

# COMPLIANCE WORK AT BORREGAARD

PUBLIC REPORT 2020-2021

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## 1. Introduction

Compliance at Borregaard constitutes continuous work on establishing standards and ensuring knowledge and understanding of, as well as compliance with these standards. Together with national and international legislation, Borregaard's internal guidelines set out the framework for activities at Borregaard. Accordingly, this involves both having proper guidelines and documentation in place, but also having a corporate culture that supports the objectives and ambitions of the company within this area.

Borregaard has established governing documents for a number of relevant topics. These documents have been revised several times, are distributed throughout the entire organisation and can now be found on digital platforms available to the entire global organisation. Various training initiatives have also been conducted on the most relevant topics. The remaining work is to further systematise the work through documentable control measures, reporting and improvement measures.

As part of its management and quality systems, Borregaard has several certifications and authorisation schemes from third parties. This has also been addressed in this report.

The Board of Directors at Borregaard is involved in this work through annual reporting and ongoing dialogue.

*This version is an abridged public version of the report submitted for consideration by the Board of Directors. The level of detail in this report is somewhat less but all areas and the overarching topics discussed in the report to the Board of Directors are covered.*

## 2. Organisation and responsibilities

### Compliance – a line responsibility

Compliance is a line responsibility at Borregaard. All managers and employees are responsible for adhering to applicable legislation and company guidelines.

A fixed structure has been established with an annual meeting at which the responsible parties (Managing Directors and Board Members) in subsidiaries participate ("Legal Heads Meeting"). A significant part of the content of such meetings is linked to the implementation of compliance matters. Due to the Covid-19 situation, this meeting was held digitally in June 2021. Compliance was the main topic at this meeting, including an overview of the distribution of responsibilities between the Managing Director, the Board of Directors and corporate functions, as well as implementation of and training on new guidelines.

Compliance has also been established as a fixed agenda item at board meetings of subsidiaries and internal steering committees and templates have been created for meeting presentations to reflect this. An audit has also been completed in respect of the formalities linked to the management of subsidiaries.

### Reporting

Employees' responsibility and opportunity to report (whistleblowing) matters they believe to be in violation of laws and guidelines are enshrined in the company's Code of Conduct. A whistleblowing poster has been drawn up in multiple languages to clarify the opportunities for reporting. A dedicated e-mail address has been created for such reports and e-mails sent to this address are forwarded to the company's Legal Director. No whistleblowing matters have been reported via this channel in the last 12 months. Nevertheless, some whistleblowing matters have been reported through other channels. These matters were investigated and handled at the relevant level of the organisation in accordance with the internal guidelines. In 2021, new procedures were prepared with regard to how whistleblowing matters should be managed, as well as responsibilities, roles and documentation requirements. A new aspect is that a separate committee will assess incoming reports and who will be involved in the management of these reports.

### Compliance Board

The Compliance Board is an internal specialist committee that has the overall responsibility for contributing to compliance with laws and regulations in accordance with external and internal requirements and expectations. Through its work, the Compliance Board will support the line organisation with matters relating to awareness, reporting and contributions to improvements within the area. The work will be based on risk assessments.

The Compliance Board and its chairperson will be appointed by the President and CEO. The Compliance Board consists of:

- Senior Vice President of HR & Organisation, chair
- Legal Director
- Head of internal audits (VP of Finance)
- Chief Risk Officer (CRO)

A separate mandate has been drawn up for the Compliance Board. During the period from September 2020 to September 2021, the Compliance Board convened six meetings.

### Review of implementation and training

There are growing levels of attention being paid, both internally and externally, to how the company's guidelines and procedures are implemented and monitored, not least through training. The Compliance Board has monitored this in several areas, including through separate meetings with those responsible for implementing standards and measures in new and key areas. Examples include the e-learning programmes in safety training for external parties and the new training programme on the new Code of Conduct.

### A part of corporate management

Borregaard is committed to ensuring that work on compliance is integrated into the company's ordinary activities and uses the established systems and implementation venues that already exist.

This means that compliance work is also subject to the same templates and systems for risk that the company uses for risk assessments and risk management. Furthermore, the work type resulting from the efforts in quality assurance and continuous improvement is also used in the work in the compliance area and follows a continual process of "plan, do, check, act".

### *Enhanced mandate for the Audit Committee*

Discussions have been held with the Board of Directors with regard to enhancing the role of the Audit

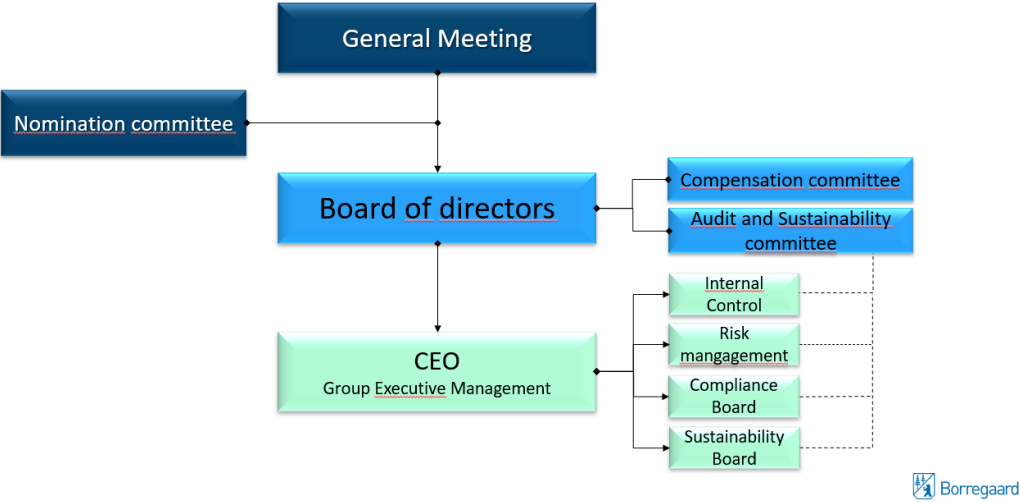
Committee by including sustainability to a greater degree. The plan is for the Board of Directors to discuss the mandate for the Audit Committee at its meeting in September 2021.

Sustainability has been a key element in Borregaard's business model, strategy and investments for a number of years. The topic has been afforded increased attention from several important stakeholders: the authorities, investors, financial institutions and employees and an increasing proportion of the value chain now integrates sustainability in its business plans and initiatives.

Borregaard coordinates its sustainability efforts through a dedicated Sustainability Board, which is also responsible for the sustainability report that constitutes an important source of information for a number of stakeholders that regularly conduct assessments and issue "ratings". The integration of sustainability in all functions, as well as in the management and governance structure, is important not only to Borregaard as a company but also to its stakeholders.

Similarly, expectations are also linked to the role of the Board of Directors in this work. This work is strengthened through increased reporting on sustainability topics (including greenhouse gas emissions) in

governing documents and matters for the Board, as well as the integration of sustainability into the Board of Directors' strategy process. The Board of Directors has also introduced criteria for the remuneration of executive employees (bonuses and options) linked to sustainability. This is the reason why the Audit Committee will also have an enhanced role when it comes to discussing, auditing and following up on sustainability. Expectations and ambitions linked to sustainability could also result in significant financial consequences in the form of investments and costs but also market opportunities. The interface with financial and accounting consequences also means that the role of the Audit Committee will be relevant in matters relating to sustainability.



*Compliance – risk situation*

An overall risk situation has been drawn up for 'compliance'. The risk situation illustrates an assessment of key risk factors, the status of the associated management systems and whether any incidents or reports are linked to the various areas.

Borregaard's risk situation is characterised by systematic improvement of the management systems. There are few serious incidents or compliance violations. Nevertheless, we do see a trend of increased complexity resulting from both internal and external conditions. Common to these challenges is the fact that proper systems to ensure compliance allow for proper business decisions where these have been integrated comprehensively in operations, both by ensuring that opportunities can be exploited and that problems can be identified (and avoided) at an early stage. To the extent possible, Borregaard seeks to utilise the structures of the established management systems and internal expertise with international experience in order to ensure the implementation of the systems. Where necessary, we seek the necessary external specialist expertise to ensure that our decisions are subject to quality assurance.

Risk factors that affect each business area must always be included in the overall risk situation. The risk situations are regularly reviewed by senior management together with the overall assessment of compliance.

### 3. Key priorities

Based on an assessment of risk, importance and relevance, Borregaard has focused its work and monitoring on four areas:

- Important business-related legislation
- Anti-corruption, competition law, trade regulations and sanctions
- Responsible sourcing
- Information security and privacy
- Certification and quality systems

These priority areas do not preclude other matters and areas from being discussed, but the more extensive systems mentioned above will be used in these areas in particular.

#### 3.1 Important business-related legislation

In this context, important business-related legislation refers in particular to legislation linked to corruption, competition and international sanctions. These are areas that Borregaard considers it particularly important to have a high focus on. Firstly, these areas are important from an ethical perspective. Secondly, the consequences of violating these rules are drastic.

##### *Plan/documents*

Borregaard has regulations in place for all four areas and these have been set down in writing and communicated to all affected employees. In order to reduce the risk of violating international sanctions rules, the company has incorporated a system to identify risky transactions in customer service systems. This means, for example, that a “Know Your Customer” analysis will be introduced for all new customers that are added. Account managers must actively confirm that such analyses have been performed and the analyses must also be documented.

##### *Activities and due diligence measures*

Borregaard recently updated its interactive e-learning programme on anti-corruption, which combines knowledge of Borregaard’s attitudes in the area with dilemma training. The programme also ensures proper documentation of who has completed the programme. New employees in relevant positions must complete the programme when joining the company and other employees must complete the programme as a refresher after a certain period. Even though Borregaard’s overall corruption risk is considered to be low, Borregaard is aware that the company conducts significant sales and activities in areas where there is an inherently high risk of corruption. In such areas, it is important to combine general and central activities with specific local measures to ensure proactive and continually improving understanding of the importance of anti-corruption work. Examples of specific measures in high-risk countries include extremely restrictive use of agents, negligible use of cash transactions, background checks into distributors, increased training in connection with corruption, etc. Additionally, the corporate culture is strengthened by discussion, transparency and increased awareness and knowledge of corruption. Consideration will also be given as to whether refresher e-learning programmes should be implemented on ethics and corruption.

Competition law is a topic in the new employee induction programme. When implementing sales training (sales academy seminars), seminars on topics from competition law have also been held. Several questions have been raised concerning competition law by employees in Norway and abroad, which shows that our employees are aware of potential issues.

The procedures relating to trade restrictions and sanctions are revised and updated on an ongoing basis during use. The system also ensures that employees in relevant positions become aware of the need for careful assessment of customers.

## New laws/regulations

### *Enhanced financial reporting – diversity and remuneration policy*

A requirement has been introduced under which the general meeting will not only advise on but also adopt the company's remuneration policy for executive employees. The Compensation committee and the Board of Directors were involved in the process associated with drawing up the pay policy, especially in relation to the option scheme. A new pay policy must be adopted every four years as a minimum. There will now be a requirement for reporting on the pay policy to be presented to the general meeting each year.

### *Diversity and inclusion – increased reporting requirements*

Towards the end of 2020, there was a legislative amendment that set down requirements concerning enhanced reporting on the company's work to promote diversity and prevent discrimination in a number of areas, including more than just gender equality. The new requirements would apply from the 2020 annual reporting period. A separate report was drawn up to describe the company's work, with plans also published on the company's website at the same time that the annual report was released. The reporting of results will become more extensive from and including the 2021 reporting period. Topics relating to diversity are part of the company's Management Audit process and are considered by the Board of Directors during Compliance meetings.

### *New Transparency Act*

In 2020, the Norwegian government proposed a new act called the "*Act relating to enterprises' transparency and work on fundamental human rights and decent working conditions*". Transparency will be used to ensure that the business sector respects human rights and fundamental labour rights. The draft legislation follows up on the Ethics Information Committee's report "*Åpenhet om leverandørkjeder (Supply Chain Transparency)*" and the committee's proposal for an act on enterprises' transparency relating to supply chains, duty of knowledge and due diligence. The purpose of the act is to promote companies' respect for fundamental human rights and decent working conditions in connection with the production of goods and services. The act will also ensure that the general public has access to information about how Norwegian companies manage negative consequences for fundamental human rights and decent working conditions.

The Transparency Act reflects the human rights requirements set down in the EU Taxonomy by stipulating that the information provided must be based on due diligence of the company's own activities, as well as activities in the supply chain. The draft legislation requires large companies such as Borregaard to conduct due diligence on their own activities and supply chain and also to report on their activities in this area.

## 3.2 Responsible sourcing

### *Plan/documents*

Borregaard has established governing documents in order to ensure responsible sourcing and good quality at supplier level. The Director of Purchasing and Strategic Supply is responsible for these documents.

Responsible sourcing is endorsed in the general *Procurement Policy*, as well as in a separate *Responsible Sourcing Policy*. A separate procedure has also been drawn up that includes a detailed description of how supplier approval will be performed, including responsible sourcing. The approval includes a step-by-step assessment based on risks and associated measures. To assist in this work, separate questionnaires and templates have been drawn up. The documents are available in the *Corporate Manual*, as well as in the *Procurement Portal*.



Borregaard is a member of Sedex, a global non-profit organisation that is the world's largest collaborative platform for sharing procurement data for supply chains on topics such as labour rights, health, environment and business conduct and is used by more than 40,000 members in over 150 countries.

#### *Activities:*

- Supplier approval and monitoring are performed in accordance with guidelines.
- Ignite Procurement is used for analysis and reporting. This tool is subject to continuous improvements and expansions, both in terms of functionality for supplier and in terms of use for Borregaard. Standard report templates have been drawn up for reporting.
- In accordance with the fixed meeting schedule, two meetings have been convened with employees who have supplier responsibilities but are not affiliated with the strategic supply department. The purpose of these meetings is to ensure the flow of information and compliance with guidelines.
- All suppliers that have been classified as "Strategic" and a selection of suppliers classified as "Bottleneck" are followed up on using Supplier Development Action Plans (SDAs). Fixed agenda items that must be raised with suppliers include sustainability, safety and responsible sourcing in general. SDA meetings have been conducted with suppliers and three internal-status meetings have also been held in relation to the implementation of SDA efforts, in accordance with the meeting schedule.

#### *Audits and monitoring*

- KPIs include sustainability, which means that new suppliers will be assessed with regard to corporate responsibility/responsible sourcing in accordance with the given guidelines and through supplier monitoring.
- Annual maintenance of the supplier database is performed.
- Annual assessments of suppliers are conducted on the basis of the given assessment criteria, including responsible sourcing. Five supplier audits were scheduled for the reporting period and three audits have been completed by the Borregaard QA department.

#### *Improvements/new measures*

- Standard report templates for reporting will be drawn up

### 3.3 Information security and data protection (privacy)

The Chief Financial Officer (CFO) has the overall responsibility within the Group management for information security and for ensuring that this work is organised and implemented in a safe and efficient manner. Operational information security work is led by the Chief Risk Officer (CRO). Information security also includes a responsibility to ensure that Borregaard operates in accordance with the applicable data protection regulations. A separate meeting structure has been established with a steering committee that is responsible for safeguarding and implementing the management system.

The objective of information security work is to ensure proper information management in our business processes, i.e. to ensure *confidentiality* (preventing unauthorised access), *integrity* (quality of information) and *availability* (continuity). At the same time, information management must conform with applicable regulatory requirements.

#### *Plan/documents*

Borregaard's activities may generally be susceptible to various threats relating to information management.

Our information security risk management must be based on an up-to-date understanding of the exposure of the business in relation to operations, change and projects. Through active management of our information security policy, we aim to promote governance in the following areas:

- Information management strategy
- Confidentiality (information and classification management, as well as the responsibilities of the information owner)
- Awareness (training)
- Availability (criticality and contingency)
- Document retention (use of electronic archiving solutions)
- Mobility and access to information (regulations and threat awareness)
- Social media (communication regulations)
- Privacy (management system)
- Partners (process for criticality assessments and non-functional requirements relating to IT procurements)
- Culture (risk management and trust)
- Organisational changes (access controls)

#### *Risk picture*

The risk picture changes constantly and we monitor this via our partners, as well as through appropriate online channels, by means of which we always stay abreast of new and existing risks.

The development and improvement of procedures is assessed by the Steering Committee for Information Security on an ongoing basis.

#### Data protection regulations/GDPR

##### *Plan/documents*

Borregaard has drawn up a risk-based management system that will ensure that the company meets all expectations associated with the General Data Protection Regulations (GDPR). The system provides a detailed description of the regulations, including Borregaard's implementation, description of systems and guidelines for ensuring that privacy is properly safeguarded. The management system and associated supporting documentation are used actively when assessing new projects and system changes.

##### *Activities, improvements and new initiatives*

- There have been no requests for access to personal data submitted by the company's own employees.
- No violations of the data protection and privacy guidelines have been reported.
- Internal training of apprentices has been conducted during the period.

##### *Audits and monitoring*

Selected matters and improvements are followed up on continuously by the Steering Committee for Information Security.



### 3.4 Certifications and quality systems

The implementation of audits has been adapted to the Covid-19 situation and all certificates have been renewed during the period (ISO 9001, 14001, 50001 and GMP+)

#### *Certificates and audits*

Borregaard maintains certification in accordance with ISO 9001, 14001 and 50001 as the basis for quality, environment and energy management respectively. The management system is integrated in such a way that all standards are taken into account in the same work processes.

When it comes to products, Borregaard is certified with regard to GMP+, B1 for feed products, FSSC 22000 for vanillin and ISCC (Renewable Energy Directive) for bioethanol.

A number of Borregaard's products are also kosher and halal certified. Bioethanol, vanillin, cellulose, NaOH and HCl are certified as kosher and vanillin is also certified as halal.

Borregaard holds FSC and PEFC certification (Chain of Custody) for active products and cellulose products.

Borregaard is regularly audited by the certification companies in order to confirm compliance with requirements. During this period, Borregaard has been audited in accordance with the standards' audit programme requirements. Comments and non-conformities have been corrected on an ongoing basis. The audit programmes also provide valuable input for other system improvements.

#### *Internal quality audits of the management system:*

Borregaard has established a programme for internal quality audits of the management system. The quality standards are revised by the quality department and the EHS department.

Audits are conducted in line with the scope of the certifications. With regard to quality standards, this covers production and research activities in Sarpsborg, including sales and distribution, and the scope of the environment and safety standards covers all physical locations for which Borregaard is responsible in Sarpsborg.

The quality audit programme has been adjusted as a result of Covid-19 and video-based audits have been widely used. Comments and non-conformities have been corrected on an ongoing basis.

#### *Customer and supplier audits*

The Covid-19 pandemic has led to further criticality assessments of the audit programmes. The audits have been conducted by completing questionnaires, sharing information and through video meetings. The completed audits have worked overall, but experience has also shown that changes to the practices lead to challenges in terms of both technological availability and awareness relating to information security. There is an accumulated need to conduct a number of customer audits that require physical visits. We therefore anticipate high levels of audit activities when Covid-19 restrictions are eased.

#### *Development of the management system, management review:*

Certifications require a systematic review of regulatory compliance. The process for the management review has been improved and now also includes compliance assessments for each management process.

## **4. Other matters**

In addition to the priority areas, the Compliance Board also considers other topics and measures associated with these on an ongoing basis. These processes have involved dialogue between those

working on the topics in question and the Compliance Board. Dialogue has been initiated by both the Compliance Board and by request from various departments.

#### *Covid-19*

Borregaard established crisis management teams at corporate level and for Borregaard factories based on the government's decision to put Norway into lockdown as a result of the Covid-19 threat. The contingency planning for this situation was based on established management principles and established roles in the organisation. The group management team has coordinated the efforts and support for subsidiaries on an ongoing basis as required. The crisis management and contingency efforts, management systems and procedures from the previous period have been continued. The Board of Directors has been informed of developments on an ongoing basis.

Increased vaccination rates and the subsequent reopening of society are leading to increased physical presence and improved mobility. Borregaard will continue its practices of strict criteria for the approval of business travel. Borregaard will adapt the general level of measures in line with the trends in infection rates and local/national regulations.

#### *Brexit*

As a result of Brexit, the British authorities have introduced "UK REACH," which is an approximate copy of the European chemicals regulations, REACH. This means that Borregaard must register relevant chemical substances that are exported to the UK. Notification of the substances must be submitted before 27 October 2021 and the substances must subsequently be registered before the 2023, 2025 and 2027 deadlines, depending on classification and tonnage. Borregaard aims to register all substances in order to retain the current level of business.

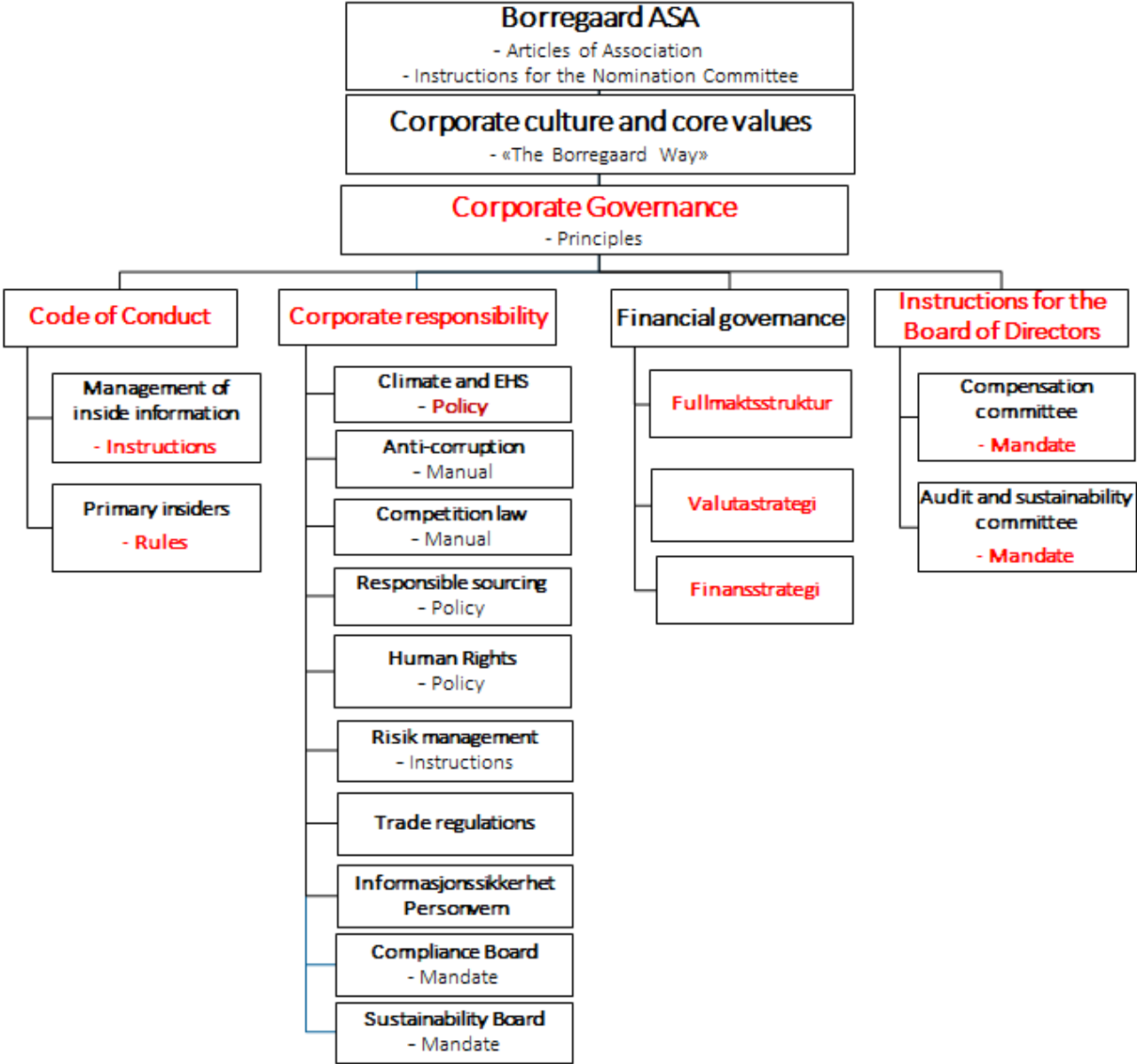
#### *Checklist for Corporate Governance in subsidiaries*

During the spring of 2021, information was collected from the managers of subsidiaries in relation to the various local legal formal requirements that apply to the companies and how these are communicated to the boards of directors. The companies have also been asked how they ensure that employees are kept up-to-date regarding Borregaard's policies and procedures relating to Corporate Governance (The Borregaard Way, Code of Conduct, Anti-corruption, Corporate Responsibility, Human Rights Policy, Information Security, Trade Regulations, Responsible Sourcing and Insurance).

#### *Recording of discussed compliance matters*

An ongoing overview of matters relating to compliance that have been handled by the Legal Director is being prepared.

Structure – governing documents



## **Compliance Board - Mandate**

### **1 INTRODUCTION**

The Compliance Board is an internal specialist committee that has the overall responsibility for contributing to compliance with public legislation (laws and regulations) and internal regulations. Compliance with such rules and regulations is a line responsibility at Borregaard. Through its work, the Compliance Board will support the line organisation with matters relating to awareness, reporting and contributions to improvements within the area.

### **2 THE DOCUMENT**

The SVP of Organisation and Public Affairs is responsible for this document.

### **3 MEMBERS**

The CEO appoints the Compliance Board and its chairperson.

### **4 MANDATE AND RESPONSIBILITIES**

- Review and evaluate the organisation, training and due diligence measures in priority areas
- Initiate the establishment of guidelines in areas where this is needed
- Register non-conformities and issues, as well as propose improvements to current and relevant areas
- Report on overall issues, relevant topics and improvement measures
- The work must be based on risk assessments

### **5 REPORTING**

The Compliance Board will report to the CEO of the company through the main management meeting. The Board of Directors of the company will also consider reports and recommendations from the Compliance Board.

Reporting to the main management meeting must take place as needed, but at least once per year.

Reporting to the Board of Directors must take place as needed, but at least annually by way of a separate written report that will be included in the Board of Directors' review of the area of Compliance. The report will be reviewed by the Audit Committee prior to being considered by the Board of Directors.

Approved by the CEO on 02/09/2017