will be sufficient future taxable profit for the tax asset to be used, either because the unit recently reported a profit or because assets with excess value have

been identified. If future profits are not likely to be sufficient to absorb the tax reducing timing differences, deferred tax assets are not recognised.

NOTE 16 Earnings per share (EPS)

Earnings per share are calculated on the basis of profit for the year after non-controlling interests. As a result of the Borregaard Group's option programme (see Note 9), outstanding shares may be diluted when options are exercised. In order to take into account this future increase in the number of shares outstanding, diluted earnings per share are calculated in addition to basic earnings per share. In this calculation, the

average number of shares outstanding is adjusted to take into account the estimated dilutive effect of the option programme.

The share capital consists of 100 million shares as of 31 December 2019. As of 31 December 2019 there are 99,807,055 diluted shares. There were 99,901,117 diluted shares as of 31 December 2018.

Amounts in NOK million	2019	2018
Profit/loss for the year after non-controlling interests for continuing operations	417	476
Profit/loss/gains discontinued operations	-	-
Profit/loss for the year after non-controlling interests	417	476
Weighted average number of shares outstanding	100	100
Estimated dilution effect option programme	-	-
Weighted average number of shares outstanding diluted	100	100

Amounts in NOK	2019	2018
Earnings per share	4.17	4.76
Earnings per diluted share	4.18	4.76
Dividend per share	2.30	2.25

NOTE 17 Intangible assets

Capitalised expenditure on internally generated or specially adapted computer programmes is presented as intangible assets. The reinvestment need of specially adapted computer programmes is similar to that of other tangible assets, and the amortisation of intangible assets are presented together with Borregaard's other depreciation.

Research and development (R&D) expenditure is the expenses incurred by Borregaard in conducting research and development, including studies of existing or new products and production processes in order to secure future earnings. Expenditure on research is always expensed as incurred, while expenditure on development is recognised in the statement of financial position if the underlying economic factors are identifiable and represent probable future economic benefits of which Borregaard has control. Borregaard has a large number of projects in process at all times, but the number of projects that end in capitalisation is limited. This is due to the considerable uncertainty throughout the decision making process and the fact that only a small percentage of all projects culminate in commercial products. Furthermore, the portion of the total project expenses that qualify for

recognition in the statement of financial position are relatively small, as it is only from the time the decision to develop the product is made it can be capitalised, and that decision-making point comes at a late stage of the process. The fair value of intangible assets acquired by the company through business combinations is capitalised. Intangible assets with indefinite life will not be amortised while other intangible assets will be amortised over their useful life.

Goodwill is initially measured at cost, being the excess of the aggregate of the transferred and the amount recognised for non-controlling interest over the net identified asset acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in income statement.

Amortisable intangible assets are amortised on a straight line basis at the following rates: Development 20% and other intangible assets 10-15%. Development consists mainly of internal resources being involved in development projects. IT consists mainly of external costs.

Amounts in NOK million	DEVELOPMENT AND OTHER INTANGIBLE ASSETS	IT	GOODWILL	TOTAL
Book value 1 January 2019	56	12	32	100
Additions	1	12	-	13
Depreciation/Amortisation	-12	-4	-	-16
Impairment (see Note 13)	-4	-	-	-4
Currency translations	-	-	-	-
Book value 31 December 2019	41	20	32	93
Initial cost 31 December 2019	164	153	55	372
Accumulated amortisation and impairment	-123	-133	-23	-279
Book value 31 December 2019	41	20	32	93
Book value 1 January 2018	63	16	32	111
Additions	1	1	-	2
Depreciation/Amortisation	-9	-5	-	-14
Impairment	-	-	-	-
Currency translations	1	-	-	1
Book value 31 December 2018	56	12	32	100
Initial cost 31 December 2018	163	141	55	359
Accumulated amortisation and impairment	-107	-129	-23	-259
Book value 31 December 2018	56	12	32	100

In addition, Borregaard expensed NOK 114 million in 2019 in research and development costs (NOK 117 million).

The amounts include grants and other cost deductions. See Note 34.

NOTE 18 Property, plant and equipment

Property, plant and equipment are tangible assets intended for production, delivery of goods or administrative purposes and have a lasting useful life. They are recognised in the statement of financial position at cost minus any accumulated depreciation and impairment. Annual major maintenance stops are capitalised as part of property, plant and equipment and depreciated over a period of 12 months. All other maintenance and repairs are expensed under operating expenses as and when the maintenance is carried out, while expenditure on replacements or improvements is added to the cost price of the assets. Borrowing costs related to the construction of the Group's own property, plant and equipment are capitalised as part of the cost of the asset.

Property, plant and equipment are depreciated on a straight line basis over the useful life, at the following rates: buildings 2-4%, machinery, fixtures and fittings 4-20%, vehicles 15- 25% and IT equipment 15-33%. The period of depreciation is reviewed each year and if there are changes in useful life, depreciation is adjusted. If there is any indication that an asset may be impaired, the asset will be written down to the recoverable amount if the recoverable amount is lower than the carrying value. The residual value is also calculated and if it is higher than the carrying value, depreciation is stopped. This applies in particular to buildings. The Group is committed to fulfil contracts amounting to NOK 53 million which is not recorded in the statement of financial position as of December 31, 2019 (NOK 94 million as of 31 December 2018).

Amounts in NOK million	LAND, BUILDINGS AND OTHER PROPERTY	MACHINERY AND PLANTS	ASSETS UNDER CONSTRUCTIONS	FIXTURES, FITTINGS, VEHICLES, EDP, ETC.	TOTAL
Book value 1 January 2019	1,114	1,941	530	38	3,623
Additions	95	284	182	10	571
Disposals	-	-	-	-	-
Transferred assets under construction	151	367	-521	3	-
Impairment (see Note 13)	-6	-	-	-	-6
Depreciation	-72	-261	-	-12	-345
Currency translation	2	7	-	-	9
Book value 31 December 2019	1,284	2,338	191	39	3,852
Initial cost 31 December 2019	2,311	6,669	191	209	9,380
Accumulated depreciation and impairment	-1,027	-4,331	-	-170	-5,528
Book value 31 December 2019	1,284	2,338	191	39	3,852
Book value 1 January 2018	960	1,390	748	28	3,126
Additions	73	269	406	13	761
Disposals	-	-	-	-	-
Transferred assets under construction	135	499	-640	6	-
Impairment	-	-3	-	-	-3
Depreciation	-62	-239	-	-9	-310
Currency translation	8	25	16	-	49
Book value 31 December 2018	1,114	1,941	530	38	3,623
Initial cost 31 December 2018	2,057	6,030	530	197	8,814
Accumulated depreciation and impairment	-943	-4,089	-	-159	-5,191
Book value 31 December 2018	1,114	1,941	530	38	3,623

NOTE 19 Overview of financial instruments

Transactions in foreign currencies are recognised at the exchange rate on the date of the transaction, while monetary items in foreign currencies are presented at the exchange rate on the balance sheet date, and any gain/loss is reported in the income statement as financial items. Revenues and expenses in subsidiaries with a functional currency different from the Group's presentation currency are translated monthly at the average exchange rate for the month and accumulated. Statement of financial position items in subsidiaries with a different functional currency are translated at the exchange rate on the balance sheet date. Translation differences are reported in comprehensive income.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments, by valuation technique:

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets and liabilities.

Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

The foreign exchange element in currency forward contracts is measured at observable market prices using the foreign exchange rate set by Norges Bank, Norway's central bank. Different maturity dates add an interest rate element resulting in an estimated fair value of the currency forward contracts. There were no transfers from one level to another in the measurement hierarchy in 2018 and 2019. Borregaard has no items defined as level 1. A description of how the derivatives are measured is provided in Note 29.

OVERVIEW OF FINANCIAL INSTRUMENTS 2019

Amounts in NOK million	NOTE	MEASUREMENT LEVEL	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL INSTRUMENTS AT FAIR VALUE - HEDGING INSTRUMENTS	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	DEPOSITS AND RECEIVABLES MEASURED AT AMORTISED COST	TOTAL	OF THIS INTEREST-BEARING	FAIR VALUE
NON-CURRENT ASSETS									
Non-current financial receivables	20	2	-	-	-	211	211	4	211
Non-current derivatives	20, 29	2	-	29	-	-	29	-	29
TOTAL			-	29	-	211	240	4	240
CURRENT ASSETS									
Accounts receivable	22		-	-	-	759	759	-	759
Other current receivables	22		-	-	-	27	27	-	27
Current derivatives	22, 29	2	8	19	-	-	27	-	27
Cash and cash equivalents	23		-	-	-	147	147	147	147
TOTAL			8	19	-	933	960	147	960
NON-CURRENT LIABILITIES									
Non-current financial liabilities	12, 27	2, 3	-	-	1,421	-	1,421	1,419	1,421
Non-current derivatives	24, 29	2	-	111	-	-	111	-	111
TOTAL			-	111	1,421	-	1,532	1,419	1,532
CURRENT LIABILITIES									
Current financial liabilities	12, 27	2	-	-	608	-	608	608	608
Accounts payable	25		-	-	405	-	405	-	405
Other current liabilities	25		-	-	3	-	3	-	3
Current derivatives	25, 29	2	4	91	-	-	95	-	95
TOTAL			4	91	1,016	-	1,111	608	1,111
TOTAL FINANCIAL INSTRUMENTS			4	-154	-2,437	1,144	-1,443	-1,876	-1,443
Total measurement level 1									
Total measurement level 2, assets			8	48	-	211	267	4	267
Total measurement level 2, liabilities			-4	-202	-1,629	-	-1 835	-1,627	-1,835
Total measurement level 3			-	-	-400	-	-400	-400	-400

OVERVIEW OF FINANCIAL INSTRUMENTS 2018

Amounts in NOK million	NOTE	MEASUREMENT LEVEL	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH COMPREHENSIVE INCOME	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	DEPOSITS AND RECEIVABLES	TOTAL	OF THIS INTEREST-BEARING	FAIR VALUE
NON-CURRENT ASSETS									
Non-current financial receivables	20	2	-	-	-	225	225	4	225
Non-current derivatives	20, 29	2	-	3	-	-	3	-	3
TOTAL			-	3	-	225	228	4	228
CURRENT ASSETS									
Accounts receivable	22		-	-	-	781	781	-	781
Other current receivables	22		-	-	-	43	43	-	43
Current derivatives	22, 29	2	-	16	-	-	16	-	16
Cash and cash equivalents	23		-	-	-	86	86	86	86
TOTAL			-	16	-	910	926	86	926
NON-CURRENT LIABILITIES									
Non-current financial liabilities	27	2, 3	-	-	1,116	-	1,116	1,115	1,116
Non-current derivatives	24, 29	2	-	116	-	-	116	-	116
TOTAL			-	116	1,116	-	1,232	1,115	1,232
CURRENT LIABILITIES									
Current financial liabilities	27	2, 3	-	-	272	-	272	272	272
Accounts payable	25		-	-	399	-	399	-	399
Other current liabilities	25		-	-	1	-	1	-	1
Current derivatives	25, 29	2	-	79	-	-	79	-	79
TOTAL			-	79	672	-	751	272	751
TOTAL FINANCIAL INSTRUMENTS			-	-176	-1,788	1,135	-829	-1,297	-829
Total measurement level 1									
Total measurement level 2, assets			-	19	-	225	244	4	244
Total measurement level 2, liabilities			-	-195	-788	-	-983	-787	-983
Total measurement level 3					-600		-600	-600	-600

For current assets and liabilities, fair value is estimated close or equal to book value. The bonds are determined as measurement level 3. The fair value of the bonds are deemed to equal their booked values. The bonds carry floating interest

terms and the issuer's credit quality is not considered to have changed since the bonds were issued in June 2018.

NOTE 20 Other assets (non-current)

Receivables are initially recognised at fair value which is generally the original invoice amount. For trade receivables see Note 22. The interest rate element is disregarded if it is insignificant, which is the case for the majority of receivables.

Amounts in NOK million	2019	2018
Non interest-bearing derivatives (Note 19)	29	3
Receivables interest-bearing (Note 19)	4	4
Receivables non interest-bearing (Note 19)	207	221
TOTAL OTHER ASSETS	240	228

NOTE 21 Inventories and cost of materials

Inventories are measured at the lower of cost and net realisable value. Purchased goods are measured at purchase cost according to the FIFO principle, while internally manufactured finished

goods and work in progress are measured at production cost. Deductions are made for obsolescence. Net realisable value is the estimated selling price minus selling costs.

As of 31 December 2019 there is a total write-down of inventories of NOK 16 million (NOK 6 million). There are no

Amounts in NOK million	2019	2018
Raw materials	137	138
Work in progress	69	45
Finished goods and merchandise	725	673
TOTAL INVENTORIES	931	856

reversed write-downs from earlier years. Inventories measured at net realisable value total NOK 49 million (NOK 55 million).

Amounts in NOK million	2019	2018
Wood costs	-509	-449
Energy costs	-426	-414
Other materials	-1,031	-1,067
Change in work in progress and finished goods	76	87
COST OF MATERIALS	-1,890	-1,843

NOTE 22 Receivables (current)

Receivables are initially recognised at fair value which is generally the original invoice amount. For trade receivables the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Current receivables are both operating receivables and interest-bearing receivables. Operating receivables are broken down into trade receivables, accrued advance payments to suppliers and other current receivables. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

Amounts in NOK million	2019	2018
Accounts receivable (Note 19)	759	781
Non interest-bearing derivatives (Note 19)	27	16
Other current receivables (Note 19)	27	43
Total financial receivables	813	840
Advance payment to suppliers/earned income	177	112
Tax receivables	1	4
TOTAL CURRENT RECEIVABLES	991	956

CHANGE IN PROVISIONS FOR BAD DEBT:

Amounts in NOK million	2019	2018
Provisions for bad debts 1 January	12	10
Bad debts recognised as expense (- income)	-1	1
Realised losses	-	-
Translation effects	-	1
PROVISIONS FOR BAD DEBTS 31 DECEMBER	11	12

ACCOUNTS RECEIVABLES HAVE THE FOLLOWING DUE DATES:

Amounts in NOK million	2019	2018
Accounts receivable not due	656	665
Overdue receivables 1-30 days	100	107
Overdue receivables 31-60 days	7	12
Overdue receivables 61-90 days	2	2
Overdue receivables over 90 days	5	7
ACCOUNTS RECEIVABLE CARRYING AMOUNT 31 DECEMBER	770	793

NOTE 23 Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term fluctuations in liquidity rather than for investment purposes. Cash and cash equivalents consist of cash, bank deposits and current deposits with a maturity of three months or less. Company policy is to channel excess liquidity in wholly-owned subsidiaries to Borregaard's cash pools (with DNB and Handelsbanken) or placed as deposits with Borregaard AS. In some countries, however, there are legal or technical impediments on participation in Borregaard's cash pools or making deposits with Borregaard AS.

Amounts in NOK million	2019	2018
CASH AND CASH EQUIVALENTS	147	86
BANK OVERDRAFT	-66	-
NET CASH & CASH EQUIVALENTS	81	86

Bank deposits of NOK 3 million related to tax deductions from employees are restricted as of 31 December 2019. Borregaard has a bank guarantee for the majority of the tax deductions, NOK 27 million as of 31 December 2019 (NOK 25 million).

NOTE 24 Provisions and other non-current liabilities

Provisions are recognised in the financial statements in the case of onerous contracts or when restructuring measures have been adopted. Future operating losses will not be part of the provisions. In the case of restructuring provisions, there must be a detailed plan that identifies which parts of the business are to be restructured. The location and number of employees affected and a valid expectation must have been created among those concerned that the restructuring will be carried out. In addition, it must be possible to provide a reliable estimate of the amount of the liability. It is a condition that the restructuring materially changes the size of the business or the way in which it is operated. The provision is calculated on the

basis of the best estimate of estimated expenses. If the effect is material, anticipated future cash flows will be discounted using a current pre-tax interest rate that reflects the risks specific to the provision.

Amounts in NOK million	2019	2018
Pension liabilities (Note 10)	96	79
Derivatives (Note 19)	111	116
Other non-current liabilities	2	2
Other provisions (Note 35)	5	23
TOTAL	214	220

NOTE 25 Other liabilities (current)

Current liabilities are operating liabilities (trade accounts payable, unpaid public taxes/charges, prepaid revenues, other accruals, etc.) and financial liabilities (payable interest). All these items are interest-free borrowings. Dividend does not become a liability before it has been approved by the General Meeting.

Amounts in NOK million	2019	2018
Accounts payable (Note 19)	405	399
Derivatives (Note 19)	95	79
Other current liabilities (Note 19)	3	1
Total financial liabilities non interest-bearing	503	479
Value-added tax, employee taxes, etc.	61	63
Accruals	316	319
TOTAL OTHER LIABILITIES	880	861

NOTE 26 Capital management

Borregaard's financial policy shall ensure short-term and long-term financial flexibility for the Group.

Borregaard shall aim at maintaining an "investment grade" credit quality in order to ensure access to debt capital on favourable terms and conditions. Borregaard shall manage financial risks, primarily related to currency fluctuations in a prudent manner and in accordance with established guidelines. Borregaard shall develop and maintain relationships with a core group of banks, based on long-term financing commitments.

LONG-TERM FUNDING

In June 2018, Borregaard issued a five-year NOK 400 million bond in the Norwegian bond market. In March 2014, Borregaard entered into a EUR 40 million term loan agreement with the Nordic Investment Bank with the purpose of refinancing the then recently completed wastewater treatment plant in Sarpsborg and to fund research and development costs associated with innovation projects.

The loan has a tenor of ten years with a grace period of three years. Financial covenants are similar to those applicable for the Bank Facilities Agreements described below.

On 30 September 2014, Borregaard refinanced the long-term revolving credit facilities. The total amount of the Bank Facilities Agreements is NOK 1,500 million, with equal portions of NOK 500 million being provided by each of the three banks (Handelsbanken, DNB and SEB). The tenor of the facilities is 5 years with two one-year extension options at the discretion of the bank. In August 2016, the second extension option was exercised for all Bank Facilities, which therefore now expire on 30 September 2021. All outstanding loans and all other sums due and outstanding must be repaid in full on the termination date specified for each tranche under the Bank Facilities Agreements.

The Bank Facilities Agreements include the following financial covenants:

1. Leverage ratio¹: the ratio of Net Interest-Bearing Debt¹ to Consolidated EBITDA including other income and expenses, shall not exceed 3.25:1 during the life of the Agreements.

¹ Alternative performance measures, see page 134 for definition.

2. Equity ratio¹: the ratio of Total Consolidated Equity to Total Assets shall not be lower than 25%.
3. Interest coverage ratio: the ratio of Consolidated EBITDA including other income and expenses to net Interest Expense shall not be lower than 3.00:1.

The Bank Facilities Agreements also contain restrictions i.a. on the Group companies' ability to grant security or guarantees (negative pledge). Borregaard is in compliance with the covenants as of 31 December 2019.

Borregaard's policy for long-term funding is for debt to have an average maturity of at least 2.5 years, with a maturity profile spread over several years. Refinancing risk shall be actively managed and the refinancing process for maturing loans shall preferably commence at least one year ahead of scheduled maturity. Borregaard shall seek to diversify its long-term funding sources, supplementing bank loans with debt capital markets and other sources, subject to availability and conditions. The company may utilise commercial paper markets and/or short-term bank loans as sources of liquidity, provided that such loans can be substituted by undrawn long-term committed loan facilities.

Partially owned companies including the joint venture or companies whose domestic legislation prevents them from entering into loan agreements with Borregaard AS, will need either to be financed on equal (pro rata) terms by the partners or will have to establish independent funding.

In June 2017, LignoTech Florida LLC entered into a USD 60 million loan agreement with SEB. The loan facility is guaranteed 70% by The Norwegian Export Credit

Guarantee Agency and has a tenor of 8.5 years from commercial completion of the plant. The owners of LignoTech Florida (see Note 31) will guarantee the loan facility on a pro rata basis until 12 months after commercial completion. As of 31 December 2019, USD 60 million of the facility was drawn. As an industrial group, Borregaard is not subject to any external capital requirements.

LIQUIDITY AND CASH MANAGEMENT

At 31 December 2019, Borregaard had a multi-currency overdraft facility of 125 million NOK linked to its international cash pool with DNB, a 100 million NOK overdraft limit linked to its cash pool (Group account system) with Handelsbanken and an intra-day facility of NOK 75 million with Nordea related to salary payments. Borregaard entered 2019 with a commercial paper debt of NOK 400 million. Group liquidity shall be managed in cash pools, with Borregaard AS as owner of top accounts and legal counterpart to relevant banks. Group companies shall participate in cash pools to the extent possible, with allocated internal credit lines. Group companies which are prevented from participating in cash pools, shall enter into deposit and/or loan agreements with Borregaard AS and shall aim at keeping locally held cash balances at a near-zero level. Excess liquidity shall primarily be used to repay debt. Alternatively, excess liquidity can be placed with relationship banks or other well-rated banks.

Partially owned companies including the joint venture or companies whose domestic legislation prevents them from entering into deposit and/or loan agreements with Borregaard AS, shall invest surplus cash in low-risk deposits and/or pay dividend.

NOTE 27 Funding and interest-bearing liabilities

Loans and receivables are carried at amortised cost. Thus, changes in fair value resulting from changes in interest rates during the interest rate period are not reported in the income statement. Borrowing costs related to the long-term funding are capitalised over the period of the loan facilities.

FUNDING

Borregaard's main sources of financing are proceeds from its bond issue of NOK 400 million, its EUR 40 million term loan with Nordic Investment Bank (maturing in 2024) and its long-term revolving loan facilities totalling NOK 1,500 million from three Scandinavian banks. The facilities, granted to Borregaard ASA and Borregaard AS on a joint and several basis, were entered into in September 2014 and mature in 2021.

The facilities are unsecured (negative pledge), but the loan agreements contain certain financial covenants (leverage ratio, equity ratio and interest cover ratio – see Note 26) and some limitations on new indebtedness beside change of control and cross-default provisions.

In June 2017, LignoTech Florida entered into a USD 60 million loan agreement. As of 31 December 2019 the loan is fully drawn.

For liquidity and cash management purposes, two commercial paper issues totalling NOK 400 million and multi-currency overdraft facilities of NOK 225 million are in place.

Amounts in NOK million	BOOK VALUE		FAIR VALUE	
	2019	2018	2019	2018
NON-CURRENT INTEREST-BEARING LIABILITIES				
Bank loans/bond	1,085	1,115	1,085	1,115
Other interest-bearing liabilities	334	-	334	-
Total non-current interest-bearing liabilities	1,419	1,115	1,419	1,115
CURRENT INTEREST-BEARING LIABILITIES				
Bank loans/overdraft/commercial paper/bond	555	267	555	267
Other interest-bearing liabilities	53	5	53	5
Total current interest-bearing liabilities	608	272	608	272
Total interest-bearing liabilities	2,027	1,387	2,027	1,387
INTEREST BEARING RECEIVABLES				
Non-current interest-bearing receivables	4	4	4	4
Cash and cash equivalents	147	86	147	86
Total interest-bearing receivables	151	90	151	90
NET INTEREST-BEARING LIABILITIES	1,876	1,297	1,876	1,297
Impact of IFRS 16 leases	387	-	387	-
LIABILITIES EXCLUDING IMPACT OF IFRS 16 LEASES	1,489	1,297	1,489	1,297

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 JANUARY 2019	CASH FLOWS	ACQUISITION	FOREIGN EXCHANGE MOVEMENT	FAIR VALUE CHANGES	31 DECEMBER 2019
Long-term borrowings	1,115	300		4	-	1,419
Short-term borrowings	272	336		-	-	608
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	1,387	636	-	4	-	2,027
Long-term impact of IFRS 16 leases	-	334			-	334
Short-term impact of IFRS 16 leases	-	53			-	53
TOTAL LIABILITIES FROM FINANCING ACTIVITIES EXCLUDING IMPACT OF IFRS 16 LEASES	1,387	249	-	4	-	1,640

	1 JANUARY 2018	CASH FLOWS	ACQUISITION	FOREIGN EXCHANGE MOVEMENT	FAIR VALUE CHANGES	31 DECEMBER 2018
Long-term borrowings	743	344	-	28	-	1,115
Short-term borrowings	283	-12	-	1	-	272
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	1,026	332	-	29	-	1,387

There were no drawings under the Bank Facilities Agreements as of 31 December 2019. Drawings originating from the bond issue, the commercial paper issues, the term loan with Nordic Investment Bank, and the term loan related to LignoTech Florida amounted to NOK 1,564 million as of 31 December

2019. The maturity profiles of the Group's interest-bearing liabilities are shown in the table below and are based on the current financing and excluding impact of IFRS 16 Leases. See Note 26.

MATURITY PROFILE INTEREST-BEARING LIABILITIES AND UNUTILISED CREDIT FACILITIES EXCLUDING IMPACT OF IFRS 16 LEASES

Amounts in NOK million	GROSS INTEREST-BEARING LIABILITIES		UNUTILISED CREDIT FACILITIES	
	2019	2018	2019	2018
Maturity < 1 year	555	272	225	225
Maturity 1-3 years	254	213	1,500	1,500
Maturity 3-5 years	621	645	-	-
Maturity 5-7 years	140	166	-	-
Maturity > 7 years	70	91	-	-
TOTAL	1,640	1,387	1,725	1,725

NOTE 28 Financial risk

(I) ORGANISATION OF FINANCIAL RISK MANAGEMENT

Borregaard operates internationally and is exposed to financial risks like currency risk, interest rate risk, commodity price risk, climate risk, liquidity risk and credit risk. Borregaard uses derivatives and other financial instruments to reduce these risks in accordance with the Group's finance policy.

Responsibility for managing financial risk in Borregaard is divided between business areas, which manage risk related to business processes, and corporate functions, which manages risk related to centralised activities like funding, interest rate management, cash management, currency risk management and credit management policy. Borregaard's CFO and the Group's Treasury Department are responsible for managing centralised financial risk elements.

FINANCIAL RISKS

This section describes the most important risk factors within the Group and the management of these risks. In this context, financial risk is defined as risk related to financial instruments. These may either be hedging instruments for underlying risk, or viewed as inherently a source of risk.

Borregaard is exposed to currency risk for most of its sales, primarily in USD, but also in EUR. A substantial part of this exposure, defined as estimated net cash flow in USD or EUR, is routinely hedged on a rolling basis with a nine-month time horizon. In order to secure medium-term competitiveness, the hedging horizon may be extended to three years for a EUR/NOK hedging rate in excess of 8.50 and gradually to three years for USD/NOK hedging rates in the 7.50-8.50 range. For USD/NOK exposure, hedging levels may be reduced for hedging rates below 6.00.

On the revenue side, all of Borregaard's business segments are exposed to price risk in international markets. Borregaard is also exposed to price risk on wood, energy (heat energy and electric power) and other strategic raw materials. In 2011, Borregaard entered into a long-term hydroelectric power contract with Eidsiva Vannkraft AS for delivery of a total of 6.1 billion kilowatt hours (6.1 TWh) to be supplied in the period 2013-2024. In 2018, Borregaard and Eidsiva Vannkraft AS entered into a new long term supply contract for electric

power for a total of 2.8 TWh to be supplied to the Sarpsborg site in the period 2020 to 2029. The new contract replaces the existing contract between the parties for the period 2020 to 2024, with a gradual reduction of annual deliveries from about 420 GWh in 2020 to about 130 GWh in 2029. The agreement between Eidsiva and Borregaard secures power deliveries for Borregaard's plants in Sarpsborg from January 2013 until December 2029. In 2019, Borregaard and E-CO Energi entered into a long-term contract for hydroelectric power for a total of 1.66 TWh to be supplied to the Sarpsborg site in the period 2022 to 2033, with annual deliveries increasing from 88 GWh to 175 GWh. In 2019, Borregaard also entered into a new long-term contract with Statkraft for delivery of renewable electric power to the Sarpsborg site. A total of 1.75 TWh will be supplied in the period 2020 to 2029, with annual deliveries of 175 GWh. This is energy to be used by Borregaard solely for production purposes. Borregaard also has a hedging strategy which enables hedging of part of its future expected power consumption. The purpose of this hedging is to reduce the risk from volatility in the power prices.

As of 31 December 2019, Borregaard has entered into forward contracts totalling 18 GWh as cash flow hedges for net future power consumption.

(II) CATEGORIES OF FINANCIAL RISKS FOR THE BORREGAARD GROUP

CURRENCY RISK

As NOK is the presentation currency for the Group, Borregaard is exposed to currency translation risk for net investments in foreign operations. Borregaard hedges this category of risk using currency forward contracts for USD and a mix of forward contracts and loan for EUR.

Transaction risk is hedged against each entity's functional currency. Borregaard applies hedge accounting for most hedges of future transactions, either cash flow hedges or fair value hedges of firm commitments. The different types of hedges are described in Note 29.

The Group's aggregated outstanding currency hedges of future transactions on the balance sheet date are shown in the tables on the next page.

FOREIGN EXCHANGE CONTRACTS LINKED TO HEDGING OF FUTURE REVENUES AND COSTS

2019

Amounts in million

PURCHASE CURRENCY	AMOUNT	SALE CURRENCY	AMOUNT	MATURITY
USD	1	NOK	12	2020
NOK	1,147	USD	138	2020
NOK	1,190	USD	142	2021
NOK	840	USD	96	2022
EUR	3	USD	4	2020
NOK	916	EUR	93	2020
NOK	958	EUR	94	2021
NOK	647	EUR	62	2022
SEK	48	NOK	46	2020

2018

Amounts in million

PURCHASE CURRENCY	AMOUNT	SALE CURRENCY	AMOUNT	MATURITY
USD	2	NOK	20	2019
NOK	1,206	USD	144	2019
NOK	929	USD	113	2020
NOK	528	USD	66	2021
EUR	6	USD	7	2019
NOK	907	EUR	94	2019
NOK	896	EUR	91	2020
NOK	595	EUR	59	2021
EUR	5	NOK	47	2019
SEK	58	NOK	54	2019

INTEREST RATE RISK

Borregaard's interest rate risk is mainly related to the Group's interest-bearing liabilities and assets. This risk is managed at parent level. Borregaard shall primarily follow a floating rate strategy, but may consider fixed rates for a maximum of 50% of its debt, using appropriate derivatives. As of 31 December 2019 Borregaard has the following fixed rate exposure:

2019

Amounts in NOK million

CURRENCY	INTEREST-BEARING DEBT	MATURITY
NOK	200	2023
USD	30	2023

LIQUIDITY RISK

Liquidity risk is the risk that Borregaard is not able to meet its payment obligations. This risk is managed centrally, but in close concert with affected subsidiaries. Borregaard AS initiates measures deemed necessary to maintain a strong

liquidity. Cash flow from operations, which among other factors is affected by changes in working capital, is managed operationally at Group level, and is relatively stable.

Borregaard monitors liquidity flows, short and long-term, through reporting and selected forecasting routines. Due to the aforementioned measures, the Group has limited liquidity risk.

The table below shows the maturity profile for the Group's contractual financial liabilities, including liabilities which are not recognised in the financial position.

The amounts represent undiscounted future cash flows, and may therefore deviate from recognised figures. The table also includes derivatives recognised as assets on the balance sheet date, as derivatives may include both positive and negative cash flows, and the fair value fluctuates over time. Forward prices are used to determine the future settlement amounts for electric power and currency derivatives.

MATURITY PROFILE FINANCIAL LIABILITIES EXCLUDING IMPACT OF IFRS 16 LEASES

2019

Amounts in NOK million	BOOK VALUE	CONTRACTUAL CASH FLOWS	< 1 YEAR	1-3 YEARS	3-5 YEARS	5-7 YEARS	> 7 YEARS
Interest-bearing liabilities	1,640	1,640	555	254	621	140	70
Interest payable	-	160	40	68	35	15	2
Accounts payable	405	405	405	-	-	-	-
Gross settled derivatives*	150	-	-	-	-	-	-
Inflow	-	-6,972	-3,338	-3,634	-	-	-
Outflow	-	7,122	3,406	3,707	2	2	5
TOTAL	2,195	2,355	1,068	395	658	157	77

* Including derivatives recognised as assets.

2018

Amounts in NOK million	BOOK VALUE	CONTRACTUAL CASH FLOWS	< 1 YEAR	1-3 YEARS	3-5 YEARS	5-7 YEARS	> 7 YEARS
Interest-bearing liabilities	1,387	1,387	272	213	645	166	91
Interest payable	-	188	42	76	48	18	4
Accounts payable	399	399	399	-	-	-	-
Gross settled derivatives*	176	-	-	-	-	-	-
Inflow	-	-6,229	-3,278	-2,951	-	-	-
Outflow	-	6,405	3,339	3,064	2	-	-
TOTAL	1,962	2,150	774	402	695	184	95

* Including derivatives recognised as assets.

The financial liabilities are serviced by cash flow from operations, liquid and interest-bearing assets, and, when necessary, drawings on unutilised credit facilities.

CREDIT RISK

The management of credit risk related to accounts receivable and other operating receivables is handled as part of the business risk, but based on guidelines set by Borregaard AS and continuously monitored by the operating entities. There is no significant concentration of credit risk in respect of single counterparts. A credit management policy is in place. Credit losses are historically modest due to a stable and financially healthy customer base as well as stringent monitoring of trade receivables. See Note 22. For sales to countries or customers associated with high political or commercial risk, trade finance products are widely used to reduce credit risk. With these risk mitigation measures in place, the current credit risk is considered to be acceptable. See Note 8 for geographical breakdown of sales revenues.

Borregaard considers its credit risk related to other financial instruments to be low. Firstly, only relationship banks act as counterparts for financial hedge transactions. Secondly, bank accounts are mainly held with relationship banks. For deposits of liquidity with other counterparts in countries where relationship banks are not present, Borregaard has requirements relating to the bank's credit rating.

MAXIMUM CREDIT RISK

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

Amounts in NOK million	2019	2018
Cash and cash equivalents	147	86
Accounts receivable	759	781
Other current receivables	27	43
Non-current receivables	211	225
Derivatives	56	19
TOTAL	1,200	1,154

COMMODITY PRICE RISK

The Group is exposed to price risks in respect of a number of raw materials, of which electric power and wood are the most substantial. However, prices of sold products are also affected by raw material prices, and it is generally Borregaard's policy to reduce the price risk through commercial contracts. The Group's aggregated outstanding power hedges are shown in the table below.

HEDGING OF FUTURE EXPECTED POWER CONSUMPTION 2019

Amounts in NOK million

CURRENCY	AMOUNT	MATURITY
NOK	4	2020

CLIMATE RISK

Climate risk assessment comply with the Task Force on Climate-related Financial Disclosures. The short and medium-term climate risk is considered to be low. See pages 22 and 41.

SENSITIVITY ANALYSIS

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

In the table below, Borregaard presents a partial analysis of the sensitivity of financial instruments, where the isolated effect of each type of risk on the income statement and on equity is estimated. This is done on the basis of a selected reasonably possible change in market prices/rates on the statement of financial position as of 31 December.

According to IFRS, the analysis covers only financial instruments and is not meant to give a complete overview of the Group's market risk, for instance:

- For currency hedges of contracts entered into, changes in fair value of the hedging instrument will affect the income statement, while changes in the fair value of the

underlying hedged contract offset by the hedging instrument will not be shown, as it is not a financial instrument.

- If one of the parameters changes, the analysis will not take account of any correlation with other parameters.
- Financial instruments denominated in the entities' functional currencies do not constitute any currency risk and are therefore not included in this analysis. Nor is the currency exposure on translation of such financial instruments to the presentation currency of the Group included, for the same reason.

- No sensitivity analysis is performed for the power hedges as the exposure is considered immaterial.

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

SENSITIVITY FINANCIAL INSTRUMENTS

2019

Amounts in NOK million	ACCOUNTING EFFECTS ON			
	INCOME STATEMENT OF		EQUITY OF	
	INCREASE	DECREASE	INCREASE	DECREASE
FINANCIAL INSTRUMENTS IN HEDGING RELATIONSHIPS				
Interest rate risk: 100 bp parallel shift in interest curves all currencies	-15	15	-	-
Currency risk: 10% change in FX-rate USD/NOK	-	-	-257	257
Currency risk: 10% change in FX-rate EUR/NOK	-	-	-198	198
Currency risk: 10% change in FX-rate SEK/NOK	-	-	4	-4

2018

Amounts in NOK million	ACCOUNTING EFFECTS ON			
	INCOME STATEMENT OF		EQUITY OF	
	INCREASE	DECREASE	INCREASE	DECREASE
FINANCIAL INSTRUMENTS IN HEDGING RELATIONSHIPS				
Interest rate risk: 100 bp parallel shift in interest curves all currencies	-13	13	-	-
Currency risk: 10% change in FX-rate USD/NOK	-	-	-214	214
Currency risk: 10% change in FX-rate EUR/NOK	-	-	-190	190
Currency risk: 10% change in FX-rate SEK/NOK	-	-	4	-4

Accounting effects of changes in market risk are classified to income statement and equity according to where the effect of the changes in fair value will be recognised initially. Effects

recognised in the income statement will also affect equity beyond the figures presented in the table.

NOTE 29 Derivatives and hedging

Derivatives are measured at fair value on the balance sheet date and reported as receivables or liabilities. Changes in fair value are reported in the income statement in cases where the derivative is not part of a hedge relationship that satisfies the criteria for hedge accounting. Embedded derivatives in contracts are identified and measured separately. Purchases and sales of derivatives are recognised at trade date. The Group applies IFRS 9 on its financial instruments

(a) Classification and measurement

Loans, as well as trade receivables, are held to collect contractual cash flows and are expected to give rise to cash flows solely representing payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applied the simplified approach and record lifetime expected losses on all trade receivables. The Group has considered that due to the historical low level of credit losses, the loss allowance will not be materially different from the current level.

(c) Hedge accounting

The Group's existing hedge relationships designated in effective hedging relationships qualify for hedge accounting under IFRS 9.

The Group uses the following criteria for classifying a derivative or another financial instrument as a hedging instrument:

- (1) the hedging instrument is expected to be highly effective in offsetting the changes in fair value or the cash flow of an identified object.
- (2) the hedging effectiveness can be measured reliably,
- (3) satisfactory documentation is established before entering into the hedging instrument, showing among other things that the hedging relationship is effective,
- (4) for cash flow hedges, that the future transaction is considered to be highly probable, and
- (5) the hedging relationship is evaluated regularly and is considered to be effective.

The table below shows the fair value of all outstanding derivative financial instruments grouped according to treatment in the financial statements:

DERIVATIVES AND HEDGING

Amounts in NOK million	2019		2018	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
CASH FLOW HEDGES				
Currency forwards, currency swaps	34	185	5	190
Power hedges	2	-	13	-
Interest swaps	-	8	-	5
Embedded derivative	-	9	-	-
HEDGES OF NET INVESTMENTS				
Currency forwards, currency swaps	12	-	1	-
OTHER DERIVATIVES - FAIR VALUE CHANGES RECOGNISED IN INCOME STATEMENT				
Currency forwards, currency swaps, options	8	4	-	-
TOTAL DERIVATIVES	56	206	19	195

CALCULATION OF FAIR VALUE

- Currency forwards and currency swaps are measured at fair value using the observed forward exchange rate for contracts with a corresponding term to maturity at the balance sheet date.
- The fair value of currency options is calculated using Garman-Kohlhagen's version of the Black-Scholes Option pricing method, and the variables are based on observed indicative market prices at the balance sheet date.

These derivative financial instruments are designated in hedge relationships as follows:

CASH FLOW HEDGES

The effective part of changes in the fair value of a hedging instrument is recognised in comprehensive income and reclassified to the income statement when the hedged transaction affects profit or loss and is presented on the same line as the hedged transaction. The ineffective part of the hedging instrument is reported in the income statement. When a hedging instrument is sold, exercised or terminated, the accumulated gains and losses at this point will remain in hedging reserve of equity and will be recognised in the income statement when the hedged transaction affects profit or loss. If the hedged transaction is no longer expected to

occur, the accumulated unrealised gain or loss recognised in the hedging reserve of equity will be recognised in the income statement immediately. Embedded EUR derivatives in power contracts are designed as hedging instruments to hedge currency fluctuations of highly probable future sales.

In 2019, a loss of NOK 2.5 million (2018: loss of NOK 1.1 million) was recorded in the income statement as a result of hedging inefficiency. All expected cash flows which have been hedged during 2019 still qualify for hedge accounting.

HEDGES OF NET INVESTMENTS IN FOREIGN CURRENCIES

Currency risk on foreign net investments is hedged with currency forward contracts and currency loans. Realised and unrealised effects of the effective part of the hedging instrument are recognised through comprehensive income. Effects from ineffective parts of the hedging instrument are recognised through profit and loss.

DEVELOPMENT IN THE EQUITY HEDGING RESERVE

Amounts in NOK million	2019	2018
OPENING BALANCE HEDGING RESERVE BEFORE TAX	-327	-163
Reclassified to P/L - operating revenues	58	33
Reclassified to P/L - operating costs	-1	-
Reclassified to P/L - net financial income	2	2
Reclassified to Balance sheet	-2	-2
Fair value change cash flow hedges	-46	-164
Change in gain/(loss) on hedges of net investments in subsidiaries	-15	-33
CLOSING BALANCE HEDGING RESERVE BEFORE TAX	-331	-327
Deferred tax and tax payable hedging reserve	80	79
CLOSING BALANCE HEDGING RESERVE AFTER TAX	-251	-248

A negative hedging reserve means a negative recognition in the income statement in the future. In 2019, the operating profit in Borregaard decreased with NOK 76 million (NOK 11 million) related to hedging activities. Accumulated hedging losses from cash flow hedges recognised in the equity hedging reserve as of 31 December 2019 are expected to be recycled to the income statement as follows (before tax):

2020: NOK -90 million (NOK -63 million)
After 2020: NOK -76 million (NOK -114 million)

FAIR VALUE HEDGES

Gains and losses on derivatives designated as hedging instruments in fair value hedges are reported in the income statement and are offset by changes in the value of the hedged item.

There have not been any significant fair value hedges in the period 2019-2020.

NOTE 30 Equity and share capital

Borregaard ASA was established on 22 August 2012 with a share capital of NOK 1 million. As part of establishing the Borregaard Group, capital transactions to increase share capital and share premium fund was made. Share capital,

share premium fund, other paid-in equity and retained earnings are presented from the establishment of the Borregaard Group in October 2012.

DATE/YEAR	NUMBER OF SHARES	NOMINAL VALUE (NOK)	SHARE CAPITAL (NOK MILLION)
31 December 2019	100,000,000	1	100
31 December 2018	100,000,000	1	100

THE 20 LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2019*

SHAREHOLDER	NUMBER OF SHARES	% OF CAPITAL
1 NN INVESTMENT PARTNERS	9,936,713	9.94%
2 ERIK MUST A/S	7,590,755	7.59%
3 NORDEA BANK ABP	7,231,514	7.23%
4 IMPAX ASSET MGT	5,184,820	5.18%
5 ODIN FUND MGT	4,722,334	4.72%
6 ALFRED BERG	3,402,625	3.40%
7 FOLKETRYGDFONDET	3,279,514	3.28%
8 PARETO GROUP	3,155,370	3.16%
9 THE VANGUARD GROUP, INC	2,932,869	2.93%
10 ALANTRA ASSET MANAGEMENT	2,656,785	2.66%
11 TAIGA FUND MGT	2,615,766	2.62%
12 STOREBRAND INVESTMENTS	2,271,897	2.27%
13 ALLIANZ GLOBAL INVESTORS	2,171,675	2.17%
14 BLACKROCK INC	1,913,647	1.91%
15 BANQUE DEGROOF PETERCAM	1,857,554	1.86%
16 ARCTIC ASSET MGT	1,675,901	1.68%
17 DIMENSIONAL FUND ADVISORS	1,674,504	1.67%
18 ABERDEEN STANDARD INVESTMENTS (STANDARD LIFE)	1,609,721	1.61%
19 SCHRODER INVESTMENT MGT	1,475,236	1.48%
20 JANUS HENDERSON INVESTORS	1,206,732	1.21%
Total shares	68,565,932	68.57%

* The list of top 20 shareholders is based on information from Orient Capital Ltd in their capacity as shareholder analysis provider. In preparing this report, Orient Capital has used data sourced from third parties. None of the third parties have been involved in the preparation of this report and do not accept any liability for its contents. The information disclosed is factual information only and is not financial product advice. Neither Borregaard, Orient Capital or any third party supplier of data accepts any responsibility for any investment decision or action taken or not taken as a result of this report.

TREASURY SHARES OWNED BY BORREGAARD ASA

	NOMINAL VALUE (NOK)	NUMBER OF SHARES	FAIR VALUE (NOK MILLION)
1 January 2018	484,065	484,065	39
Exercise of share options in 2018	-135,000	-135,000	-
Shares to employees	-309,301	-309,301	-
Purchase/Buy-back of treasury shares	410,451	410,451	-
31 December 2018	450,215	450,215	34
Exercise of share options in 2019	-467,000	-467,000	-
Shares to employees	-297,756	-297,756	-
Purchase/Buy-back of treasury shares	681,316	681,316	-
31 December 2019	366,775	366,775	35

NOTE 31 Non-controlling interests

As of 31 December 2019, non-controlling interests consist of LignoTech Ibérica SA and LignoTech Florida LLC. Borregaard owns 60% of LignoTech Ibérica located in Spain and 55% of LignoTech Florida located in USA. The entities are fully consolidated into the Borregaard Group's financial statements and minority interests are recognised.

As of 31 December 2019, current assets were NOK 81 million (NOK 81 million) in LignoTech Florida and non-current assets amounted to NOK 902 million (NOK 875 million). Current liabilities were NOK 127 million (NOK 28 million) and non-current liabilities amounted to NOK 507 million (NOK 473 million). LignoTech Florida had a loss for the year of NOK -116 million in 2019 (NOK -85 million).

Amounts in NOK million	2019	2018
CHANGES IN NON-CONTROLLING INTERESTS:		
Non-controlling interests 1 January	198	107
Non-controlling interests' share of profit/loss	-66	-51
Additions of non-controlling interests	21	133
Translation differences, etc.	5	9
NON-CONTROLLING INTERESTS 31 DECEMBER	158	198

NOTE 32 Pledges and guarantees

By virtue of the joint venture agreement with Sappi Southern Africa Ltd., Borregaard AS is liable for export accounts receivable (65 million NOK 31.12.2019) in Umkomaas Lignin (Pty) Ltd (LignoTech South Africa).

In 2017, LignoTech Florida LLC (55% owned by Borregaard) entered into a USD 60 million loan agreement. The owners will

guarantee the loan facility on a pro rata basis until 12 months after commercial completion date subject to certain financial conditions being met. As of 31 December 2019 the facility was fully drawn. See Note 26 and 31.

NOTE 33 Related parties

Activity within the Group is reported in the segment information disclosed in Note 7.

Borregaard has one joint venture, Umkomaas Lignin (proprietary) Limited trading as LignoTech South Africa (50%). This company is jointly owned with Sappi Southern Africa Ltd. The equity method is used for consolidation according to IFRS 11 for joint arrangements (see also Note 6). The company sells some of its finished goods to Borregaard subsidiaries on an arm's length basis.

Internal trading within the Group is carried out in accordance with special agreements on an arm's length basis, and joint

expenses in Borregaard are distributed among the Group companies in accordance with distribution formulas, depending on the various types of expense. For further information on intercompany transactions, see Note 7 "Segments".

The members of the Group Executive Management of Borregaard hold a total of 751,000* stock options in the Company. Further information regarding the Group Executive Management is disclosed in Note 9.

Other transactions with related parties are part of ordinary business operations.

* Including stock options held by Liv Longva who has acted as a member of the Group Executive Management during Tuva Barnholt's absence.

NOTE 34 Government grants

Government grants are recognised in the financial statements when there is a reasonable assurance that they will be received. The grants are presented either as revenue or as a reduction in costs and, in the latter case, matched with the costs for which they are intended to compensate. Government grants that relate to assets are recognised as a reduction in the acquisition cost of the asset. The grant reduces the depreciation of the asset.

Borregaard recognised NOK 102 million in government grants in 2019 (NOK 136 million)⁴. Of this amount, NOK 101 million was recognised as reduced costs (NOK 107 million), while NOK 1 million was recognised as a reduction of the acquisition cost of the asset concerned (NOK 29 million). The grants are provided by Norwegian government and the European Union mainly on research and development projects, environmental investments and CO₂ compensation.

A consortium of European companies and research institutions, with Borregaard as lead member, has been granted financial support for the development and commercialisation of Borregaard's Exilva microfibrillar

cellulose under the Horizon 2020 Flagship programme⁵, the EU Framework Programme for Research and Innovation. The support will cover up to 60% of Borregaard's project costs and make it possible to further increase business development activities in the Exilva project. The maximum amount which can be granted to Borregaard is EUR 25 million over a period of three years from 1 May 2016. The grant is presented as a reduction in operating expenses when it is recognised in the accounts. The grant will be reduced if the project makes a profit during the three year period. The granted amount was not fully utilised within the three-year period. The consortium therefore applied for a 12-months prolongation of the grant period without increasing the total amount. The application was approved by the Commission in December 2018, and the grant period is prolonged until 30 April 2020.

NOTE 35 Other matters and subsequent events

Environment, Health and Safety issues (EHS): Sulphur dioxide (SO₂) is one of the most important chemicals used in the production processes at Borregaard. There are several EHS regulations to secure safe operations, safe working environment and low emissions to environment. The use of SO₂ has been regulated for many years, but the authorities both in the EU and in Norway have enhanced the regulations during the last years and new demands are coming. Borregaard has decided to introduce new technology that will substantially reduce the amount of SO₂ stored at the plant in Sarpsborg in order to further improve safety, the installation will be finished in 2021. A project for increased recovery of SO₂ from the ethanol plant will be finished in 2020. Borregaard has recently updated its action plan for reduction in SO₂ emissions and sent it to the local authorities. Technology for recovering and scrubbing of emissions will be installed in different process areas during the next years.

Chlor-alkali plant: From 1949 to 1997, Borregaard used mercury-based technology for chlor-alkali production at the site in Sarpsborg. This process led to pollution of the soil in the area surrounding the plant. In 1994, a ground water barrier was built and a water monitoring programme was established. In 2015, an increased level of mercury was

detected. Borregaard has undertaken measures to improve the ground water barriers in order to prevent mercury leakage from discontinued operations. During 2016, the Norwegian Environment Agency agreed to planned actions and Borregaard made a provision in the financial statements according to estimated costs. The concentration of mercury in ground water wells and in the sewerage systems has decreased due to these actions. Cleaning and deposition of polluted soil areas downstream of the ground water barrier started up in 2019 and will continue in 2020 and 2021. Borregaard reports progress to the Norwegian Environment Agency quarterly.

A total provision of NOK 60 million was recognised in 2016. Remaining provision as of 31 December 2019 is NOK 16 million, which is the best estimate based on current knowledge and planned actions. See Note 4.

Opsund landfill: The permanent closure of the Opsund landfill continues according to the plan. Remaining provision as of 31 December 2019 is NOK 2 million. See Note 4.

Shares to employees: As part of the employee share programme, Borregaard has sold a total of 238,604 shares to employees in February 2020. The share price was NOK 77.95 per

⁴ Figures in parentheses are for the corresponding period in the previous year.

⁵ This project has received funding from the Bio-Based Industries Joint Undertaking (BBI) under the European Union's Horizon 2020 research and innovation programme under grant agreement No 709746.

share including a 25% discount. Costs in 2020, including administration costs, related to the employee share programme amount to approximately NOK 7 million. For more details, see notifications to the Oslo Stock Exchange on 10, 17 and 26 February 2020.

Share options issued: In February 2020, 400,000 share options at a strike price of NOK 104.40 were granted under the long-term incentive programme. The options will expire after five years, the vesting period is three years and the options may be exercised during the last two years. For more details, see notification to the Oslo Stock Exchange on 13 February 2020.

Treasury shares: From 2 to 18 March 2020, Borregaard has purchased 300,000 shares under a programme aimed at repurchasing a total of 300,000 own shares. The total amount of treasury shares held by Borregaard as of 18 March 2020 is 408,097. See notifications to the Oslo Stock Exchange on 28 February 2020 and onwards.

Spanish lignin partner Sniace declares intention to apply for liquidation: The Board of the Sniace Group, Borregaard's partner and supplier of lignin raw material to the jointly owned company LignoTech Ibérica, informed the Madrid Stock Exchange Commission on 13 February 2020 of its intention to apply for liquidation of the company and its subsidiaries. According to the notice, this is a consequence of the fact that Sniace is unable to fulfil the agreement with its creditors from 2015, which ended the bankruptcy proceedings opened in 2013. Depending on the court decision on the request for liquidation an administrator will be appointed, who will then decide on the further steps. It is currently not known how this development will affect the operation of LignoTech Ibérica. See notification to the Oslo Stock Exchange on 14 February 2020.

Manufacturing activities at the Sniace dissolving pulp and viscose fiber mill in Torrelavega stopped on 25 February. As a consequence, the supply of lignin raw material from

Sniace to the jointly owned company LignoTech Ibérica was discontinued. Production of lignin was therefore stopped. It is currently not known whether operations at the Sniace mill will be resumed under the administration of a liquidator. See notification to the Oslo Stock Exchange on 26 February 2020.

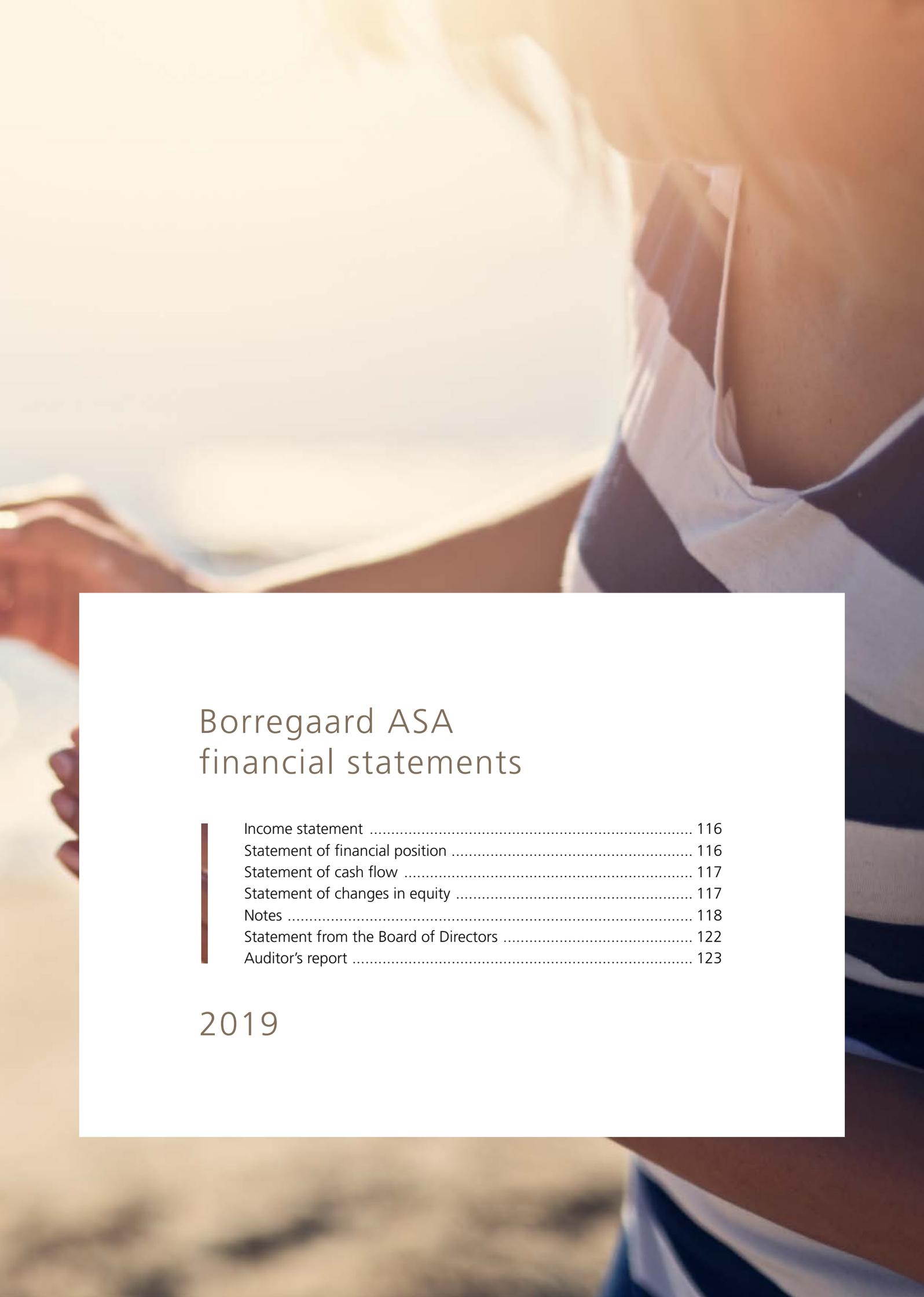
Coronavirus (COVID-19): Borregaard is following the development related to the coronavirus closely. Contingency measures are put in place to reduce potential consequences for the company, the business partners and the employees, and additional measures are continuously considered.

As of the date of this report, the direct effects for Borregaard's business of the coronavirus are limited. However, indirect consequences may occur in case customers are affected and have to reduce their activity. Transport and supply chain services may be disturbed and infrastructure services may become limited. To the extent that the consequences of the corona situation leads to lower growth in the world economy, Borregaard, as a global supplier of products, will be affected. However, it is not possible to quantify such effects for the time being.

Currency: Since year-end 2019, NOK has weakened significantly against EUR and USD. As a consequence, unrealised losses from currency derivatives have increased and lead to a reduction in the book value of the Group's equity. Borregaard's sales are primarily in USD and EUR, and a weakening of the Norwegian currency will over time be positive for the Group's competitive position.

There have been no events after the balance sheet date that would have had a material impact on the financial statements or the assessments carried out.





Borregaard ASA financial statements

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2019

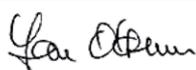
INCOME STATEMENT

Amounts in NOK thousand	NOTE	2019	2018
Other operating expenses	5, 9	-6 213	-6,960
OPERATING PROFIT		-6 213	-6,960
Finance income	6, 9	318,780	328,326
Finance costs	6	-15,374	-9,763
Financial items, net	6, 9	303,406	318,563
PROFIT/LOSS BEFORE TAXES		297,193	311,603
Taxes	8	-65,395	-71,684
PROFIT/LOSS FOR THE YEAR		231,798	239,919
Proposed dividend		-229,156	-223,987

STATEMENT OF FINANCIAL POSITION

Amounts in NOK thousand	NOTE	2019	2018
ASSETS			
Deferred tax assets	8	46	26
Shares in subsidiaries	7	1,158,347	1,158,347
Loans to Group companies	9	1,756,587	1,530,811
Non interest-bearing receivables		840	1,101
NON-CURRENT ASSETS		2,915,820	2,690,285
Receivables	9	275,338	300,413
Cash, cash equivalents and deposits in Group cash pool	9	6,832	31
CURRENT ASSETS		282,170	300,444
TOTAL ASSETS		3,197,990	2,990,729
EQUITY AND LIABILITIES			
Share capital	11	100,000	100,000
Treasury shares	11	-367	-450
Share premium		1,758,347	1,758,347
Other paid in equity		19,659	15,614
Retained earnings		223,440	219,693
EQUITY		2,101,079	2,093,204
Interest-bearing liabilities	10	400,000	400,000
NON-CURRENT LIABILITIES		400,000	400,000
Interest-bearing liabilities	10	400,000	200,000
Dividends		229,156	223,987
Income tax payable	8	65,415	71,684
Accounts payable	9	20	956
Other liabilities		2,320	898
CURRENT LIABILITIES		696 911	497,525
EQUITY AND LIABILITIES		3,197,990	2,990,729

Sarpsborg, 18 March 2020
The Board of Directors of Borregaard ASA



JAN ANDERS OKSUM

(Chair)



TERJE ANDERSEN



TOVE ANDERSEN



MARGRETHE HAUGE



HELGE AASEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLIE

(President and CEO)

STATEMENT OF CASH FLOW

Amounts in NOK thousand	2019	2018
Profit/loss before taxes	297,193	311,603
Changes in net working capital, etc.	25,822	199,367
Taxes paid	-71,684	-121,824
CASH FLOW FROM OPERATING ACTIVITIES	251,331	389,146
CASH FLOW FROM INVESTING ACTIVITIES	-	-
Dividends	-224,019	-199,051
Proceeds from sales of treasury shares	65,416	34,124
Buy-back of treasury shares	-60,151	-31,555
NET PAID TO SHAREHOLDERS	-218,754	-196,482
Change in interest-bearing liabilities	200,000	200,000
Change in interest-bearing receivables	-225,776	-395,320
CHANGE IN NET INTEREST-BEARING LIABILITIES	-25,776	-195,320
CASH FLOW FROM FINANCING ACTIVITIES	-244,530	-391,802
CHANGE IN CASH AND CASH EQUIVALENTS	6,801	-2,656
Cash and cash equivalents as of 1 January	31	2,687
Change in cash and cash equivalents	6,801	-2,656
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	6,832	31

The cash flow statement has been prepared according to the indirect method and reflects cash flows from operating, investing and financing activities and explains changes in cash and cash equivalents in the reporting period.

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK thousand	SHARE CAPITAL	TREASURY SHARES	SHARE PREMIUM	OTHER PAID-IN EQUITY	RETAINED EARNINGS	TOTAL EQUITY
EQUITY 31 DECEMBER 2017	100,000	-484	1,758,347	15,614	201,245	2,074,722
Profit/loss for the year	-	-	-	-	239,919	239,919
Proposed dividend 2017	-	-	-	-	199,032	199,032
Actual paid-out dividend in 2018	-	-	-	-	-199,051	-199,051
Proposed dividend for 2018	-	-	-	-	-223,987	-223,987
Buy-back/sales of treasury shares	-	34	-	-	2,535	2,569
EQUITY 31 DECEMBER 2018	100,000	-450	1,758,347	15,614	219,693	2,093,204
Profit/loss for the year	-	-	-	-	231,798	231,798
Proposed dividend 2018	-	-	-	-	223,987	223,987
Actual paid-out dividend in 2019	-	-	-	-	-224,019	-224,019
Proposed dividend for 2019	-	-	-	-	-229,156	-229,156
Buy-back/sales of treasury shares	-	83	-	4,045	1,137	5,265
EQUITY 31 DECEMBER 2019	100,000	-367	1,758,347	19,659	223,440	2,101,079

NOTES TO THE FINANCIAL STATEMENTS

NOTE 01 General information

Borregaard ASA ("The Company") was incorporated as a public limited liability company on 22 August 2012.

On 17 September, The Company was inserted as a holding company of Borregaard AS.

NOTE 02 Accounting principles

The financial statements for Borregaard ASA have been prepared and presented in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP). The annual accounts give a true and fair view of assets and liabilities, financial status and result.

All amounts are in NOK thousand unless otherwise stated. The functional currency of Borregaard ASA is NOK.

CLASSIFICATION OF ITEMS IN THE FINANCIAL STATEMENTS

An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it falls due within 12 months and when it consists of cash or cash equivalents on the statement of financial position date. Other items are non-current.

NOTE 03 Payroll and pensions

Borregaard ASA has no employees and therefore no pension plan. The executive management is employed in Borregaard AS. For matters relating to the remuneration of the executive

management, reference is made to Note 9 in the Consolidated Financial Statements.

NOTE 04 Guarantees

MORTGAGES AND GUARANTEES

Amounts in NOK thousand	2019	2018
Guarantees to subsidiaries	1,500,000	1,500,000
TOTAL GUARANTEE COMMITMENTS	1,500,000	1,500,000

Borregaard ASA is jointly and severally liable as guarantor and as borrower for the long-term credit facilities entered into by Borregaard AS (NOK 1,500 million).

In addition, Borregaard ASA is jointly and severally liable borrower with Borregaard AS for the EUR 40 million term loan contracted with Nordic Investment Bank.

In 2017, LignoTech Florida LLC (55% owned by Borregaard) entered into a USD 60 million loan agreement. The owners will guarantee the loan facility on a pro rata basis until 12 months after commercial completion date subject to certain financial conditions being met. As of 31 December 2019 the facility was fully drawn.

NOTE 05 Remuneration and contractual arrangements

REMUNERATION OF THE BOARD OF DIRECTORS

In the General Meeting of the Company's shareholders in April 2019 it was determined that The Board of Directors is remunerated at annual rates for the period up to the next General Meeting in 2020:

BOARD OF DIRECTORS			
Board chair	NOK	525,000	per year
Board member, shareholder-elected	NOK	313,900	per year
Board member, employee-elected	NOK	281,400	per year
Observer, employee-elected	NOK	93,700	per year
Deputy for observer	NOK	7,200	per meeting
AUDIT COMMITTEE			
Committee chair	NOK	87,800	per year
Member	NOK	58,800	per year
COMPENSATION COMMITTEE			
Committee chair	NOK	52,600	per year
Member	NOK	41,000	per year

REMUNERATION OF THE NOMINATION COMMITTEE

The Chair of the Nomination Committee receives NOK 58,200 per year and an additional NOK 9,400 per meeting exceeding 4 meetings. Other members receive NOK 41,000 per year and an additional NOK 7,700 per meeting exceeding 4 meetings.

SHAREHOLDINGS OF CEO AND MEMBERS OF THE BOARD OF DIRECTORS

	NUMBER OF SHARES*
PRESIDENT & CEO	
Per A. Sørli	157,649
SHAREHOLDER-ELECTED BOARD MEMBERS	
Jan A. Oksum	11,500
Terje Andersen	4,371
Tove Andersen	4,000
Margrethe Hauge	4,077
Helge Aasen	2,900
EMPLOYEE-ELECTED BOARD MEMBERS	
Ragnhild Anker Eide	3,025
Åsmund Dybedahl	13,920
EMPLOYEE-ELECTED BOARD OBSERVERS	
Bente Seljebakken Klausen	2,384
Roy Kåre Appelgren	2,248
TOTAL	206,074

* Total share ownership including related parties

FEES TO EXTERNAL AUDITOR

Amounts in NOK thousand	2019	2018
Statutory audit	413	396
TOTAL	413	396

NOTE 06 Finance income and finance costs

Amounts in NOK thousand	2019	2018
Group contribution	275,000	300,000
Interest income from Borregaard AS	43,689	28,306
Interest income	91	20
TOTAL FINANCE INCOME	318,780	328,326
Interest costs	-15,371	-9,762
Foreign exchange loss	-3	-1
TOTAL FINANCE COSTS	-15,374	-9,763
FINANCIAL ITEMS, NET	303,406	318,563

NOTE 07 Shares in subsidiaries

Long-term investments in subsidiaries, associated companies and other shares and bonds, which are held to maturity date, are classified as non-current assets in the balance sheet and entered at the lower of cost and market value.

Only directly owned subsidiaries are included in the below table.

Amounts in NOK thousand	BOOK VALUE	GROUP'S SHARE OF CAPITAL
Borregaard AS, Norway	1,158,347	100%
TOTAL	1,158,347	-

The Group also has indirect ownership in the following subsidiaries and joint venture, of which the profit/loss and equity are important in the valuation of the above company.

GROUP'S SHARE OF CAPITAL

INDIRECTLY OWNED SUBSIDIARIES

Borregaard, Inc.	100%
Nutrancell AS	100%
Borregaard Austria GmbH	100%
Borregaard Czech s.r.o.	100%
Borregaard UK Ltd.	100%
Borregaard Deutschland GmbH	100%
Borregaard S.E.A. Pte. Ltd	100%
Borregaard Poland sp. z.o.o.	100%
Borregaard France SarL	100%
Borregaard Ibérica, S.L.	100%
LignoTech Ibérica SA	60%
Borregaard Middle East FZE	100%
Borregaard Synthesis Inc.	100%
LignoTech USA, Inc.	100%
Borregaard North America, Inc.	100%
LignoTech Brasil Produtos de Lignina EIRELI	100%
Borregaard South Asia Pvt. Ltd	100%
Borregaard Shanghai Company Limited	100%
SenseFi Inc.	100%
LignoTech Florida LLC	55%

INDIRECTLY OWNED JOINT VENTURES

Umkomaas Lignin (Pte) Ltd	50%
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NOTE 08 Taxes

Deferred tax shows the company's tax liability assuming its assets and debt are realised at book value by year-end. Positive temporary differences state that book value is higher than taxable value, and vice versa for negative differences. The item Tax income/(cost) in the profit and loss statement, consists of two elements: The tax payable, and the change in deferred tax. Deferred tax/tax benefit is reflected as long-term debt/non-current assets in the balance sheet.

TAX EXPENSE

Amounts in NOK thousand	2019	2018
Profit before tax	297,193	311,603
Current tax expense	-65,415	-71,684
Change in deferred tax	20	-
TOTAL TAX EXPENSE	-65,395	-71,684
Tax as % of Profit/loss before taxes	22 %	23%

DEFERRED TAX LIABILITIES

Deferred tax liability consists of the tax liabilities that are payable in the future. The table below lists deferred tax assets and liabilities relating to the timing differences between tax accounting and financial accounting.

Amounts in NOK thousand	2019	2018
DEFERRED TAX ON TAX INCREASING/REDUCING DIFFERENCES		
Provisions	-46	-26
DEFERRED TAX LIABILITIES/ASSETS	-46	-26
This year's change in deferred tax	20	-
CHANGE IN DEFERRED TAX INCOME STATEMENT	20	-

Deferred tax assets are only capitalised to the extent that it is probable that there will be sufficient future taxable profit for the tax asset to be used, either because the unit recently reported a profit or because assets with excess value have been identified. If future profits are not likely to be sufficient to absorb the tax reducing timing differences, deferred tax assets are not recognised.

NOTE 08 cont.

RECONCILIATION OF TOTAL TAX EXPENSE

Amounts in NOK thousand	2019	2018
22% (23%) of profit before taxes	-65,382	-71,669
Change in tax rate	-	-1
Other non-deductible expenses	-13	-14
TOTAL TAX EXPENSE	-65,395	-71,684

The tax rate in Norway was reduced from 23% to 22% from 1 January 2019. This was considered in the calculation of deferred taxes as of 31 December 2018.

NOTE 09 Related parties

INTERCOMPANY RELATIONS WITH BORREGAARD AS

Amounts in NOK thousand	2019	2018
Other operating expenses (Note 5)	3,411	3,353
Group contribution	275,000	300,000
Interest income from Group companies (Note 6)	43,689	28,306
Loans to Group companies*	1,756,587	1,530,811
Current receivable Group contribution	275,000	300,000
Accounts payable	-	932

* The loan is interest-bearing and the interest is calculated in accordance with market conditions.

NOTE 10 Interest-bearing liabilities

UNSECURED BOND LOAN 2018-2023

On 7 June 2018, Borregaard issued NOK 400 million in a new open bond issue with a tenor of 5 years and a coupon of 3 months NIBOR plus 77 basis points. Settlement of the transaction took place on 20 June 2018. Maturity is 20 June 2023.

COMMERCIAL PAPER

On 19 August 2019, Borregaard issued a commercial paper of NOK 200 million. Settlement of the transaction took place on 21 August 2019. Maturity is 21 February 2020.

On 15 November 2019, Borregaard issued a commercial paper of NOK 200 million. Settlement of the transaction took place on 21 November 2019. Maturity is 21 January 2020.

Note 11 Other matters and subsequent events

Issuance of commercial paper: On 21 January 2020, Borregaard ASA issued a commercial paper of NOK 150 million with maturity date 25 March 2020. See notifications to the Oslo Stock Exchange on 17 January 2020.

On 21 February 2020, Borregaard ASA issued a commercial paper of NOK 200 million with maturity date 21 August 2020. See notification to the Oslo Stock Exchange on 19 February 2020.

SHARE CAPITAL AND SHAREHOLDERS

Information about the share capital and a list of the largest shareholders in Borregaard ASA is presented in Note 30 in the Consolidated Financial Statements for the Borregaard Group.

STATEMENT FROM THE BOARD OF DIRECTORS

We confirm that the financial statements for the period 1 January up to and including 31 December 2019, to the best of our knowledge, have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial positions and profit or loss of

the Company and the Group as a whole. The Board of Directors' report includes a fair review of the development and performance of the business and the position of the Company and the Group as a whole, together with a description of the principal risks and uncertainties that they face.

Sarpsborg, 18 March 2020

THE BOARD OF DIRECTORS OF BORREGAARD ASA



JAN ANDERS OKSUM
Chair



TERJE ANDERSEN



TOVE ANDERSEN



MARGRETHE HAUGE



HÉLGE AASEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLIE
President and CEO

AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Borregaard ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Borregaard 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 2019, the income statement, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the balance sheet as at 31 December 2019, the income statement, statements of comprehensive income, cash flows and 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 2019, 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 2019 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 2019. 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.



Environmental provisions

The Group operates in an industry with inherent risk of environmental contamination and has several operating sites in multiple jurisdictions. Environmental provisions are recognized when contamination and environment clean up obligations are identified. Estimates of future cash flows to clean up affected areas are based on management's expectations of the related cost. The expected cost is uncertain as it is dependent on management expectation and on requirements from authorities that may change over time. Further, the application of accounting standards to recognize or release provisions requires judgement. Since environmental provisions are material and subject to estimation uncertainty, we consider recognition and measurement of environmental provisions to be a key audit matter.

We read correspondence with the Group's external advisors on the current situation and risks regarding environmental provisions and correspondence with environmental authorities to assess the recognition criteria and suggested measures. We assessed the estimated cash flows used as basis for the environmental provisions by comparing to the most recent actual cash flows for similar clean-ups, and by comparing updated estimates with the prior years' actual expenses. Further, we assessed key input factors to the calculations by comparing to data from correspondence with authorities. In addition, we inspected the Group's litigation and compliance reports and held discussions with the Group's internal counsel. We also held discussions with management and internal representatives responsible for environmental provisions.

We refer to note 4 use of estimates, note 24 provisions and other non-current liabilities, note 25 other liabilities (current) and note 35 other matters and subsequent events.

Hedging of cash flows related to sales

The Group is exposed to currency risk as a significant part of sales are invoiced in foreign currencies. A portion of future forecasted cash flows from sales are hedged using currency forward contracts. Borregaard applies hedge accounting for cash flow hedges. The use of hedge accounting requires effective hedging relationships and supporting documentation. Accounting for cash flow hedging related to sales is material to Borregaard and we consider this a key audit matter.

We assessed the Group's requirements for use of hedge accounting. We tested, on a sample basis, whether the documentation of cash flow hedging meets the requirements of IFRS as adopted by EU and that the hedging instruments therefor are eligible for hedge accounting. We examined the assessments of cash flows forecasts from sales and the relationship between hedging instruments and hedging objects. Furthermore, we considered the retrospective effectiveness testing to assess that the ineffective part of the hedge has been calculated accurately. We reconciled the outcome of the retrospective effectiveness testing resulting in the hedge adjustment to the financial statements. We obtained external confirmations for unrealized forward contracts at yearend and assessed the changes in fair value of forward contracts and changes in foreign exchange for hedging objects. Further, we assessed the impact for profit and loss, comprehensive income and the balance sheet.

We refer to note 28 financial risk and note 29 derivatives and hedging.

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 on the other information obtained prior to the date of the auditor's report, 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 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.

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, 19 March 2020
ERNST & YOUNG AS

Jan Wellum Svensen
State Authorised Public Accountant (Norway)

HISTORICAL KEY FIGURES

	DEFINITIONS	2019	2018	2017	2016	2015
PROFIT & LOSS						
Operating revenues	(mill.NOK)	5,063	4,785	4,618	4,492	4,164
EBITDA ¹	(mill.NOK)	1,007	903	1,055	1,021	758
EBITDA margin ¹	(%)	19.9	18.9	22.8	22.7	18.2
Depreciation and write-down	(mill.NOK)	-418	-323	-306	-274	-261
Amortisation intangible assets	(mill.NOK)	-4	-4	-4	-4	-1
Other income and expenses ¹	(mill.NOK)	-27	-	-9	13	37
Operating profit	(mill.NOK)	558	576	736	756	533
Ordinary profit before taxes	(mill.NOK)	467	562	715	724	506
Profit/loss for the year	(mill.NOK)	351	425	558	553	384

CASH FLOW						
Cash flow from operating activities	(mill.NOK)	697	558	780	1,081	563

RETURN						
Return on capital employed ¹	(%)	10.9 %	12.7%	19.1%	21.7%	15.6%

CAPITAL AS OF 31 DECEMBER						
Book value of total assets	(mill.NOK)	6,744	5,951	5,333	4,671	4,169
Market capitalisation	1 (mill.NOK)	9,488	7,532	8,108	8,469	4,901
Equity ratio ¹	(%)	51.4	55.8	56.2	58.1	49.4
Net interest-bearing debt ¹	(mill.NOK)	1,489	1,297	845	300	624
Leverage ratio ¹		1.59	1.44	0.80	0.29	0.82
Interest coverage ratio	2	10.1	19.1	40.7	41.2	24.0
Share of floating interest-bearing liabilities	3 (%)	78	67	100	100	100

SHARES AS OF 31 DECEMBER						
Number of shares outstanding diluted	(x 1,000)	99,807	99,901	99,957	100,077	99,735
Number of shares outstanding	(x 1,000)	100,000	100,000	100,000	100,000	100,000

SHARE-RELATED KEY FIGURES						
Share price at 31 December	(NOK)	95.00	74.80	81.50	84.50	49.40
Earnings per share diluted	4 (NOK)	4.17	4.76	5.66	5.55	3.87
Ordinary dividend per share (proposed for 2019)	(NOK)	2.30	2.25	2.00	1.75	1.50
Extraordinary dividend	(NOK)	-	-	-	1.75	-
Payout ratio	5 (%)	55.16	47.27	35.34	63.06	38.76
Price/earnings ratio	6	22.78	15.71	14.40	15.23	12.76

PERSONELL						
Number of man-years at 31 December (excluding JV) ²		1,103	1,097	1,065	1,008	1,027

DEFINITION:

- 1 Market capitalisation is calculated on the basis of number of shares outstanding x average share price at year end
- 2 (Profit before tax excluding IFRS 16 leases + Net interest expenses excluding IFRS 16 leases)/(Net interest expenses excluding IFRS 16 leases)
- 3 Liabilities with remaining period of fixed interest of less than one year
- 4 Profit for the year after minority interests/Average number of shares outstanding diluted at year end
- 5 Total dividend per share/Earnings per share diluted
- 6 Share price/Earnings per share diluted

¹ Alternative Performance Measures, see page 134 for definition.
² Excluding employees in the joint venture LignoTech South Africa.

GLOBAL REPORTING INITIATIVE (GRI)

GRI ref*	DESCRIPTION	PAGE REFERENCE	NOTES	UN SDG	VERIFIED
1	ORGANIZATIONAL PROFILE				
102-1	Name of Organisation	4	Annual Report 2019		Yes
102-2	Activities, brands, products and services	4, 5	Annual Report 2019		Yes
102-3	Location of headquarter	4, 135	Annual Report 2019		Yes
102-4	Location of operations	4, 135	Annual Report 2019		Yes
102-5	Ownership and legal form	4,16	Annual Report 2019		Yes
102-6	Markets served	4-6, 11	Annual Report 2019		Yes
102-7	Scale of the organization	4, 5 ,10-13, 52	Annual Report 2019		Yes
102-8	Information on employees and other workers	4, 52-54	Annual Report 2019		Yes
102-9	Supply chain	4,5, 10-15, 56, 113	Annual Report 2019		Yes
102-10	Significant changes to the organisation and its supply chain	6-7, 10-11, 43	Annual Report 2019		Yes
102-11	Precautionary Principle or approach	22, 40-42, 44	Annual Report 2019		Yes
102-12	External initiatives	60-61	Annual Report 2019		Yes
102-13	Membership of associations		https://www.borregaard.com/Sustainability/Corporate-responsibility/If-set-it-will-be-used-to-create-links-within-site2/(language)/eng-GB		Yes
102	STRATEGY				
102-14	Statement of Senior Decision maker	6-7	"message from CEO", Annual Report 2019		Yes
102	ETHICS AND INTEGRITY				
102-16	Values, Principles, standards, and norms of behaviour	13, 52, 16-24	Annual Report 2019/ www.borregaard.com/Sustainability/Corporate-responsibility/Policies/Code-of-Conduct		Yes
102-17	Mechanisms for advice and concerns about ethics	16-24	www.borregaard.com/Sustainability/Corporate-responsibility/Policies/Code-of-Conduct		Yes
102	GOVERNANCE				
102-18	Governance structure	16	Annual Report 2019		Yes
102	STAKEHOLDER ENGAGEMENT				
102-40	List of Stakeholder Groups	33	Annual Report 2019/ www.borregaard.com/Sustainability/Green-Room		Yes
102-41	Collective bargaining agreements	52	Annual Report 2019		Yes
102-42	Identifying and selecting stakeholder	33, 1-8	Annual Report 2019/ www.borregaard.com/Sustainability/Green-Room		Yes
102-43	Approach to stakeholder engagement	33, 53	Annual Report 2019		Yes
102-44	Key topics and concerns raised	34, 1-8	Annual Report 2019/ www.borregaard.com/Sustainability/Green-Room		Yes
102	REPORTING PRACTISE				
102-45	Entities included in consolidated financial statements	80	Annual Report 2019		Yes
102-46	Defining report content and topic Boundaries	3	Annual Report 2019		Yes
102-47	List of Material Topics	34	Annual Report 2019		Yes
102-48	Restatements of information	NA	No restatements		Yes
102-49	Changes in reporting	80-82, 90-92	Annual Report 2019		Yes
102-50	Reporting period	10	2019		Yes
102-51	Date of most recent report		18.03.2020		Yes
102-52	Reporting cycle	10	Stated annually in Annual Report 2019		Yes
102-53	Contact point of questions regarding report	135	Annual Report 2019		Yes
102-54	Claims of report according with GRI standards	132-133	EY statement & Statement from the Board of Directors		Yes
102-55	GRI content Index	128-131	Annual Report 2019		Yes
102-56	External assurance	132-133	Annual Report 2019		Yes

GRI ref*	DESCRIPTION	PAGE REFERENCE	NOTES	UN SDG	VERIFIED
103	MANAGEMENT APPROACH				
103-1	Explanation of the material topics and its boundary	16, 32-34	Annual Report 2019		
103-2	The management approach and its components	4, 10-11, 16, 22-23, 30-34, 36-38, 40-49, 52-54, 56, 60	Annual Report 2019		
103-4	Evaluation of the management approach	16	Annual Report 2019		
200	ECONOMIC TOPICS				
201	Economic Performance			SDG 8	
201-1	Direct economic value generated and distributed	11-12, 72 -73	Annual Report 2019		
201-2	Financial implications and other risks and opportunities due to climate change	6 - 20 (CDP), 22, 40-42	CDP report 2019, Annual Report 2019		
201-3	Defined benefit plan obligations and other retirement plans	85, 88-89	Annual Report 2019		
201-4	Financial assistance received from government	103-104	Annual Report 2019		
202	Market Presence				
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	NA	In compliance with Norwegian law and regulatory		
202-2	Proportion of senior management hired from the local community	66-67	Annual Report 2019		
203	Indirect Economic Impacts				
203-1	Infrastructure investments and services supported	6, 10-11	Annual Report 2019		
205	Anti-corruption			SDG 8, 16	
205-1	Operations assessed for risks related to corruption		100 %		Yes
205-2	Communication and training about anti-corruption policies and procedures	22-23, 52	Annual Report 2019/www.borregaard.com/sustainability/green-room		Yes
205-3	Confirmed incidents of corruption and actions taken		No incidents		Yes
206	Anti-competitive			SDG 8, 16	
206-1	Legal actions for anti-competitive behaviour, antitrust, and monopoly practices		No incidents		Yes
300	ENVIRONMENTAL PERFORMANCE				
302	Energy			SDG 12, 13	
302-1	Energy consumption within the organisation	41-44, 51	Annual Report 2019/www.norskeutslipp.no/no/Diverse/Virksomhet/?Company-ID=5086		
302-2	Energy consumption outside the organisation	42-45	Annual Report 2019		
302-3	Energy intensity	43, 51	Annual Report 2019		
302-4	Reduction of energy consumption	43, 51	Annual Report 2019		
303	Water			SDG 12, 14	
303-1	Interactions with water as a shared source	45-46	Annual Report 2019		
303-3	Water withdrawal	51	Annual Report 2019		

GRI ref*	DESCRIPTION	PAGE REFERENCE	NOTES	UN SDG	VERIFIED
305	Emissions			SDG 12, 13	
305-1	Direct (Scope 1) GHG emissions	41-43, 51	Annual Report 2019/www.norskeutslipp.no/no/Diverse/Virksomhet/?Company-ID=5086		Yes
305-2	Energy indirect (Scope 2) GHG emissions	41-43, 51	Annual Report 2019, also used factors from IEA/ www.norskeutslipp.no/no/Diverse/Virksomhet/?CompanyID=5086		Yes
305-3	Other indirect (Scope 3) GHG emissions	41-43, 51	Annual Report 2019/ www.norskeutslipp.no/no/Diverse/Virksomhet/?Company-ID=5086/ www.borregaard.com/ sustainability/green-room (verified by 31 July 2020)		
305-4	GHG emissions intensity	51	Annual Report 2019/www.norskeutslipp.no/no/Diverse/Virksomhet/?Company-ID=5086		Yes
305-5	Reduction of GHG emissions	42-43, 51	Annual Report 2019/www.norskeutslipp.no/no/Diverse/Virksomhet/?Company-ID=5086		Yes
305-6	Emissions of ozone-depleting substances (ODS)	51	Annual Report 2019/www.epd-norge.no (search Borregaard)		Yes
305-7	Nitrogen oxides (NOx), sulphur oxides (SOX), and other significant air emissions	45-46, 51	Annual Report 2019/ www.norskeutslipp.no/no/Diverse/Virksomhet/?Company-ID=5086		Yes
306	Effluent and waste			SDG 12	
306-1	Water discharge by quality and destination	44, 51	Annual Report 2019		
306-2	Waste by type of disposal method	45-46, 51	Annual Report 2019		
307	Environmental Compliance			SDG 12	
307-1	Non-compliance with environmental laws and regulations	51	Annual Report 2019		
400	SOCIAL PERFORMANCE				
401	Employment			SDG 8	
401-1	New employee hires and employee turnover	53-54	Annual Report 2019		
403	Occupational Health and Safety			SDG 8	
403-1	Occupational health and safety management system	40, 48	Annual Report 2019		Yes
403-2	Hazardous identification, risk assessment, and incident investigation	48-49	Annual Report 2019		Yes
403-9	Work-related injuries	48-49, 51	Annual Report 2019		Yes
404	Training and Education			SDG 4	
404-2	Programs for upgrading employee skills and transition assistance programs	52-54	Annual Report 2019		
404-3	Percentage of employees receiving regular performance career development reviews	52-54	Annual Report 2019		
405	Diversity and equal opportunity			SDG 5, 10	
405-1	Diversity of governance bodies and employees	53-54	Annual Report 2019/www.borregaard.com/sustainability/green-room		Yes
405-2	Ratio of basic salary and remuneration of woman to men	53-54	Annual Report 2019		Yes
407	Freedom of Association and Collective Bargaining			SDG 10, 16	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	52	Annual Report 2019		

GRI ref*	DESCRIPTION	PAGE REFERENCE	NOTES	UN SDG	VERIFIED
412	Human Rights assessment			SDG 5, 10, 16	
412-2	Employee training on human rights policies or procedures		Code of Conduct training (Introduction programme)		
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening		Responsible sourcing policy (https://www.borregaard.com/Sustainability/Corporate-responsibility/Policies/Responsible-sourcing-policy)		
414	Supplier social assessment				
414-1	New suppliers that were screened using social criteria	56	Annual Report 2019		Yes

AUDITOR'S REPORT GRI



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Medlemmer av Den norske revisorforening

To the Board of Directors of Borregaard ASA

Independent assurance report on Borregaard ASA's 2019 Sustainability Reporting

We have performed an independent verification of selected indicators related to Borregaard ASA's Sustainability Reporting for 2019. We have assessed if the information being presented for the selected indicators is based on relevant criteria from the Global Reporting Initiative (GRI) sustainability reporting standards. Controlled information is marked with "Verified" in the company's overview of reporting on GRI indicators (the GRI Index, see page 128 – 131 of the annual report) hereinafter referred to as Sustainability Reporting.

Management's responsibility

The Board of Directors and Chief Executive Officer (management) are responsible for the selection of the information and collection of the data for presentation and for the preparation of the Sustainability Reporting in accordance with the GRI Standards.

Our Independence and Quality Control

We are independent of the company as required by law and regulations and have complied with our other ethical obligations in accordance with these requirements. We apply the International Standard on Quality Control (ISQC 1) and maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's tasks and duties

Our task is to issue an independent report to the Board of Directors on the Sustainability Reporting based on our work. Our work is conducted in accordance with ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". The standard requires that we plan and perform procedures to obtain limited assurance that the information in the Sustainability Reporting is prepared and presented in accordance with relevant criteria for sustainability reporting in accordance with GRI Standards and does not contain material errors.

Our work has consisted of the following procedures:

- Review of Borregaard ASA's process for preparation and presentation of the Sustainability Reporting to develop an understanding of how sustainability is ensured in practice within the business
- Interviewed those in charge of Sustainability Reporting to develop an understanding of the process for the preparation of the Sustainability Reporting



2

- Verified on a sample basis the information in the Sustainability Reporting against source data and other information prepared by Borregaard ASA
- Assessed the overall presentation of the Sustainability Reporting against the criteria in the GRI Standards including a review of the consistency of information against the GRI index.

We have performed controls in order to establish a limited level of assurance for the following disclosures as defined by GRI:

- Anti-corruption: 205-1, 205-2 and 205-3
- Anti-competitive behavior: 206-1
- Safe and healthy working environment: 403-1, 403-2 and 403-9
- Diversity and equal opportunity: 405-1 and 405-2
- Supplier social assessment: 414-1
- Emissions: 305-1, 305-2, 305-4, 305-5, 305-6 and 305-7
- 102 General disclosures (the indicators required for option “Core” in the GRI-framework)

Additionally, we have performed controls in order to establish a limited level of assurance for the following non-GRI disclosure:

- Percentage of purchased wood which is certified under Borregaard's selected certification program(s)

In our opinion, the evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the selected components of the Sustainability Reporting, in all material respects, are not prepared and presented in accordance with the GRI Standards. Indicators covered by our assurance report are identified and listed in the GRI Index.

Oslo, 19 March 2020
ERNST & YOUNG AS

Jan Wellum Svensen
State Authorised Public Accountant

Independent assurance report – Borregaard ASA

ALTERNATIVE PERFORMANCE MEASURES

In the discussion of the reported operating results, financial position and cash flows, Borregaard refers to certain measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. Borregaard management makes regular use of these Alternative Performance Measures and is of the opinion that this information, along with comparable GAAP measures, is useful to investors who wish to evaluate the company's operating performance, ability to repay debt and capability to pursue new business opportunities. Such Alternative Performance Measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

CASH FLOW FROM OPERATIONS

Cash flow from operations is defined by Borregaard as:

	Cash flow from operating activities (IFRS)
+	Taxes paid
+/-	Net financial items
+/-	Dividend (share of profit) from JV
=	Cash flow from operations

EBITDA

EBITDA is defined by Borregaard as operating profit before depreciation, amortisation and other income and expenses.

EQUITY RATIO

Equity ratio is defined by Borregaard as equity (including non-controlling interests) divided by equity and liabilities.

EXPANSION INVESTMENTS

Expansion investments is defined by Borregaard as investments made in order to expand production capacity, produce new products or to improve the performance of existing products. Such investments include business acquisitions, pilot plants, capitalised research and development costs and new distribution set-ups.

OTHER INCOME AND EXPENSES

Other income and expenses is defined by Borregaard as non-recurring items or items related to other periods or to a discontinued business or activity. These items are not viewed as reliable indicators of future earnings based on the business areas' normal operations. These items will be included in the Group's operating profit.

LEVERAGE RATIO

Leverage ratio is defined by Borregaard as net interest-bearing debt (see Note 26) divided by last twelve months' (LTM) EBITDA, excluding the impact on EBITDA of IFRS 16 leases.

NET INTEREST-BEARING DEBT

Net interest-bearing debt is defined by Borregaard as interest-bearing liabilities, excluding the impact of IFRS 16 Leases, minus interest-bearing assets, see Note 26.

CAPITAL EMPLOYED

Capital employed is defined by Borregaard as the total of net working capital, intangible assets, property, plant and equipment and investment in joint ventures minus net pension liabilities and deferred tax excess value. The impact of IFRS 16 Leases on assets has been excluded.

RETURN ON CAPITAL EMPLOYED (ROCE)

Return on capital employed (ROCE) is defined by Borregaard as last twelve months' (LTM) operating profit adjusted for other income and expenses and amortisation of intangible assets, excluding the impact of IFRS 16 Leases, divided by average capital employed based on the ending balance of the last five quarters.

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