Borregaard

2017 ANNUAL REPORT

CONTENTS

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 that can replace oil-based products.

PERFORMANCE CHEMICALS

Global market leader in lignin-based products with unique technology and application competence.

SPECIALITY CELLULOSE

Leading global speciality cellulose supplier. Large producer of second generation bioethanol.

OTHER BUSINESSES

Only producer of wood-based vanillin. Largest producer of C_3-aminodiols for non-ionic X-ray contrast media. Pioneer in cellulose fibrils.

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, while most of the remaining biomass is used to produce energy for its production processes.

In addition to its biorefinery in Sarpsborg, Borregaard has six production sites[1] outside Norway dedicated to producing lignin-based products. The company also has sales offices in 16 countries in Europe, Asia, Africa[2] and the Americas serving its global customer base. At the end of 2017, the Group employed 1,065 man-years[2].

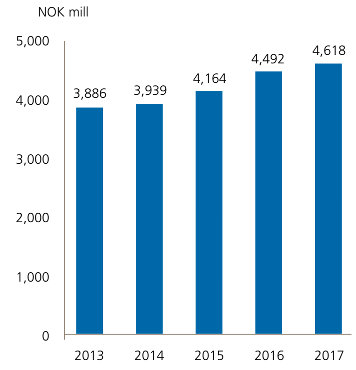
SPECIALISATION IN GLOBAL NICHES

Borregaard is a supplier of specialised biochemicals to a global customer base. The Group's main products are lignin-based products and speciality cellulose, but the product portfolio also includes vanillin, second generation bioethanol, fine chemicals and cellulose fibrils.

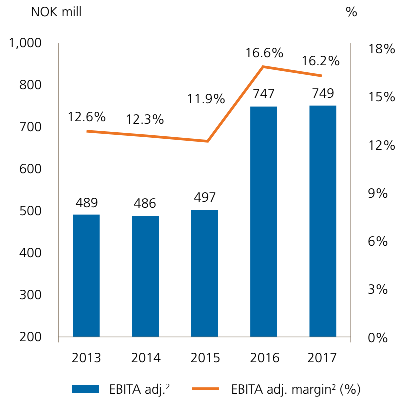
[1] See Note 6 to the Consolidated Financial Statements regarding treatment of the joint venture in South Africa.

KEY FIGURES

OPERATING REVENUES



EBITA adj.[2]



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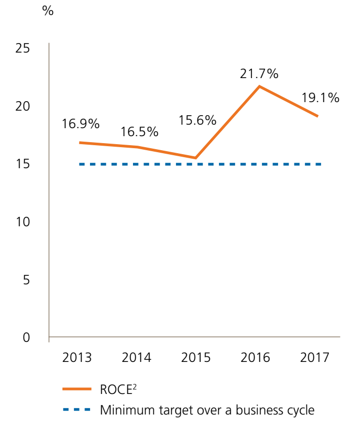


[2] *Non-GAAP measure, see page 111 for definition.*

Borregaard's niche products serve applications in a wide range of end-markets including construction, agriculture, food and beverages, transportation 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 95 employees in R&D as of 31 December 2017, 69 of whom were based in Sarpsborg.

BORREGAARD'S THREE BUSINESS SEGMENTS

Performance Chemicals develops, produces and sells lignin-based products used as binding and dispersing agents in a wide range of end-market applications, such as construction, industrial binders, agrochemicals and batteries. In addition, Performance Chemicals has a trading activity in chemicals which are either linked to lignin-based products or have previously been produced by Borregaard.

Speciality Cellulose 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. The production and sale of second generation bioethanol is also part of the Speciality Cellulose segment.

Other Businesses consists of Ingredients, Fine Chemicals and Cellulose Fibrils. Borregaard supplies vanillin products to flavour and fragrance companies, as well as to the food and beverage industry. The Group is the only producer of wood-based vanillin in the world. Borregaard supplies fine chemicals to the pharmaceutical industry and is the world's largest supplier of intermediates for non-ionic X-ray contrast media. Cellulose Fibrils consists of two product ranges. Exilva microfibrillar cellulose for industrial applications is in the market introduction phase, whereas SenseFi advanced texture systems for the food industry is still in the pilot stage. Other Businesses also includes sales of basic chemicals from the chlor-alkali production in Sarpsborg and unallocated corporate costs.

MESSAGE FROM THE CEO

We often refer to our strategy as a "specialisation strategy". The drive for specialisation has been a key element in the transformation of Borregaard into a speciality chemicals company. In the five-year period from 2015 to 2019, we are spending close to NOK 2 billion in expansion investments to shape the future of Borregaard. These investments will lay the foundation for both top-line growth and increased specialisation in the years ahead.

A large share of these investments is in Performance Chemicals. Our new lignin plant in Florida, USA, will go into operation in mid-2018. The first phase represents a capacity addition of 100,000 tonnes. The new facility will complement our current lignin products both in terms of raw material quality and geographic location.

We have also started a NOK 500 million investment programme to upgrade and further specialise the production facilities for lignin products at the Sarpsborg site in Norway. The new investments will enable further specialisation of the unique raw material quality and will be completed during 2019.

In Speciality Cellulose, we have introduced the new Ice Bear product range. This is our main initiative to drive further specialisation in this business area by developing new "niches within the niches" products as well as strengthening existing market positions. The new technology investment will be finalised in the second half of 2018 and will bring Borregaard's Ice Bear capacity to 60,000 tonnes.

Borregaard has just completed an upgrade of its bioethanol plant. As a result, the entire production can be delivered as 100 percent water-free bioethanol to the growing automotive fuel market. Also, a facility to capture and store biogas for use as green energy at the Sarpsborg site has been completed. In Fine Chemicals, we are in the process of expanding our capacity to meet the growing demand for intermediates to non-ionic X-ray contrast media.

Finally, we have invested in production facilities for our new business area, Cellulose Fibrils. We are now well into the market introduction of Exilva for industrial applications and we continue to see a strong interest from potential customers. However, we also see relatively long lead times that naturally come with first-to-market products.

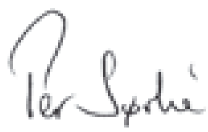
Many stakeholders are increasingly focused on sustainability and corporate responsibility. We welcome this, as environmental, social and governmental issues (ESG) are integrated in our business model and corporate culture. Further, we believe that our biorefinery concept and products address major global challenges and megatrends, such as population growth and climate change.

Our biorefinery concept has a sound basis in its use of sustainable and renewable raw materials. In addition, sustainable and improved production processes, strong environmental, health and safety performance, attractive products and sound business practices are also important elements in our ESG performance and environmental footprint.

In 2017, we strengthened our ESG efforts by establishing a Sustainability Board and a Compliance Board to work more systematically with ESG-related issues and goals.

In closing, I would like to thank all Borregaard employees for their dedicated efforts in 2017 and our shareholders for placing their trust in us.

Kind regards,



Per A. Sørlie,
President and CEO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THE BOARD OF DIRECTORS

JAN ANDERS OKSUM
Chair

Member of the Board of Borregaard Industries Limited 2007-2012. Member of the Board of Borregaard ASA from October 2012. Mr. 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 2017. Mr. Oksum holds 10,000 shares in Borregaard ASA.

TERJE ANDERSEN
Member

Member of the Board of Borregaard Industries Limited 2005-2012. Member of the Board of Borregaard ASA from October 2012. Mr. Andersen is CEO of Orkla 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 2017. Mr. Andersen holds 3,571 shares in Borregaard ASA.

MARTHA KOLD BAKKEVIG
Member

Member of the Board since April 2017. Ms. Bakkevig has been CEO of the Steinsvik Group since January 2018. She has also served as CEO of Deepwell AS and Managing Director of Polytec Research Foundation. She has been a researcher at Sintef and a professor in strategy and innovation at Western Norway University of Applied Sciences. Martha Kold Bakkevig holds directorships in BW LPG ASA (member), Kongsberg Gruppen ASA (member), Reach Subsea ASA (member), Incus Investor ASA (deputy chair) and Haugaland Kraft (member). Ms. Kold Bakkevig holds a Master's degree and PhD from the Norwegian University of Science and Technology and a Doctorate in Economics from BI Norwegian Business School. Ms. Bakkevig has attended 6 out of 6 board meetings since elected in April 2017. Ms. Bakkevig holds 2,084 shares in Borregaard ASA.

JON ERIK REINHARDSEN

Member

Member of the Board since April 2016. Mr. Reinhardsen was President & CEO of Petroleum Geo-Services ASA from 2008 to 2017. He was previously President, Global Primary Products Growth in Alcoa (USA) and has for over 20 years held various positions in Aker and the Aker-Kværner Group, both in Norway and USA. Mr. Reinhardsen is chair of the Board of Statoil ASA, and is a board member in Telenor ASA, Awilhelmsen Management AS and Oceaneering International Inc. He holds a Master's degree in Applied Mathematics and Geophysics from the Univerisity of Bergen and has participated in the International Executive Programme at IMD, Switzerland. Mr. Reinhardsen has attended 8 out of 8 board meetings in 2017. Mr. Reinhardsen holds 4,000 shares in Borregaard ASA.

KRISTINE RYSSDAL

Member

Member of the Board since October 2012. Ms. Ryssdal is EVP General Counsel in Yara International ASA from May 2016. She has also served as Vice President Legal in Statoil ASA, Senior Vice President and Chief Legal Officer of Renewable Energy Corporation ASA (REC). In addition, Ms. Ryssdal has experience from various boards within the REC Group and as member of the Audit Committee in Kommunalbanken. Ms. Ryssdal has been member of the Executive Board of Norges Bank since 1 January 2018 and member of the Oslo Stock Exchange Appeals Committee. She holds a Cand. Jur. degree from the University of Oslo and a Master of Laws from the London School of Economics. Ms. Ryssdal has attended 8 out of 8 board meetings in 2017. Ms. Ryssdal holds 2,100 shares in Borregaard ASA.

ÅSMUND DYBEDAHL

Employee representative

Member of the Board since April 2013. Mr. 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 2017. Mr. Dybedahl and related parties hold 11,895 shares in Borregaard ASA.

RAGNHILD ANKER EIDE

Employee representative

Member of the Board since October 2012. Ms. Eide works as Logistics Manager at Borregaard Sarpsborg. She is chair of The Norwegian Society of Graduate Technical and Scientific Professionals (Tekna) at Borregaard Sarpsborg and chair of the Board of the Joint Union for Officials and Engineers at Borregaard Sarpsborg. Ms. Eide has attended 8 out of 8 board meetings in 2017. Ms. Eide holds 2,443 shares in Borregaard ASA.

ROY KÅRE APPELGREN

Employee observer

Observer of the Board in Borregaard Industries Limited 2010-2012. Observer of the Board in Borregaard ASA from October 2012. Mr. 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 Sarpsborg and a member of the Joint Union for Officials and Engineers at Borregaard Sarpsborg. Mr. Appelgren has attended 8 out of 8 board meetings in 2017. Mr. Appelgren holds 431 shares in Borregaard ASA.

BENTE SELJEBAKKEN KLAUSEN

Employee observer

Observer of the Board since October 2012. Ms. Klausen works as a Laboratory Technician at Borregaard R&D, Sarpsborg. She is chair of the Norwegian Engineers and Managers Association (FLT) at Borregaard Sarpsborg, treasurer for 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. Klausen has attended 6 out of 8 board meetings in 2017. Ms. Klausen and related parties hold 1,020 shares in Borregaard ASA.

REPORT OF THE BOARD OF DIRECTORS

2017 was another satisfactory year for Borregaard, both in terms of financial performance and business development. Throughout the year, Borregaard made substantial progress in implementing its strategic initiatives and priorities.

OVERVIEW

Borregaard is a leading global player with strong positions in selected niches of bio-based speciality chemicals, ingredients and fine chemicals. In Sarpsborg, Norway, the company operates one of the world's most advanced biorefineries with high value creation through full utilisation of the wood raw material base. The Group'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, where industrial activity based on sulphite pulping started in 1889. The Group has global operations with plants and sales offices in 16 countries. See Note 7 to the Financial Statements of Borregaard ASA.

HIGHLIGHTS 2017

In 2017, Borregaard continued to implement its strategic initiatives and priorities.

The new lignin plant in Florida, owned 55% by Borregaard and 45% by Rayonier Advanced Materials, is under construction and is expected to start up mid-2018. The initial investment of USD 110 million represents a lignin capacity of 100,000 tonnes. The Performance Chemicals business will also be strengthened by a NOK 500 million investment programme to upgrade and further specialise the production facilities for lignin products in Sarpsborg. The programme includes new drying capacity, tanks for storage of liquid materials and improved solutions for logistics, infrastructure and energy. The programme will be completed by the end of 2019. The capacity expansion of 20,000 tonnes in LignoTech South Africa was finalised mid-2017.

A NOK 115 million investment in increased capacity for Ice Bear products in Speciality Cellulose is expected to be finalised in the second half of 2018, and will bring Borregaard's Ice Bear capacity to approximately 60,000 tonnes. The Ice Bear project is Borregaard's main initiative to drive further specialisation by developing products to be sold in "niches within the niches" as well as strengthening existing market positions in Speciality Cellulose.

At the biorefinery in Sarpsborg, the upgrade of the bioethanol plant and the construction of a new facility to capture and store biogas were completed early 2018. With these projects, Borregaard has sufficient capacity to deliver its entire production as 100% water-free bioethanol. This market is growing, mainly driven by increased demand for bioethanol in automotive fuel. Biogas is used internally as an environmentally friendly source of energy. These two projects, with a total cost of NOK 63 million, were supported by a grant from Enova[1].

[1] A Norwegian government agency which promotes environmentally friendly restructuring of energy end-use, renewable energy production and new energy and climate technology.

Borregaard has invested about NOK 300 million in pilot and production facilities in its new business area Cellulose Fibrils. This new business area consists of two separate business opportunities, Exilva microfibrillar cellulose for industrial applications and the food ingredient SenseFi. Exilva is currently being introduced in the market while SenseFi is in a pilot phase. There is continued strong interest from potential customers. The market development efforts for Exilva are supported by a financial grant from the EU Horizon 2020 programme[2].

Innovation efforts are expected to further improve the Group's innovation rate (13% in 2017, see page 23) and market position. In 2017, Borregaard's gross expenditure on research and innovation efforts was NOK 200 million, 4.3% of the Group's operating revenues. Grants from both the Norwegian Government and the European Union contributed to the high activity level. In 2017, Borregaard recognised NOK 85 million in the form of public funding for ongoing research projects.

Environment, health and safety (EHS) are integral parts of Borregaard's business model. In 2017, the Borregaard Group achieved a further reduction in the number of injuries and the seriousness of these incidents. The lost time injury rate (LTI), measured as number of lost time injuries per million hours worked, decreased from 1.6 in 2016 to 1.1 in 2017. Sick leave decreased further from an already low level in 2016. The total CO_2-emissions declined slightly despite increased production. An energy efficiency programme resulted in lower energy consumption and lower specific CO_2 emissions (CO_2/tonne). The Group's emissions of organic compounds (COD) and SO_2 increased slightly, while NOx emissions were reduced. See the Sustainability and Corporate Responsibility Report from page 16.

MARKET TRENDS

Borregaard's diversified product portfolio and global market exposure provide flexibility and a natural hedge against the negative impact of market fluctuations.

For Performance Chemicals, market conditions have become increasingly challenging for products to the construction sector in certain regions. In Eastern Europe, a large user in the metal sector has changed technology and reduced the consumption of lignin significantly. As a result of this, and the resumed operations at Sniace, Borregaard's partner and raw material supplier in Spain, available lignin volumes to the construction market in Europe and the Middle East increased significantly from late 2016. Extensive work has been carried out to reallocate volumes to other markets and applications, which has led to market optimisation and largely stable inventory levels during 2017. Specialities sales volume rose by 4% from 2016, leading to an improved product mix in 2017. Growth was especially strong in the oilfield chemicals and batteries applications.

In 2017, Speciality Cellulose saw strong demand and continued growth for ether grades with improvement in the construction and coating applications. Market balance in the acetate segment was negatively affected by lower demand and continued excess capacity. The market for textile cellulose was strong, particularly in the first half of the year, with a positive effect on pricing. Overall, Borregaard's average cellulose sales price and product mix improved compared with 2016.

Market conditions for Ingredients continued to be affected by general overcapacity, but a positive development was seen following price increases from Chinese producers in the beginning of the year. The growth trend for key products in Fine Chemicals continued. Market introduction efforts for Cellulose Fibrils continued with substantial interest from potential customers. However, lead times for customer acceptance are long and sales have been limited so far.

FINANCIAL PERFORMANCE IN 2017

In 2017, Borregaard's operating revenues increased to NOK 4,618 million (NOK 4,492 million)[3]. EBITA adj.[4] reached an all-time high of NOK 749 million (NOK 747 million). The result in Speciality Cellulose improved to an all-time high level, but Performance Chemicals and Other Businesses had weaker results compared with 2016. The net currency impact, including hedging, was positive. Costs and depreciation increased compared with 2016.

Other income and expenses[4] amounted to NOK -9 million (NOK 13 million) as a result of a write-down and accrual related to an external lignin storage tank in Norway.

Net financial items was NOK -21 million (NOK -32 million). Profit before tax amounted to NOK 715 million (NOK 724 million). Tax expense totalled NOK -157 million (NOK -171 million), giving a tax rate of 22% (24%). The corporate income tax rate in Norway was reduced from 24% to 23% from 1 January 2018. In USA, the federal corporate income tax rate was reduced from 34% to 21% from 1 January 2018.

The Borregaard Group had a profit of NOK 558 million in 2017 (NOK 553 million). Earnings per share were NOK 5.66 (NOK 5.55).

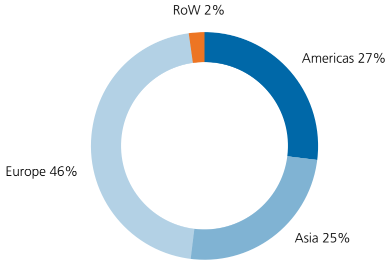
Borregaard ASA's share price was NOK 81.50 at the end of 2017. Compared with the end of 2016, the share value was unchanged assuming reinvestment of dividends.

CASH FLOW AND FINANCIAL STRUCTURE

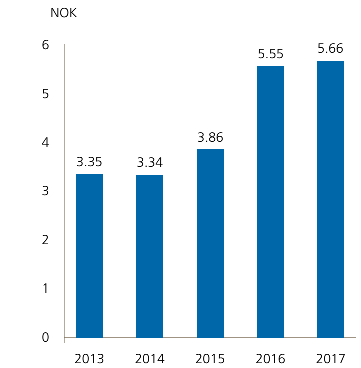
Cash flow from operating activities was NOK 780 million (NOK 1,081 million) in 2017. The decline was mainly a result of a less favourable development in net working capital and higher paid taxes compared with 2016. Investments amounted to NOK 968 million (NOK 622 million). Replacement

[2] *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.*
[3] *Figures in parentheses are for the corresponding period in the previous year.*
[4] *Non-GAAP measure, see page 111 for definition.*

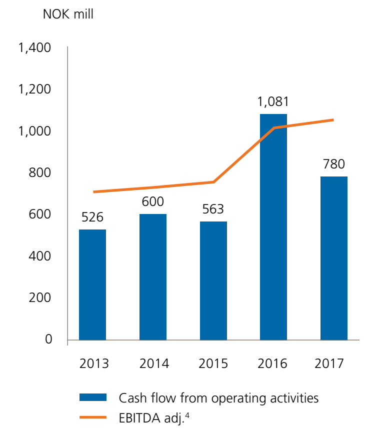
SALES REVENUES BY GEOGRAPHICAL AREA 2017



EARNINGS PER SHARE[4]



CASH FLOW FROM OPERATING ACTIVITIES



investments were slightly lower than in 2016, while expansion investments[4] increased mainly as a result of the Florida project. Total dividend (ordinary and extraordinary) of NOK 349 million (NOK 149 million) was paid out in the 2nd quarter. Realised effect of hedging of net investments in subsidiaries was NOK 8 million (NOK 13 million). Borregaard has secured long-term credit facilities amounting to NOK 1,500 million, which was undrawn at year-end. The Group has sold and repurchased treasury shares with a net payment of NOK 18 million (NOK 3 million).

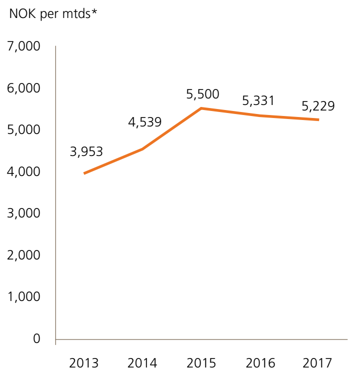
At year-end, the Group had net interest-bearing debt[4] totalling NOK 845 million (NOK 300 million), an increase of NOK 545 million from year-end 2016. The Group was well capitalised with an equity ratio[4] of 56.2% and a leverage ratio[4] of 0.80. As of 31 December 2017, the undrawn portion of available long-term credit facilities amounted to NOK 1,500 million.

BUSINESS SEGMENTS

Performance Chemicals had operating revenues of NOK 2,176 million (NOK 2,161 million). EBITA adj.[4] was NOK 449 million (NOK 517 million). Total sales volume increased by 1% compared with 2016. Average price in sales currency was marginally lower than in 2016, mainly due to challenging market conditions for lignin to the construction sector in certain regions. Favourable mix development and a 4% volume increase in Specialities contributed positively. Reallocation efforts

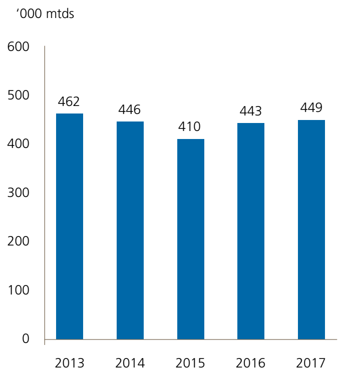
PERFORMANCE CHEMICALS

GROSS AVERAGE PRICE



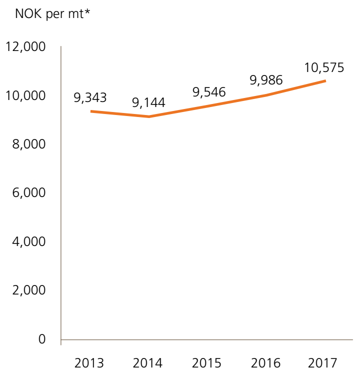
* Metric tonnes dry solids

SALES VOLUME



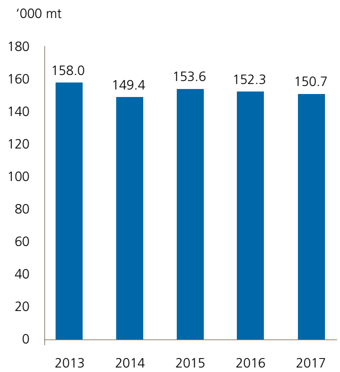
SPECIALITY CELLULOSE

GROSS AVERAGE PRICE



* Metric tonnes

SALES VOLUME



[4] *Non-GAAP measure, see page 111 for definition.*

continued throughout the year. In 2017, higher distribution costs, increased manning related to the Florida project and higher depreciation affected the result negatively. The net currency impact was insignificant compared to the preceding year.

Operating revenues for *Speciality Cellulose* in 2017 reached NOK 1,698 million (NOK 1,590 million). EBITA adj.[4] increased to an all-time high level of NOK 350 million (NOK 250 million). Higher prices in sales currency and improved product mix were the main contributors to the improved result. Increased energy, caustic soda and wood costs had a negative impact. The net currency impact was positive compared to 2016. The ethers market showed continued growth in 2017. Borregaard had higher shipments of acetate cellulose, but this market remained challenging. However, in the textile cellulose market there was increasing demand and favourable prices, especially in the first half of 2017. The volume share of highly specialised cellulose grades increased to 72% (64%). Production output was higher than in 2016. The contribution from Bioethanol increased, mainly as a result of higher sales prices.

Operating revenues in *Other Businesses* were NOK 783 million (NOK 776 million) for the full year of 2017. EBITA adj.[4] was NOK -50 million (NOK -20 million). Ingredients had a slightly weaker result where higher sales volume was more than off-set by increased raw materials costs and higher costs for caustic soda. The result in Fine Chemicals was slightly weaker, primarily due to lower shipments caused by uneven delivery patterns. Net costs in Cellulose Fibrils increased as a result of marketing and business development activities, higher costs in production and increased depreciation, partly off-set by the full-year effect of the EU grant. Currency effects were insignificant in Other Businesses compared with 2016.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Sustainability is an integrated 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. In 2017, Borregaard established a Sustainability Board. Borregaard's 2017 report on sustainability and corporate responsibility from page 16 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 2017, 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 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.

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 2017, 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 areas and industry sectors, the company is well placed to manage its ongoing business risks. With a strong equity ratio[4] 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.

CORPORATE GOVERNANCE

Borregaard's governance systems are based on principles set out in the Norwegian Code of Conduct for Corporate Governance. In 2017, a Compliance Board was established in Borregaard. A report on Corporate Governance at Borregaard is found from page 42. This report is an integral part of the Report of the Board of Directors.

REMUNERATION OF GROUP EXECUTIVE MANAGEMENT

The Board of Directors (the Board) 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

[4] *Non-GAAP measure, see page 111 for definition.*

also established guidelines for salary and other remuneration of senior executives. The Guidelines for 2017 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 484,065 treasury shares as of 31 December 2017 and 474,764 as of 13 March 2018. See Note 9 regarding share options.

Total number of shares outstanding as of 31 December 2017 was 100 million, including 484,065 treasury shares. Total number of shareholders was 8,793. Borregaard ASA's share price was NOK 81.50 at the end of 2017, compared with NOK 84.50 at the end of 2016.

OTHER MATTERS AND SUBSEQUENT EVENTS

Shares to employees

As part of the employee share programme, Borregaard has sold a total of 309,301 shares to employees in February 2018. The share price was NOK 55.05 per share after deduction of a 25% discount. *See notifications to the Oslo Stock Exchange on 5, 12 and 28 February 2018.*

Share options issued

In February 2018, 400,000 share options at a strike price of NOK 80.00 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 7 February 2018.*

Treasury shares

During February and March 2018, Borregaard has purchased a total of 300,000 own shares. After having sold shares to employees as part of the discounted shares to employees program and purchased own shares, the total amount of treasury shares held by Borregaard is 474,764. *See notification to the Oslo Stock Exchange from 27 February and onwards.*

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 2017 of NOK 2.00 (NOK 1.75) per share to the Annual General Meeting. This corresponds to 35% of net earnings per share. Dividend payment is estimated at NOK 199 million. The exact amount will depend on the number of treasury shares held at the date of the General Meeting.

In 2017, Borregaard ASA had a profit of NOK 386 million (NOK 380 million). Borregaard ASA is well capitalised with an equity ratio[4] of 74.2% after payout of the proposed dividend. The Board proposes the following allocation (NOK million):

Dividend	199
Retained earnings	187
TOTAL	386

OUTLOOK FOR 2018

Sales of lignin products to the construction sector is expected to be affected by continued strong competition and price pressure in certain regions. Reallocation efforts will continue in order to balance sales and supply in challenging markets. Total lignin sales volume in 2018 is forecast to increase by 5-10%. Manning related to the Florida project will increase during the 1st half of 2018 and depreciation will increase after start-up. The higher distribution costs seen in the 2nd half of 2017 are forecast to continue.

Average cellulose price in 2018 in sales currency is expected to be in line with the 2017 level. Price uncertainty is mainly related to textile cellulose. Product mix in 2018 is forecast to be weaker than in 2017 due to lower sales volume of acetate cellulose.

No major changes are expected in the market conditions for Fine Chemicals. In Ingredients, there is a positive market trend for wood-based vanillin. Sales will gradually increase for Cellulose Fibrils, but long lead-times for conversion of sales prospects are expected. Fixed costs and depreciation in Cellulose Fibrils are expected to be largely in line with 2017. Corporate costs will remain at the same level as in 2017.

Wood and caustic soda prices will increase significantly in 2018, affecting mainly Speciality Cellulose and Ingredients (caustic soda only).

Borregaard has significant currency exposure. The impact of currency rate fluctuations will be delayed as a result of the company's currency hedging policy.

[4] *Non-GAAP measure, see page 111 for definition.*

Sarpsborg, 13 March 2018

THE BOARD OF DIRECTORS OF BORREGAARD ASA

JAN ANDERS OKSUM
Chair

TERJE ANDERSEN

KRISTINE RYSSDAL

MARTHA KOLD BAKKEVIG

JON ERIK REINHARDSEN

ÅSMUND DYBEDAHL

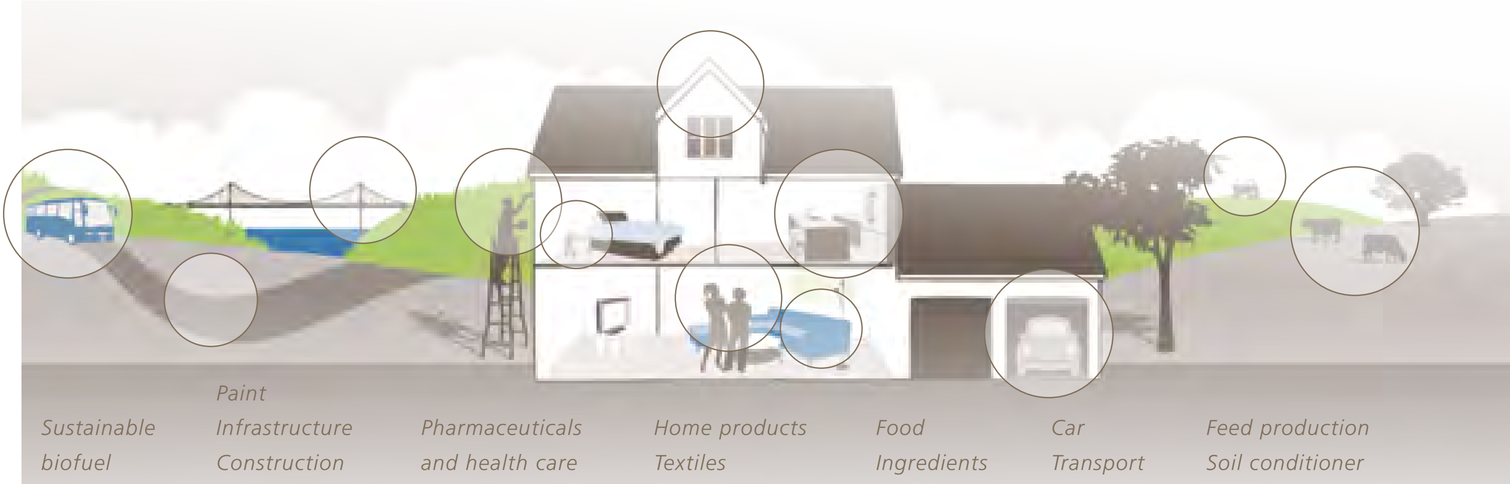
RAGNHILD ANKER EIDE

PER A. SØRLIE
President and CEO

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

2017

BORREGAARD'S PRODUCTS MEET LONG-TERM GLOBAL CHALLENGES SUCH AS CLIMATE CHANGE AND POPULATION GROWTH (SEE PAGE 20)



RESPONSIBLE BUSINESS[1]

Borregaard's main objective is to provide sustainable solutions based on renewable raw materials and unique competence. Sustainability is therefore a core element in our business model and overall goals. The Board of Directors emphasises that sustainability is an integral part of operating and developing the company.

The 2015 Paris Agreement and the UN 2030 Agenda for Sustainable Development have established an enhanced transparency framework for action and greenhouse gas (GHG) mitigation. This provides a fundamental platform to drive ambitious action forward in order to combat climate change. Borregaard's core business is well aligned with these initiatives. The demand for green alternatives to petrochemical products is expected to increase. This puts Borregaard in a favourable position. In this document, Borregaard has outlined the Group's contribution towards achieving the UN 2030 agenda.

GLOBAL CHALLENGES AND SUSTAINABLE SOLUTIONS

Borregaard's objective is to develop and deliver sustainable solutions based on using natural raw materials and unique competence. These innovative solutions can play an important role in addressing the world's biggest sustainable development challenges by driving transformative change.

Borregaard will, as a company, take climate action and demonstrate how its business can help to advance sustainable development by minimising negative and maximising positive environmental impacts. The UNDP-UNRISD Report 2017 gives a clear illustration of the world's most urgent challenges, such as growing population and climate change[2], which are highly relevant for Borregaard's products.

The report predicts population growth by 2030[3] of 12%, creating extraordinary demand for food and employment. To keep up with population growth, low carbon solutions for infrastructure, housing and food production need to increase. Borregaard's products can play an important role in meeting these challenges.

An important and urgent challenge facing the world today is climate change[4]. The Paris Agreement and the UN Climate Panel set specific measures and initiatives to guide sustaina-

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[1] *Borregaard ASA is subject to the reporting requirements of the Norwegian Accounting Act, Section 3-3c with regard to Corporate Social Responsibility. This requires Borregaard to account for "what the company is doing to integrate consideration of human rights, labour rights and social issues, the environment and anti-corruption in their business strategies, in daily operations and relationships with its stakeholders."*

[2] *United Nations. Dugarova, Esuna & Gulasan, Nergis. (2017). Global Trends: Challenges and Opportunities in the Implementation of the Sustainable Development Goals.*

[3] *United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, Key Findings and Advance Tables. Working Paper No. ESA/P/WP/248, page 1.*

[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.*

The consolidated figures in this Corporate and Sustainability Report does not include figures from the joint venture in South Africa. The site in Sarpsborg represents approximately three-quarters of the Group's activities, (revenues and employees) and has the biggest challenges in terms of EHS, climate and community issues. See Note 6 to the Consolidated Financial Statements.

bility in areas such as access to raw materials, energy, food and infrastructure. These initiatives give Borregaard a broader platform for the continuous development of innovative solutions and are expected to drive demand for more sustainable products.

Borregaard is working towards reducing the company's emissions, which are in line with the Norwegian Climate Act and the IPCC Representative Concentration Pathway (RCP) 2.6[5]. The Group's overall GHG emission target includes both direct emission, indirect emissions from energy consumption (Scope 2) and indirect emissions from the value chain (Scope 3).The target is to reduce GHG emissions by 43% within 2030 and 72% in 2050[6], compared with the selected basis year 2009. The Climate Act promotes the implementation of Norway's climate targets as part of a transition to a low-emission society in Norway in 2050.

BORREGAARD'S CONTRIBUTION TO THE UN 2030 AGENDA

Based on the global challenges the world is facing and Borregaard's sustainable solutions, the Group has prioritised six of the seventeen Sustainable Development Goals (SDG) set by the UN 2030 Agenda for Sustainable Development. These six SDGs are zero hunger (#2), economic growth (#8), innovation (#9), responsible production (#12), climate change (#13) and life on land (#15). In these areas, Borregaard can have an impact through its unique biorefinery concept and its products.

These six SDGs are closely linked to Borregaard's core business and are aligned with the business strategy. They will be used as a framework to guide, communicate and report the company's vision, strategy, goals and activities in the future. Going forward, Borregaard will continue to identify future business opportunities related to specific SDGs by looking at the world's most important challenges.

Specific targets and KPIs are presented throughout the report under each topic. The complete overview of how Borregaard is contributing to all the seventeen SDGs can be found from page 40.

ORGANISATION AND RESPONSIBILITIES

Borregaard has a number of guidelines and reporting procedures in order to execute its corporate responsibility. The main documents are approved by the Board of Directors, who also set the overall goals for the areas included in this report.

Guidelines[7]:

- General Guidelines for the 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 Executive Management has the overall responsibility to follow up the company's initiatives, measurements and results. The daily execution is a line management responsibility in Borregaard. This means that corporate responsibility forms an integral part of the activities of the subsidiaries, various management teams, units and departments.

SUSTAINABILITY BOARD

In 2017, a Sustainability Board was established in Borregaard. The Sustainability Board will address and follow up on important topics and initiate processes aimed at developing policies, actions and goals within the areas covered in this report. The Sustainability Board is chaired by the SVP Organisation and Public Affairs. The Sustainability Board reports to the President and CEO.

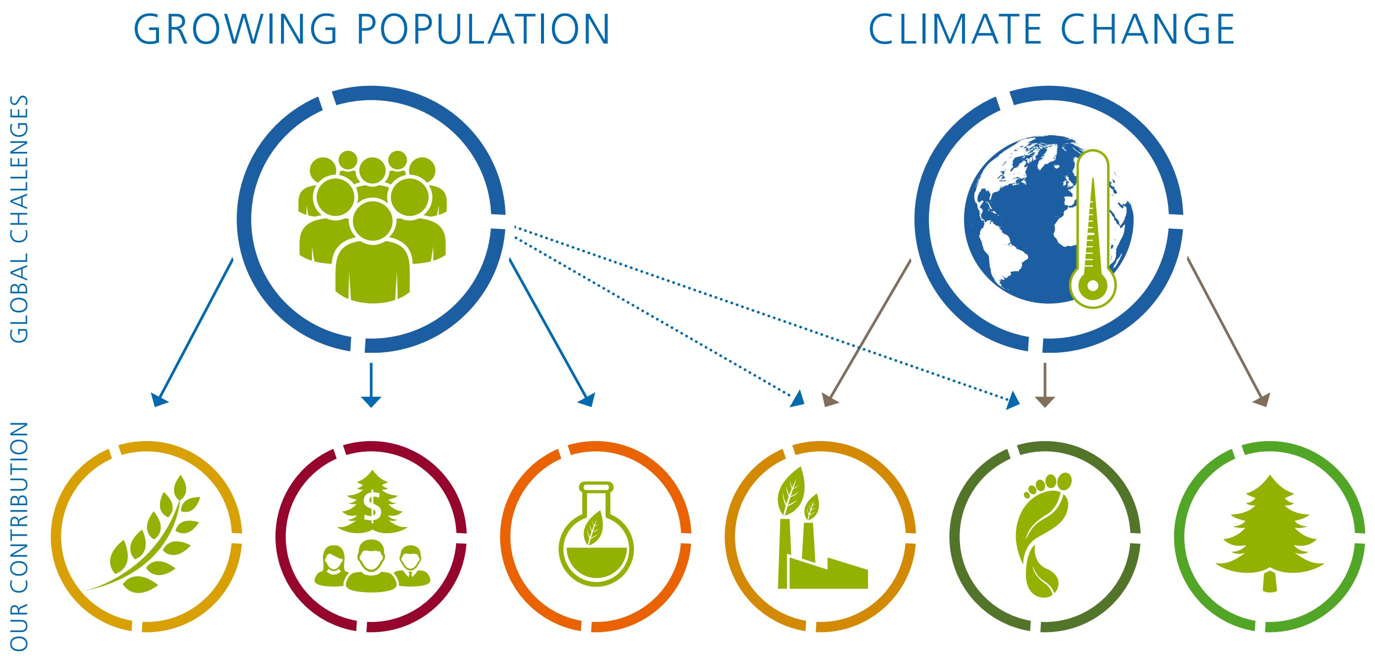
RISK MANAGEMENT

Identifying and managing risks and opportunities are an integral part of the Group's business processes. Borregaard has established a risk assessment and management system. Each member of the Group Executive Management is responsible for internal control and risk assessment within their respective areas. The risk assessment is presented to the Board for annual review (see Corporate Governance page 42).

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

[5] *van Vuuren, D.P., Emodns, J., Kainuma, M. et al. Climatic Change (2011) 109:5. https://doi.org/10.1007/s10584-011-0148-z*
[6] *The Norwegian Ministry of Climate and Environment (2016-2017). Prop. 77 L (Law on Climate targets).*
[7] *To be found at https://www.borregaard.com/Sustainability/Corporate-responsibility/Policies*

BORREGAARD'S CONTRIBUTION TO THE SDGS



SUSTAINABLE FOOD PRODUCTION	SUSTAINABLE BUSINESS	SUSTAINABLE INDUSTRY	SUSTAINABLE PRODUCTION	SUSTAINABLE BIOREFINERY	SUSTAINABLE RAW MATERIAL
• 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	• 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	• 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	• Full utilisation of raw materials • Continuously improved life-cycle impact • Sustainable sourcing programme • Continuous productivity improvements • Improved chemical safety	• The biorefinery concept with sustainable products is an essential part of the business model • Establish a science-based target for reduced GHG footprint • Environmental/climate impact part of investment project evaluation • Investments in renewable energy	• Bio-based raw materials from responsibly managed and certified sources

THE SIX PRIORITISED SUSTAINABLE DEVELOPMENT GOALS

STAKEHOLDER AND MATERIALITY ANALYSIS

Borregaard executes its corporate responsibility by developing and running its operations profitably in a manner that conforms with fundamental ethical values and respect for individuals, the environment and society as a whole. This approach also involves maintaining a dialogue with the Group's key stakeholders and taking them into consideration when running the business and making decisions.

Maintaining good contact with the Group's various stakeholders is vital for creating trust in Borregaard and an understanding of the role the company plays in local communities and society at large.

The Group has conducted a Stakeholder and Materiality Analysis based on Borregaard's sustainability strategy. This analysis focuses on the economic, social and environmental impacts of Borregaard's operations with the greatest effect on stakeholders assessments and decisions.

The stakeholder groups considered to be the most important for Borregaard are:

- Investors
- Employees
- The government
- Customers (including potential customers)
- Suppliers
- The local community
- Business partners

These have therefore been emphasised most strongly in our analysis of the interests and concerns of our stakeholders.

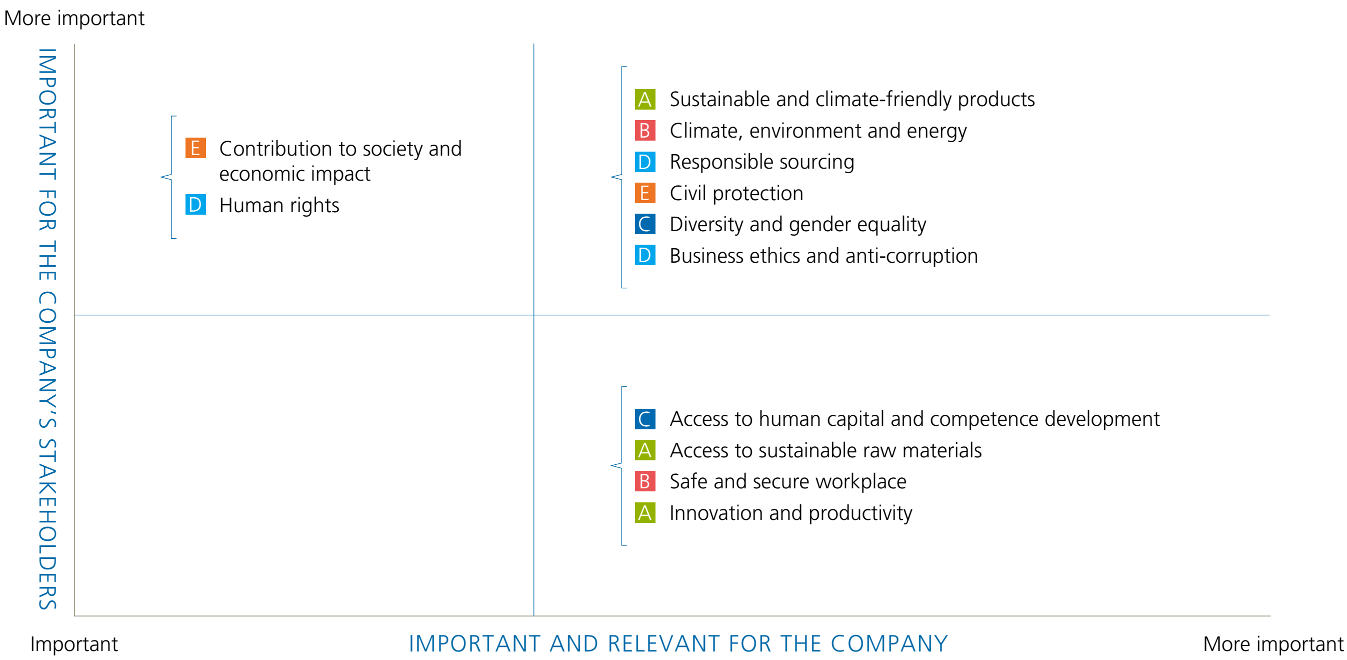
The focus areas identified as most important are described in the Borregaard Sustainability Report, Chapters A to E, and reflect the company's five main areas:

- A sustainable business model
- Climate, environment, health and safety
- Employee and competence development
- Suppliers and business partners
- Contribution to society

Every Borregaard unit has to consider issues relevant to the relationship between the company and the wider community, facilitate good dialogue and ensure that complaints and other enquiries from external stakeholders are handled efficiently. Borregaard units must also assess the need to implement improvement projects in areas where specific challenges exist.

By extracting information from the Stakeholder and Materiality Analysis, Borregaard has linked its strategy and the most important topics with the six SDGs, providing clear measurable targets aligned with the UN 2030 agenda, see illustration below.

The Stakeholder and Materiality Analysis illustration indicates the degree of importance for our stakeholders and what is important and relevant to Borregaard.



The coloured boxes above refer to the main areas described in the report.

MAIN AREAS

Corporate responsibility is a broad concept that covers many areas. Based on the Stakeholder and Materiality Analysis, Borregaard has defined five main areas:

A	B	C	D	E
SUSTAINABLE BUSINESS MODEL	CLIMATE, ENVIRONMENT, HEALTH AND SAFETY	EMPLOYEE AND COMPETENCE DEVELOPMENT	SUPPLIERS AND BUSINESS PARTNERS	CONTRIBUTION TO SOCIETY

A SUSTAINABLE BUSINESS MODEL

BORREGAARD'S BUSINESS MODEL

- Renewable raw materials
- High raw material utilisation
- Environmentally friendly substitutes for petrochemicals

According to Borregaard's fundamental understanding of sustainability and corporate responsibility, the business model itself and the company's products are sustainable and meet global needs. In the years ahead, the world will face numerous challenges associated with population growth and urbanisation. Borregaard's wood-based products are alternatives to petrochemical-based products. The wood is purchased from sustainable sources and the production processes are continuously improved to reduce carbon footprint and general environmental impact. Innovation is important for continuous improvement of the process emissions and product performance.

SUSTAINABLE RAW MATERIALS

Borregaard's biorefinery uses raw materials which meet environmental and sustainability criteria. The Group attaches great importance to purchasing wood from forests managed in a sustainable and eco-friendly manner. Borregaard's manufacturing units outside Norway receive mainly lignin raw material from adjacent pulp mills. All the lignin raw material suppliers purchase wood from Forest Stewardship Council (FSC) certified sources. This is explained in more detail in part D. Borregaard has also developed the patented BALI concept as a long-term option for additional lignin raw material supply, allowing the extraction of lignin-based products from various biomasses, including agricultural waste. This new technology has not yet been put into commercial operation, but represents an alternative for the future.

CLEANTECH

Cleantech is an industry term used to describe products or services that improve operational performance, productivity or efficiency while reducing costs, inputs, energy consumption, waste or environmental pollution. Borregaard is thus a good example of Cleantech. The Group's bio-based products perform well from a climate perspective when compared with petrochemical alternatives. Borregaard has made efforts to reduce GHG emissions in its own processes, including elimination of heavy oil as a source of energy and increasing the share of energy from more eco-friendly sources.

LIFE CYCLE ANALYSIS

Borregaard has engaged an independent third party, Østfold

Research, to conduct a life cycle analysis (LCA) in accordance with the ISO 14044/48 standard. This involves analysing all environmental and resource-related impacts of Borregaard's products from cradle to factory gate. The study was first carried out in 2008 and has since been updated several times, most recently in 2015. This analysis confirms that the environmental and climate footprint of Borregaard's products has decreased over time.

In 2016, the environmental performance of Borregaard's products relative to competing products was studied by Østfold Research. All comparisons encompass a number of environmental impact categories. Borregaard's products showed better environmental performance than the alternatives in almost all impact categories. The results should be seen as an indication of the potential environmental benefits that can be achieved by substituting the alternatives with Borregaard's products.

RESEARCH AND DEVELOPMENT (R&D)

Innovation, research and development acitivites are important for renewing and strengthening operations and are also necessary to maintain the company's financial and environmental sustainability.

Borregaard's research and innovation efforts in 2017 amounted to NOK 200 million (250 million)[8], or 4.3% of the company's revenues. Depreciation and costs related to the operation of the Exilva production plant have been deducted from innovation costs in 2017, as the plant is now in regular operations.

Borregaard has an R&D team of 95 employees, including 34 PhDs. Research is primarily carried out at the Group's corporate research centre in Norway, which at year-end 2017 had 69 employees from eight countries. R&D activities are also conducted in Spain, South Africa, India and USA. Part of the research work is carried out in partnership with customers, universities and research institutions.

In 2017, Borregaard recognised NOK 85 million (66 million) in the form of public funding for ongoing research projects, mainly from the EU Horizon 2020[9] programme, the Research Council of Norway and Innovation Norway. In addition, Borregaard has received other grants from both the Norwegian Government and the European Union.

KEY INITIATIVES AND RESULTS IN 2017

Borregaard's sustainability profile has been strengthened during 2017 by reductions in most types of emissions and by further development of new biorefinery products. In 2016, Borregaard finalised an investment in a facility for the production of Exilva microfibrillar cellulose at the site in Sarpsborg. The facility produces sustainable biomaterials that can replace non-renewable alternatives for industrial applications. Borregaard has a large-scale pilot plant in Wisconsin, USA for the production of SenseFi, a cellulose-based advanced texture system for food products. This project is still in a demonstration phase and a decision on commercial operations is expected to be taken during 2018. These projects, using speciality cellulose as raw material, represent a further development of the biorefinery concept.

During 2017, Borregaard initiated an upgrade of the bioethanol plant and a facility to capture and store biogas. This was completed in early 2018. As a result, there will be sufficient capacity to deliver the whole bioethanol production as 100% water-free grade. This market is growing, mainly driven by increased demand for bioethanol in automotive fuel. The bioethanol plant upgrade will also lead to a significant reduction of the specific use of energy in the production process.

Innovation plays an important role in ensuring sustainability, and Borregaard measures its innovation effort as the percentage of sales coming from new products launched during the previous five years. In 2017, Borregaard's innovation rate was 13% (17%). The average innovation rate for the last five years was 15% (14%).

KEY TARGETS 2017	RESULT	COMMENT
Continued development of the biorefinery concept	Yes	Investments to increase specialisation in Specialty Cellulose and Bioethanol. Decisions to improve specialisation and productivity in the lignin operations in Sarpsborg
An innovation rate of 15%	13%	Average innovation rate the last 5 years is 15%
Further improvement of sustainability in an LCA perspective	In process	Decisions to invest in solutions with lower emissions for heat energy production in Sarpsborg

KEY TARGETS 2018
Continued development of new bio-based products
Increased production capacity for bio-based products
An innovation rate of 15%
Further improvement of sustainability in an LCA perspective

DID YOU KNOW THAT...
adding BorreGRO products to fertilisers improves efficiency, increases plants' resistance to stress and enhances crop quality and yield?

!

[8] *Figures in parentheses are for the corresponding period in the previous year.*

[9] *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.*

B CLIMATE, ENVIRONMENT, HEALTH AND SAFETY

Climate, environment, health and safety (EHS issues) are integral parts of Borregaard's business model and sustainability strategy. The Group makes active efforts in this area by adopting measures that can contribute to sound environmental and resource management. Borregaard's aspirations and recommendations concerning climate and EHS are set out in a separate policy document (see list on page 19). The overall climate and EHS policy was updated in 2017, to emphasise Borregaard's ambitions in this area.

Borregaard has dedicated support functions for environment, health and safety and risk management. The stakeholder analysis is reviewed on a regular basis as an important input for the risk assessment process. Risk management covers every aspect of Borregaard's activities, including self-assessments on environment, health and safety. The Board of Directors conducts a review of the Group's risk picture at least once a year.

Borregaard monitors EHS parameters in a monthly KPI report and an extended quarterly report. EHS issues and parameters are reported to the Board monthly and in every Board meeting.

In the Sustainability Board, ambitions and performance measures regarding climate and EHS are discussed and addressed to ensure a common practice for the Borregaard Group.

CLIMATE CHANGE – GREENHOUSE GAS EMISSIONS

Climate risk and opportunities

A vital part of Borregaard's business is the use of renewable raw materials to produce climate-friendly products that can replace products from fossil raw materials. Wood based products from sustainably managed forests are regarded as a part of the climate solution[10]. With regard to Greenhouse Gas (GHG) emissions from a life cycle perspective, Borregaard's bio-based products are more climate-friendly than petrochemical alternatives. The major contribution is therefore to further develop the business model to produce new and advanced renewable and climate-friendly biochemicals and biomaterials to meet future demand for such products. In addition, Borregaard has goals and planned actions to improve its carbon footprint in production and throughout the whole value chain.

DID YOU KNOW THAT…
Borregaard's lignin products, when used in corn production, increase yield by 10% and improve CO_2 footprint by 260 kg CO_2 per hectare?

Borregaard considers potential effects of climate change, such as precipitation extremes and droughts, to represent a relatively low operational risk. Milder winters may increase the cost of harvesting and transportation of wood in the Nordic region. To mitigate the risk, Borregaard sources wood from various areas and the Group has well established solutions for transporting wood by road, rail and sea, in addition to having more flexible storage of wood.

CO_2 is the only GHG emitted from Borregaard's operations, and energy production is the main source. Risk exposure to changes in climate regulations like the EU Emission Trading System (EU-ETS) has been replaced by a climate and energy strategy where use of renewable energy sources have increased and energy consumption in production has been reduced. During the past decade, the Sarpsborg site has replaced the use of heavy fuel oil with more climate and eco-friendly energy sources. In this period, the Borregaard Group has reduced its direct CO_2 emissions by 50%. Due to this, Borregaard will have an excess of free allowances until 2020. The EU-ETS in the 2020-2030 period will give fewer free allowances and it is likely that the carbon cost will increase. Given Borregaard's favourable position in the use of renewable energy, as well as identified measures for long-term CO_2 reduction, the risk of a significant increase in CO_2 cost is considered to be low.

Energy consumption and GHG emissions

Borregaard's direct emissions of CO_2 primarily come from fossil fuel used for heat energy production. 92% of the direct CO_2 emissions come from Borregaard's site in Sarpsborg, 6% from the German facility and the remaining 2% from the production facilities in USA, Spain, Czech Republic and UK. Borregaard's sites in Sarpsborg and Germany hold the ISO 50001 certificate for energy management system. 98% of the Borregaard Group's total energy consumption is covered by a certified management system.

The Sarpsborg site meets its base-load needs for heat energy through incineration of waste, bio-based energy sources and recovery of heat from production. In 2013, use of heavy fuel oil in peak load steam production stopped, as Borregaard commissioned a new multi-fuel boiler which primarily uses liquefied natural gas (LNG). LNG has 25% less CO_2 emissions than heavy fuel oil. The peak load steam production is now based on a combination of LNG, light fuel oil and electricity. The CO_2 emissions from energy production will therefore

[10] http://www.ipcc.ch/ipccreports/tar/wg3/index.php?idp=167

vary from year to year depending on the energy sources used, production volumes and energy conservation measures. Borregaard in Germany uses LNG for heating, and emphasises optimisation of energy used.

In 2017, Borregaard finalised a three-year energy efficiency programme that resulted in reduced energy consumption at the site in Sarpsborg. This programme reduced the annual energy consumption by more than 60 GWh by better utilisation of the surplus energy from heating and energy recovery from waste. The programme received financial support from Enova[11], representing 42% (NOK 46 million) of the total investment of NOK 107 million. The most important projects in 2017 were installation of a high temperature heat pump and new heat exchangers in the pulp digester facility.

The graph below shows the reduction in specific heat energy due to the energy efficiency programmes at the site in Sarpsborg, measured as energy consumption per tonne[12] of cellulose produced.

At Borregaard's Fine Chemicals facilities, an energy efficiency programme is being conducted during the period 2016-2018, in which three out of four projects are supported by Enova. The main objectives are to increase heat recovery by using better heat exchanger configuration and to utilise heat pumps. The savings in 2017 constitute 18 GWh/year compared to 2015 and further savings are expected in 2018.

Borregaard has invested NOK 63 million in a project which includes an upgrade of the bioethanol plant and a facility to capture and store biogas, and thus increase the internal use of renewable energy. This upgrade includes installing modern production technology which will reduce the specific use of energy in this plant by 67%. The biogas project shows promising results from increased use of biogas that replaces propane, equivalent to 45 GWh/year. The project, finalised in Q1 2018, has been awarded a grant of NOK 18.9 million from Enova.

Borregaard delivers surplus heat from low temperature water to the district heating system in Sarpsborg municipality. In 2017, 9.7 GWh was delivered and the ambition is to increase the supply of heat in 2018.

Results 2017

The table below shows the energy consumption and direct CO_2 emissions from Borregaard.

ENERGY CONSUMPTION BORREGAARD GROUP

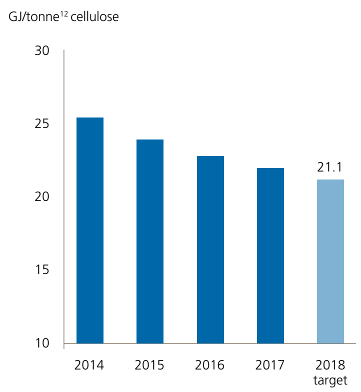
	2017	2016
Total energy consumption	1,612 GWh	1,618 GWh
Energy for heating	1,093 GWh	1,093 GWh
Specific electricity	519 GWh	525 GWh

Despite a 3.4% higher production volume of cellulose at the production site in Sarpsborg, the energy for heating did not increase due to the energy efficiency programmes. The carbon intensity in the energy decreased by 5% to 106 kg CO_2/MWh (112 CO_2/MWh) in 2017. Carbon intensity has been reduced over the last 15 years, due to the shift to renewable energy sources.

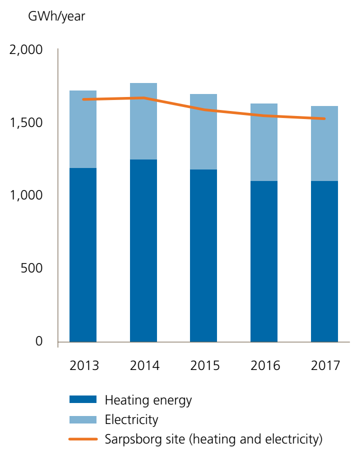
Initiatives in 2018

Borregaard's bio-boiler converts residuals from production to steam. Waste oil is used as supplementary fuel, which leads to NOx and CO_2 emissions. During 2018, the bio-boiler will be rebuilt and waste oil will be replaced with LNG, which is

SPECIFIC HEAT ENERGY CONSUMPTION SARPSBORG SITE



ENERGY CONSUMPTION BORREGAARD GROUP



[11] A Norwegian government agency which promotes environmentally friendly restructuring of energy end-use, renewable energy production and new energy and climate technology.
[12] Metric tonne air dry.

DID YOU KNOW THAT...
by replacing phenol with lignin products in phenolic resins, the CO_2 emissions can be reduced by over 50%?

considerably more eco-friendly. In addition, Borregaard has two spray dryers using propane as energy source. In 2019, the propane will be replaced by a combination of LNG and biogas from Borregaard's waste water treatment plant.

These measures are estimated to reduce annual CO_2 emissions by 14,500 mt and carbon intensity to 100 kg CO_2/MWh. The project is estimated to cost NOK 78 million and will be supported by the Norwegian Business Sector's NOx Fund with up to NOK 25.9 million. Completion is scheduled for the second half of 2018.

Transportation and GHG emissions

Borregaard strives for effective and zero emission logistics solutions for raw materials to the plants and outbound transportation of products to customers. This involves a continuous drive for challenging traditional setups, where overcoming infrastructure and capacity constraints are key. Having production units for lignin on three continents reduces the overall need of transportations of raw materials and finished products over large distances.

In 2017, Borregaard has initiated a study of possibilities and options for future zero emission transport solutions between Borregaard and the Port of Borg.

In 2015, Borregaard committed itself to a green shift in goods transportation by signing the Zero Emission Resource Organisation (ZERO) declaration of a green shift in heavy-duty vehicle traffic. In contracts with suppliers of transport services, environmentally friendly transportation with minimum Euro 5 emission standard is required. For 2017, 98% of Borregaard's inbound transports were carried out with vehicles of Euro 5 or higher. For 2018, this will be monitored for both inbound and outbound road transport for Borregaard in Sarpsborg, with an overall target of 100% compliance.

Sea transport and combined solutions will increasingly be an integral part of Borregaard's environmentally friendly logistics solutions. In 2017, Borregaard continued its efforts towards reducing road transportation by increasing sea transportation as a further initiative from the EU funding programme Marco Polo in 2012-2016. Borregaard expects to surpass 50,000 mt within Europe in 2018.

In recent decades, rail transport in general has had a declining impact on shaping European transport networks. For Borregaard's inbound flow of logs, rail is vital with 152,000 mt (18.5%) transported in 2017. In 2018, the target is to transport 23.5% by rail, which will lead to a reduction in GHG emissions of 5,700 mt.

In 2017, Borregaard's operations in Sarpsborg transported around 50% of its goods by sea, 35% by road and 15% by rail.

Borregaard has increased its fleet of electric vehicles for internal/local transportation and installed 17 charging stations at the Sarpsborg site. Additional charging stations to further reduce CO_2 emissions from commuting employees' cars will be installed.

Reporting of GHG emissions and targets

Borregaard reports CO_2 emissions to the CDP (formerly Carbon Disclosure Project). The CDP is an international, not-for-profit organisation providing a global system to measure, disclose, manage and share vital environmental information. The CDP climate change programme aims to reduce companies' GHG emissions and mitigate climate change risk.

Emissions are calculated according to the Greenhouse Gas Protocol[13] and EU-ETS, and are shown in the table below.

CO_2 EMISSIONS BORREGAARD GROUP

	2017[14]	2016
Scope 1 (GHG Protocol)	128,414 CO_2e*, mt/year	134,176 CO_2e, mt/year
Scope 2 location based (GHG Protocol)	58,213 CO_2e*, mt/year	60,785 CO_2e, mt/year
Scope 3 (GHG Protocol)**	191,560 CO_2e*, mt/year	191,560 CO_2e, mt/year
Total Direct CO_2 emission EU-ETS	114,262 CO_2e*, mt/year	121,639 CO_2e, mt/year

* *Equivalent.*
** *Estimated in 2016.*

The reported Scope 1 emissions are the total direct emissions from energy heating purposes, process emissions and internal transportation.

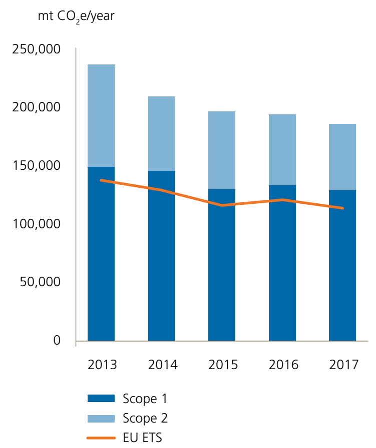
Scope 2 emissions are CO_2 from the production of electricity and the steam sourced from a third party. Due to the large proportion of hydropower in Norway, the origin of electric energy is 98% renewable.

Scope 3 emissions are estimated emissions from upstream and downstream activities. Østfold Research has estimated

[13] *www.ghgprotocol.org*
[14] *Will be verified by Cemasys in July 2018.*

Borregaard's Scope 3 data, based on the data obtained in the LCA analysis conducted in 2015. The biorefinery products have no CO_2 emissions in their use and end-life since they are made from wood. Emissions from purchased goods and services account for more than 50% of the Scope 3 emissions. The joint venture in South Africa is reported in the investment category in Scope 3.

GHG EMISSIONS
BORREGAARD GROUP



Borregaard joined the Science Based Targets Initiative[15] in 2017 and signed a pledge to combat global warming by committing to a science-based reduction target. The initiative is a collaboration between CDP, the World Resources Institute, the World Wildlife Fund, the United Nations Global Compact and the We Mean Business Coalition commitments. The CDP assesses and approves companies' GHG targets considered as "science-based", meaning in line with the level required to keep the global temperature increase below two degrees Celsius compared with pre-industrial temperatures[16].

The scenario linked to Borregaard's target[17] needs a reduction in CO_2 emissions in the range of 49-72% from 2010 to 2050. However, this applies to global reductions, and the concept of fair distribution of reduced emissions is not included. Therefore, as part of the developed world, Borregaard has chosen the most ambitious target of at least 72%.

DID YOU KNOW THAT...
by replacing oil-based products with lignin based products as an additive in construction, the carbon in the lignin products is stored and taken out of the carbon cycle?

Borregaard has evaluated its future emission forecast, which shows that it is possible to achieve a science-based target by further reduction of energy consumption and increased use of renewable energy. The plan was presented at Borregaard's Capital Markets Day in 2016. In 2018, Borregaard will apply for approval of the Group's target to the Science Based Targets Initiative including direct emissions (Scope 1), indirect emissions from energy use (Scope 2) and indirect emissions from the corporate value chain (Scope 3).

THE ENVIRONMENT

Environmental risks and opportunities

Borregaard's bio-based products have documented a favourable environmental footprint compared with petrochemicals or non-renewable alternatives. This position creates an opportunity in markets that value this feature. Innovations and activities that can improve the environmental footprint of products are being prioritised, including water and waste management and energy efficiency. These processes are supported by third-party certified environmental management systems. The production units with most impact and highest risk are certified by ISO 14001 Environment (see overview of certifications on page 39). The emissions generated at the different production units are also regulated by the relevant authorities.

The most significant environmental risks identified are associated with the main production site in Sarpsborg. These are the chemical oxygen demand (COD) resulting from emissions to water and local air quality with respect to sulphur dioxide (SO_2). Activities to reduce emissions are ongoing.

Water management and emissions to water

Borregaard has a sustainable water management system. The majority of water consumption and emissions are linked to Borregaard's Sarpsborg site. This facility is self-sufficient with water, due to access to the river Glomma and its own water purification facility. Water is important in the production processes for cooling, steam generation and hot water production, as well as for the washing and transportation of biomass through the production process. However, almost all water used is returned back to the river. Possible reduction of water usage is considered in investment projects, also motivated by potential gains in energy savings and increased water treatment efficiency. A high portion of the process water is treated to keep chlor organic compounds (AOX) and COD within the emission permit. The reduction rate for biological oxygen demand (BOD) in the anaerobic treatment plant is 98%.

The EU's Best Available Techniques (BAT) Reference Documents (BREF), which include BAT Conclusions with associated limits for effluents and emissions to air, apply to the production facility in Sarpsborg.

[15] *Partnership between CDP, UN Global Compact, WRI and WWF.*
[16] *The Intergovernmental Panel on Climate Change (IPCC AR5), the Fifth Assessment Report.*
[17] *IPCC Representative Concentration Pathway 2.6.*

In 2016, Borregaard submitted an assessment of the environmental technology in use at the site in Sarpsborg, according to the recently updated BREF standards for the industry, to the Norwegian Environment Agency. This assessment served as input to the process of revising the emission permit, effective from 1 January 2019.

The present permit level for emissions of COD is 69 mt per day and is expected to be reduced to 59 mt per day from 2019 to be compliant with BAT levels for emissions to water for Borregaard.

Borregaard and the Norwegian Institute for Water Research (NIVA) monitor the river Glomma according to requirements and standards in the EU Water Framework Directive. The monitoring programme shows that the emissions of easily degradable organic (COD) matter from Borregaard have caused a proliferation of bacteria covering river bed sediments close to the plant. As a result, the ecological status varies between bad and poor, which has consequences for the wild salmon stock in the river. NIVA concludes that the chemical status, according to the Water Framework Directive, is good and that emissions from Borregaard overall have a minor influence on the chemical status.

In partnership with two other companies, Borregaard has built and financed a salmon cultivation facility on its premises. From 2017, Borregaard covered the majority of the operational costs for the facility. Investigations conducted by NIVA in 2015 and 2016 showed that there was a substantial rise in the number of salmon fry in the river compared with 2014 and 2013. 24% of the salmon fry came from the cultivation facility at Borregaard, which shows that the natural cultivation of salmon in the river is increasing. In 2016, NIVA recommended prolonging the salmon cultivation as the natural cultivation still needs some assistance from the salmon cultivation facility.

The long-term target of the water framework directive is to reach good ecological status in the river Glomma by 2027. Borregaard has identified both short-term and long-term targets to reduce COD emissions. The first step is to comply with the new permit from 2019. The second part involves R&D activities to find new sustainable water purification solutions and technological improvements that will have a positive impact on the emissions of organic material to water.

The quantity of water used at Borregaard's facilities for lignin production outside Norway is relatively modest, and the water is sourced from public waterworks or adjoining industrial areas.

Results 2017

In 2017, there were no exceedances of emissions permits to water in the Borregaard Group. The figures in the table below only reflect emissions in Sarpsborg, since the Group's other operations do not have any significant emissions to water.

WATER USAGES AND EMISSIONS BORREGAARD SARPSBORG

	2017	2016
Water usage	23.9 mill m^3	23.2 mill m^3
COD	66 mt/day	63 mt/day
AOX pr mt cellulose	0.70 kg/mt	0.68 kg/mt
Copper	9.4 kg/day	11.5 kg/day
Fibre	3.3 mt/day	4.0 mt/day

Emissions of COD increased from 2016 to 2017 due to operations without wood seasoning silos after a fire in 2015. To rectify this, compensatory measures were put in place. The decrease in emissions of copper is due to improved operation, and a reduction in fibre is a result of a new fibre filter in the bleaching plant.

Initiatives in 2018

A COD plan to comply with an expected new permit for COD, 59 mt/day from 2019.

Emissions to air

Borregaard's emissions to air, SO_2, nitrogen oxides (NOx) and dust particles, influence local air conditions and derive from the combustion of fuel, drying processes and from the use of SO_2 in the production processes (Sarpsborg).

The authorities have strict limits for SO_2 concentration in the air. Sarpsborg municipality measures local air quality in terms of SO_2 content. These generally show a reduction in concentration of SO_2 measured in the local environment, compared with previous years, although isolated incidents at Borregaard can lead to short-term elevation of values. In 2017, six hourly exceedances (eight) but zero daily exceedances (two) of the SO_2 level in the air around Borregaard's plant were registered. Borregaard has a programme for reduction of SO_2 emissions which has reduced the emissions by more than 80% during the last ten years. Borregaard and Sarpsborg municipality have an on-going dialogue about the progress in the programme and how the corrective and preventative activities regarding exceedances are implemented. The goal is zero exceedances.

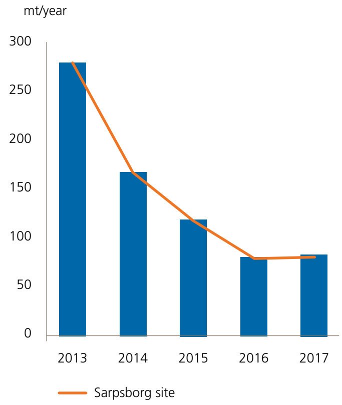
Combustion of fuel for heat energy gives NOx emissions. These emissions have been reduced by about 50% in the last 10 years due to substitution of heavy oil with more eco-friendly alternatives.

Spray drying of lignin products gives some emissions of NOx (from fuel) and dust particles (lignin). Borregaard in Germany has a renewed operating permit for the spray-drying process with stricter limits for dust particles. To meet the new requirements, Borregaard has implemented several actions including a rebuild of the spray driers.

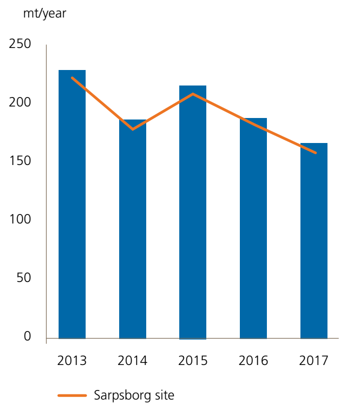
Results 2017

The table below shows the results of emissions to air.

SO_2 EMISSIONS BORREGAARD GROUP



NOx EMISSIONS BORREGAARD GROUP



EMISSIONS TO AIR BORREGAARD GROUP

	2017	2016
SO_2	84 mt	79 mt
NOx	167 mt	189 mt
Dust particles	67 mt	50 mt

In 2017, the emissions of SO_2 increased slightly due to unfavourable operations in the bleaching plant at Borregaard in Sarpsborg and resumed production at LignoTech Ibérica. The increase in dust emissions is driven by increased production of lignin in powder form at LignoTech USA.

Initiatives in 2018

An on-going programme to map different sources of SO_2 in the bleaching plant will lead to further emission reductions. The introduction of LNG instead of waste oil as supplementary fuel in the bio-boiler and the installation of NOx purification technology will reduce NOx emissions by up to 100 mt (60%) annually at the Sarpsborg site by the end of 2018.

Waste management and recovery

Borregaard practices waste sorting as part of the waste management system covered by the ISO14001 certificate. At the site in Sarpsborg, 98% of waste was sorted and processed by certified waste operators in 2017. The Sarpsborg plant has waste plans for both the industrial plant and the company's port. Total waste was 18,360 mt in 2017 (19,861 mt), while the quantity of hazardous waste was 3,316 mt (3,105 mt). The energy and material recovery rate of the waste is high, 71% in 2017.

Soil pollution

The Opsund landfill, a waste disposal site on the premises in Sarpsborg, was discontinued in 2009. In 2014, a plan for permanent closure of the landfill by the end of 2019 was submitted to the Norwegian Environment Agency. The plan was approved in March 2015, and the closure project is progressing and will finish by the planned end date.

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. A plan for cleaning and deposition of polluted soil areas downstream of the ground water barrier will be submitted for approval in 2018. Borregaard reports progress to the Norwegian Environment Agency quarterly.

Due to the Industry Emission Directive (IED), Borregaard Sarpsborg is obliged to submit a baseline report on the state of soil and ground water. Borregaard has conducted several investigations over the last 30 years and has a good overview of the historical activities at the site. In addition, some polluted areas are monitored. Borregaard has divided the industry site into five areas, and will finish the mapping of the first area in 2018. The report will be sent for approval to the Norwegian Environment Agency.

SAFETY

Safety at Borregaard covers both personal safety and process safety. Borregaard's ambition is to promote a safety culture

DID YOU KNOW THAT…
by replacing diesel or gasolin with bioethanol from Borregaard, the CO_2 emissions linked to the transport are reduced by over 85%?

involving actions and systems that will lead to zero harmful incidents and zero injuries to employees or third parties as a result of our activities. Safety is integrated into every aspect of Borregaard's operations, with the safety first principle as a general rule.

In the risk assessment process, the risk of incidents such as fires, explosions and unwanted releases of hazardous materials are identified and actions are implemented to mitigate the risks.

The root cause of all safety incidents is investigated and corrective and preventative actions are identified and implemented. This also provides valuable input for the risk assessment process and documents lessons learned.

Personal safety

The overall goal is to have zero injuries. Some of Borregaard's production units have maintained a level of zero lost time injuries for several years.

Management commitment and engagement with employees to eliminate unsafe conditions and acts have been a priority for several years. Borregaard has a worldwide safety programme called Zero Harm. Important measures aimed at achieving fewer injuries include: basic EHS training to strengthen the safety culture, focusing on personal responsibility for one's own safety, clearly defining safety management, reviewing rules for and the practical use of protective equipment, and observing rules on order and tidiness in the workplace.

In 2017, the Zero Harm programme continued with Safety Leadership Team guidance and third party auditing to ensure compliance. In recent years, Borregaard has worked hard to reduce the number of injuries and the seriousness of these incidents. The main cause of injuries has historically been exposure to chemicals, but years of systematic work on reducing chemical exposure through training and safety management are starting to show results.

Process and public safety

High levels of safety that minimise risk and communication that creates confidence among people living and working near the production facilities are important results of the risk assessment work in Borregaard.

In 2017, one of the spray driers at Borregaard in Germany was upgraded by the installation of explosion panels and a decoupling system. The dryer was also mechanically strengthened and reinsulated.

Borregaard continuously assesses safety conditions in relation to the local community outside the company. This applies in particular to Borregaard's Sarpsborg facility, which is regulated by an EU directive[18] to prevent major accidents. In collaboration with independent expertise, Borregaard has conducted extensive risk assessments in accordance with guidelines from the Norwegian Directorate for Civil Protection (DSB). Based on this, DSB has proposed a zone requiring special consideration around Borregaard's site in Sarpsborg. Borregaard expects that the municipal land-use plan and the long-term development of the surrounding area will be harmonised with the recommendations in the EU Directive. Sometimes risk can be removed by technical, organisational or business measures. Borregaard's elimination of chlorine gas risk through a technology change in the chlor-alkali plant in 2012 is an example of this.

Borregaard handles SO_2 at its plant in Sarpsborg. Risk analysis shows that a major SO_2 incident could have fatal consequences for a third party. SO_2 is an important and irreplaceable raw material in Borregaard's production processes, which means that there will be an inherent risk associated with SO_2 also in the future. In 2015, Borregaard invested in emergency tanks in the digester plant to reduce the potential impact of an SO_2 incident. A major risk is the storage and use of liquid SO_2. During 2017, Borregaard has investigated solutions to reduce risk related to the storage of liquid SO_2 which will be evaluated in 2018.

Chemical safety

Borregaard has procedures to ensure that all new chemicals subject to labelling due to potential risk are assessed for possible substitution before they are introduced in the production processes. The existing portfolio of chemicals is subject to periodical assessment for possible substitution. The risk for hazardous conditions and unexpected exposure due to use of chemicals is considered as low.

Results 2017

The key safety results in 2017 compared with 2016 are shown in the table below.

KEY SAFETY RESULTS BORREGAARD GROUP

	2017	2016
Number of fatal accidents	0	0
LTI (number of lost time injuries per million hours worked)	1.1	1.6
TRI (number of total recordable injuries per million hours worked)	8.8	7.7
Number of fires	3	2
Number of potential fires	14	23

There were no fatal injuries in the Group in 2017 (zero). There were two lost-time injuries in Borregaard (three). In the most serious injury, an operator at the site in Sarpsborg was exposed to sodium hydroxide during unloading from a ship to a storage tank, resulting in 45 days of absence. At the sales office in

[18] *The Council Directive 96/82/EC.*

Shanghai, an employee suffered a fracture on her right arm while slipping.

Leading safety performance indicators for monitoring progress in safety culture show positive trends.

There were three (two) fires in 2017. The fires resulted in minimal damage and the potential for a severe fire was low. The number of potential fires decreased substantially from 2016 to 2017. Implementation of a three-year plan (2017-2019) in Sarpsborg for improving and renewing the fire detection systems and improving the standard according to the fire regulations will reduce the risk.

An updated safety report based on the revision of the EU Directive 96/82/EC was completed in 2017. The report gave an update of the overall risk for major accidents at the production site in Sarpsborg, and is the basis for prioritisation of risk-reducing activities.

Initiatives in 2018

To reach the goal of zero injuries, Borregaard will continue to have a motivated and proactive safety organisation with high awareness of the responsibility to reduce risk. In 2018, work will continue on reporting, analysing root causes and implementing measures in connection with near accidents and hazardous conditions as well as frequent inspections and job observations at the plants.

Borregaard will actively continue the implementation of a modernised process safety management system. Areas with the potentially highest inherent risk in terms of EHS and profitability will be prioritised.

OCCUPATIONAL HEALTH

Borregaard aims to provide a work environment for its employees that will have a generally positive impact on their health and to provide a sound, inclusive work environment with meaningful tasks, support and feedback from colleagues and leaders.

Employee health is regularly monitored through health and working environment surveys. The working environment is generally considered to be good, and improvement efforts are continually being implemented.

Borregaard has a special focus on sick leave and has an ambitious target to further decrease sick leave. To meet this objective, preventative activities and initiatives have been introduced to reduce stressful aspects of working conditions. Employees on sick leave are closely followed up and providing appropriate work tasks or shorter working hours for a period of time are examples of temporary measures made to accommodate employees with different needs. Physical exercise, health and lifestyle counselling, vaccinations and stress awareness are other measures.

Identifying the potential for exposure to substances with negative health effects is part of the risk assessment process. Measures are taken to decrease or eliminate substances that could have negative health effects. The precautionary principle is applied as a guideline, and personal protective equipment is mandatory when there is risk of exposure.

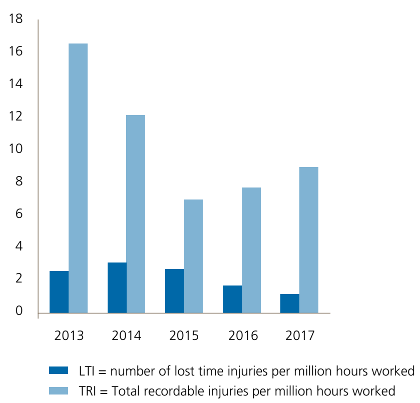
Results 2017

The sick leave rate[19] at Borregaard decreased to 3.8% (4.0%) in 2017.

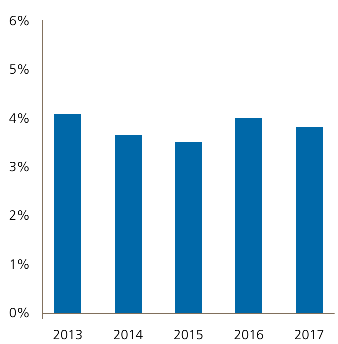
Initiatives 2018

Borregaard will continue its focus on and use of appropriate health promoting measures in close collaboration with employee representatives in 2018. The long-term target for sick leave is 3.0%.

INJURY RATE
BORREGAARD GROUP



SICK LEAVE
BORREGAARD GROUP



[19] *Number of total hours sick leave/available working hours.*

KEY TARGETS 2017	RESULT	COMMENT
Establish a science based target for long term CO_2 emissions (Group)	In process	Applied for approval of the target from Science Based Target Initiative
Reduce specific energy consumption by 4% (Sarpsborg)	3.5%	Some energy reduction actions postponed to 2018
COD emissions below 64 mt/day (Sarpsborg)	66 mt	Operational challenges in the wood seasoning silos delayed COD reduction
Reduce emissions and risks related to SO_2 (Sarpsborg)	Yes	Number of SO_2 incidents affecting Sarpsborg municipality have decreased
TRI rate of 0 (Group)	8.8	The TRI rate increased from 7.7
Sick leave rate below 2016 level; 4.0% (Group)	3.8%	

KEY TARGETS 2018	COMMENT
CLIMATE	
Establish a science based target for long term CO_2 emissions	Group
Reduce CO_2 emissions to 100 kg CO_2/MWh of energy consumed	Sarpsborg
ENVIRONMENT	
NOx reduction Sarpsborg 40%	Run rate end 2018
COD emissions below 64 mt/day	Sarpsborg
Zero exceedances of local air quality SO_2	Sarpsborg, average emissions pr hour
Reduce specific energy consumption by 2%	Sarpsborg
HEALTH AND SAFETY	
Sick leave below 3.8%	Group
TRI rate of 0	Group
TRANSPORT	
Increase rail transportation of logs to 23.5%	Sarpsborg
Surpass 50,000 mt by sea to Europe in 2018	Sarpsborg
All road transport by minimum Euro 5 engines	Sarpsborg

C EMPLOYEE AND COMPETENCE DEVELOPMENT

The number of man-years in the Borregaard Group was 1,065 (1,008) at the end of 2017. The turnover rate[20] is generally low in all units in the Group. In Sarpsborg, the turnover rate was 1.3% in 2017.

CORPORATE CULTURE

Borregaard has, over many years and through changing times, developed a strong corporate culture which helps create a common mind-set based on 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 the employees. Borregaard's corporate culture and core values "The Borregaard Way" have been incorporated in various introductory and development programmes. In 2017, more than 500 Borregaard employees participated in workshops and training in The Borregaard Way, Code of Conduct and Whistleblowing procedures.

The corporate culture and core values include standards and objectives for sound business ethics. Borregaard has a set of guiding 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 procurement, environment, health and safety and human rights. Borregaard's ambitions and guidelines covering corporate responsibility are integrated in the Group's introduction programmes and management training. In 2017, 143 employees participated in competition law training, including management and all sales and technical personnel.

[20] *The number of employees that left the company as a percentage of the total number of employees by year-end. Employees retired are not included in the numbers.*

DEVELOPING CORE COMPETENCE

Borregaard's core competence lies in the areas of sales and marketing, research and development, and production. The company's competence in these areas, and the interaction between them, is Borregaard's most important competitive advantage. Therefore, it is crucial that the company successfully maintains and further develops this unique competence base, both through recruitment and employee development. In 2017, Borregaard further developed the corporate introduction programme. The programme is a three-day event where all new employees across the Group are introduced to Borregaard's strategy, corporate governance, culture and values. Additionally, they attend courses in continuous improvement and innovation. 45 new employees from different parts of the Group attended the introduction programme in 2017.

Borregaard has set up internal training programmes in its areas of core expertise. 15% of the 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 runs a product application school and an international Sales Academy for employees engaged in sales and technical service. In 2017, 109 sales and technical personnel from all over the world attended the Sales Academy.

Since Borregaard's production processes are complex and involve a high degree of integration, great importance is attached to knowledge and expertise in the areas of production and the biorefinery concept. Borregaard conducts extensive training programmes for its operators and apprentices (Norway and Germany). The Group has its own "Knowledge Plant" for training its employees. In 2017, Borregaard established its own Production Academy which is based on lean methodology with a focus on continuous improvement in all parts of the company. The target is to roll out this training to all Borregaard employees to enhance corporate culture with a view to continuous improvement.

The Borregaard Innovation Conference will take place during spring 2018. This is a forum to gain external inspiration and exchange ideas across internal research teams, facilities and business areas. Borregaard arranges this two-day research and development conference every second year.

The Group invests significant resources in management training. The objective is to recruit most managers internally by devising career development plans and having replacement candidates and management 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 prioritised in these programmes.

Borregaard has an ambition to create an internal job market and therefore favours a high degree of job rotation and internal recruitment to fill vacancies. During 2017, there were several internal movements of employees between departments and business areas. This is an important part of strengthening cross-company knowledge, innovation and continuous improvement and also creates career opportunities. Four trainees were recruited into the trainee programme in 2017. The trainees will work in business development, continuous improvement, sustainability and finance.

RESTRUCTURING AND ORGANISATIONAL DEVELOPMENT

Borregaard strives to maintain its global competitiveness through world class innovation and productivity. Extensive training programmes, the introduction of new technology and organisational development are important elements in improvement programmes. Borregaard aims for continuous improvement programmes as proactive measures to improve its competitive position.

The plant in Sarpsborg is assuming greater responsibility for training skilled workers through targeted contact with schools, providing lessons in schools, and increasing the number of apprentices. The company has its own training centre and showroom, the "Knowledge Plant", available for this purpose.

Based on the current age composition of the workforce as well as planned commercialisation of strategic projects, Borregaard Sarpsborg will have a need for qualified employees in the years to come. To meet these challenges, Borregaard has recruitment activities and school programmes to encourage interest in an industrial career and relevant qualifications. In 2017, Borregaard enrolled 23 new apprentices in Sarpsborg, giving a total number of 45. In addition, Borregaard in Germany has five apprentices.

DIVERSITY

Borregaard wishes to enhance diversity among its employees and is committed to avoiding discrimination based on gender, ethnicity, religion or age. The Group has its own guidelines for this area. Borregaard has initiatives aimed at promoting the recruitment of female managers and employees. The company purposely has a high proportion of women in management and technical training programmes and in its recruitment base. In 2017, 25% (24%) of Borregaard's employees were women. Of the new hires in 2017, 29% were women. The lowest proportion of female employees is in production, while the proportion is high in R&D, customer service, HR and finance. Three of the company's seven board members are women (43%). A total of 29% (30%) of the managers at Borregaard are women, while the Executive Management Group includes one woman (11%). Borregaard has wage systems and guidelines that are gender neutral and contribute to equal pay for equal work.

Borregaard is a global organisation with 25 nationalities. The Group sees the variety of ethnical and cultural backgrounds as a strength and uses diversity as a resource for the organisation. The variety of nationalities also influences how training programmes are composed and manned.

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 goes against the company's guidelines or expectations. Ideally, we would like such issues to be addressed in the unit or department where they take place. 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 order to handle such cases, there are established procedures and guidelines for whistleblowing, in terms of contacting various specific functions in the organisation or by using a special telephone number and email address, see #10 in Corporate Governance (page 47). In 2017, the guidelines were reintroduced in several languages and distributed world wide.

KEY TARGETS 2017	RESULT	COMMENT
Establish an internal production academy	Yes	First academy class (pilot) arranged
Increase the proportion of female employees and managers	Yes/No	Proportion of female workers increased from 24% to 25%. Proportion of female managers was reduced from 30% to 29% (number of female managers has increased by 2)
Establish internal senior leadership programme	In process	Programme developed, first class postponed to Q1-18.

KEY TARGETS 2018
Conduct senior leadership programme
Conduct Production Academy at minimum two production sites
Increase the proportion of female employees to 30% and female managers to 35% by 2022

D SUPPLIERS AND BUSINESS PARTNERS

BORREGAARD'S APPROACH

Borregaard works with suppliers and business partners all over the world. Some relationships are long-term and well established. The Group aims for contact and cooperation with all its suppliers and business partners to be characterised by trust, integrity and mutual respect, and for transactions and business practices to comply with laws, regulations and internationally recognised ethical standards.

Borregaard aims to identify the risk of violations of labour standards, health and safety, environmental legislation or business ethics. When such violations are discovered the Group will initiate actions to end the non-compliance. In this way, Borregaard contributes to sustainable business, reduces commercial risk and strenghtens its long-term competitiveness.

Policies and guidelines are made available throughout the Group to regulate activities and help employees cultivate good relationships and responsible business. The policies and guidelines include corporate governance, anti-corruption, trade regulations and responsible sourcing.

In 2016, Borregaard carried out a corruption risk assessment to ensure that relevant measures against corruption were implemented. No high-risk corruption factors were identified.

Training

In 2017, Borregaard conducted training in anti-corruption and competition law for selected employee groups. In addition, on-the-job training has been conducted on responsible sourcing.

SUPPLIERS

The UN Global Compact principles serve as the basis for the Supplier Code of Conduct (SCoC). Irrespective of country, Borregaard's suppliers are required to comply with the SCoC or equivalent.

New suppliers

New suppliers are subject to approval in accordance with written procedures and risk assessment. The suppliers answer a questionnaire concerning quality assurance, environment, corporate social responsibility and responsible sourcing. Dependent on their answers and the risk assessment, the supplier is either qualified, not qualified or the supplier will be subject to a more detailed analysis. In addition, Borregaard also evaluate and approve the actual product or service, using a change management system to plan and document the approval process.

Supplier evaluation

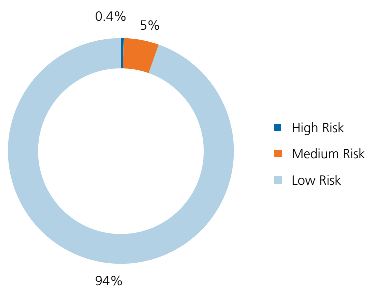
An evaluation of supplier performance is conducted annually. Recorded supplier deviations and observations, new legislation and specific areas of improvement are addressed. The evaluation is summed up in a report with an action plan and an audit plan.

In 2017, the specific focus area addressed was security of supply. 19 audits were planned and 15 were conducted. In 2018, the focus area will be EHS for suppliers conducting work at the Sarpsborg site. 14 audits are planned in 2018.

Existing suppliers

In 2016, Sedex[21] was engaged to conduct a pre-screening of Borregaard's existing suppliers. As a result of the pre-screening, less than 0.5% of the suppliers were classified as high risk and 94% were found to be low risk.

PRELIMINARY RISK ASSESSMENT



In 2017, the high and medium risk suppliers were encouraged to register with Sedex, complete Sedex' self-assessment questionnaire and share the information with Borregaard. Based on this process, relations with three suppliers were terminated, nine suppliers were approved and, at the end of 2017, eight were still under evaluation.

In 2018, Borregaard will implement a tool for reviewing and addressing financial and compliance risk amongst its suppliers and business partners.

SUSTAINABLE RAW MATERIALS

Wood

Borregaard purchases wood from forests that are managed in a sustainable and eco-friendly manner. Applicable policies, laws and regulations in countries where wood is purchased are complied with.

Borregaard purchases 1 million solid cubic metres of wood annually for the Sarpsborg site. In 2017, 76% of the wood came from Norway, 22% came from Sweden and the remaining 2% came from Germany. All wood is cut according to the country of origin's laws on felling. 92% of the purchased wood was PEFC/FSC[22] certified in 2017.

Borregaard does not purchase wood which has been:

- illegally harvested
- logged in protected areas or areas currently undergoing official processes of designation for protection, unless the logging is clearly in line with national conservation regulations
- harvested in forests with High Conservation Value as defined by the Living Forest standard in Norway or by the High Conservation Value Resource Network (HCVRN)
- genetically modified (GMT/GMO)

In the transportation of wood, Borregaard aims to reduce GHG emissions by increasing payload and efficiently utilising transport capacity.

Lignin

In general, Borregaard's manufacturing units outside Norway receive lignin raw material from adjacent pulp mills. The actual supply of lignin to Borregaard may depend upon or be affected by a range of factors such as the pulp mill's profitability and general market conditions, regulatory considerations, loss or closure of pulp production, as well as a range of industry-specific factors, including the supply and cost of raw materials. All the suppliers purchase wood from FSC certified sources.

There is only a limited number of pulp producers using the sulphite pulping process necessary to produce the raw material required by Borregaard for its lignin-based products. In the past, some of Borregaard's lignin raw material sources have been closed down. In 2017, the lignin capacity in South Africa was expanded to utilise additional supply from the existing source (Sappi Saiccor). In addition, Borregaard and Rayonier Advanced Materials (RYAM) are building a new lignin plant adjacent to RYAM's pulp mill in Florida, USA.

[21] *Sedex, a collaborative platform for sharing responsible sourcing data on supply chains, used by more than 43,000 members in over 150 countries. Tens of thousands of companies use Sedex to manage their performance around labour rights, health & safety, the environment and business ethics.*

[22] *PEFC is an international non-profit, non-governmental organisation dedicated to promote sustainable forest management. FSC is a global non-profit organisation that sets the standards for responsible management of forests, both environmentally and socially.*

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 101 man-years as of 31 December 2017, including trainees. Borregaard is represented on the board of the company. LTSA produces lignin products based on raw material from Sappi Saiccor's pulp mill.

The company 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 anti-corruption measures. During 2017, internal and external audits of LTSA and its suppliers did not reveal any violations of the United Nations Global Compact Principles. The company has developed a comprehensive governance compliance programme to monitor legal and other compliance activities.

The company organised its annual "Safety Day", raising awareness about first response treatment in the event of injuries. In LignoTech South Africa, 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.
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 has supported a local school for disadvantaged children and provided 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 the Hope Factory initiative to support small and medium-sized enterprises and informal businesses to grow and develop. The company continued its financial support of the Hope Factory in 2017.

LignoTech South Africa paid income taxes totalling NOK 25 million (NOK 58 million) in 2017.

Certifications in LignoTech South Africa:
- ISO 9001 (Quality Management)
- ISO 14001 (Environmental Management)
- GMP Production of Feed Additives and Premixes
- OHSAS 18001:2007 Health and Safety Management
- B-BBEE Broad-Based Black Economic Empowerment

KEY TARGETS 2017	RESULT	COMMENT
Implement additional measures based on risk assessment of suppliers	Yes	Actions taken towards high risk suppliers. Routines for monthly follow-up on KPIs implemented. Routines for maintaining the supplier base established. Requirements included in Internal Control.
Implement new anti-corruption measures based on risk assessment	Yes	Risk assessment completed, training program implemented, internal audits conducted and requirements included in Internal Control

KEY TARGETS 2018
All new suppliers subject to approval in accordance with established policies and procedures
14 supplier audits
Implement a tool for reviewing and addressing financial and compliance risk amongst suppliers/business partners

DID YOU KNOW THAT…
when something tastes like vanilla, there is more than a 90% chance that it contains vanillin from petrochemicals (oil)?

DID YOU KNOW THAT…
by replacing a typical oil-based adjuvant with Exilva within the field of agricultural chemicals, you can obtain an over 80% improved GHG emission result?

E CONTRIBUTION TO SOCIETY

Profitable companies 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 such as taxes and duties, which companies and their employees provide to the countries and local communities in which they operate. Those countries where Borregaard has manufacturing operations see significant ripple effects from suppliers and other activities around the plants.

As of 31 December 2017, Borregaard employed 1,065 man-years in 16 countries. The Group has production plants in Norway, UK, Germany, Spain, Czech Republic, USA and a 50/50 joint venture in South Africa.

NOK 170 MILLION IN INCOME TAX PAYMENTS

Borregaard paid income taxes totalling NOK 170 million in 2017 (NOK 90 million). The income taxes paid in Norway amounted to NOK 129 million, while income taxes paid in the rest of Europe was NOK 12 million, NOK 22 million in the Americas, NOK 4 million in Asia and NOK 3 million in Africa. Borregaard seeks to comply with the spirit as well as the letter of the tax law 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 THE LOCAL COMMUNITY

Borregaard's companies impact and interact with the 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 plays an important role in the town and region as an employer, an important customer of many suppliers, and a socio-economic contributor through taxes and duties from its operations.

SUPPORT FOR SOCIAL DEVELOPMENT

Borregaard has many stakeholders in Sarpsborg municipality and 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 2017, the company also contributed around NOK 4 million to support measures that benefit both the company and the region, with an overall aim to strengthen the company's employer branding. Borregaard's sponsorship strategy has two main pillars. One covers cultural and sports activities that help make the town and region a more attractive place to live and work. This is important to Borregaard in terms of creating a long-term recruitment base. The other area involves measures that stimulate young people's interest in and understanding of disciplines that are important to Borregaard and society as a whole. This is illustrated by Borregaard's support for and cooperation with the Inspiria Science Centre, the Young Entrepreneurship scheme and Borregaard's Knowledge Plant.

COLLABORATION WITH EDUCATIONAL INSTITUTIONS

Borregaard works closely with schools and educational institutions in Sarpsborg. The Group has created its own academy, the Knowledge Plant, which functions as both an in-house 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 2017, 2,134 pupils visited the centre, coming from schools that took part in educational programmes that combined technical training, career advice and a company presentation. Borregaard employees also contribute to a scheme for the teaching of chemistry in upper secondary schools in Østfold County, where researchers from Borregaard have created a company-related teaching plan for chemistry. Every year, students from a number of colleges and universities perform practical tasks and conduct projects or get internships at the company.

Borregaard has programmes and instructors for apprenticeship schemes involving cooperation with vocational schools in the region. These schemes provide apprentices with relevant experience to supplement their theoretical training. In 2017, Borregaard had a total of 45 apprentices at the biorefinery in Sarpsborg.

AWARDS AND RECOGNITIONS

Over the years, Borregaard has received several awards and recognitions. In 2017, the Group received HR Norway's Competence Award for strategic and focused work with competence development. The Norwegian Society of Financial Analysts also awarded Borregaard the Stockman Award for the best strategic investor communication among companies listed in Oslo.

!

DID YOU KNOW THAT...

by replacing oil-based vanillin with vanillin from wood in a chocolate, the CO_2 emissions linked to the vanillin are reduced by over 90%?

!

DID YOU KNOW THAT…
Borregaard supplies products that play a key role in developing and maintaining healthy and sustainable agricultural soils?

Borregaard conducts an annual reputation survey among the people of Østfold County to map their views on various topics, such as Borregaard as a workplace, environmental issues, contribution to the local community and people's general impression of the company. In 2017, the survey showed all-time high results on topics such as taking care of the environment as well as positive contribution to local society and development in the region. This survey confirmed yet again the company's strong position in the local communities near Borregaard's largest plant.

CERTIFICATION AND AFFILIATION

Borregaard cooperates with various external schemes that lead to tighter control and improvements, and provide inspiration for a more systematic way of working. This also applies to issues and topics relating to corporate responsibility and sustainable development and operation.

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

Borregaard is certified in accordance with several standards:

- ISO 9001 (Quality Management) (Norway, USA, Germany, Spain, UK and Austria)
- ISO 14001 (Environmental Management) (Norway, Germany, Spain and Austria)
- ISO 50001 (Energy Management) (Norway and Germany)
- FSSC 22000 Management Systems for Food Safety
- GMP+ Production of Feed Additives and Premixes (Norway, Germany and Spain)
- SMETA Ethical Trading Initiative Base Code
- OHSAS 18001:2007 Health and Safety Management (Austria)
- Kosher certified (vanillin products, Norway)
- Halal certified (vanillin products, Norway)

Borregaard is a participant in the UN Global Compact initiative, thus lending support to universal principles on human rights, labour relations, the environment and anti-corruption. Borregaard also reports on progress under the Global Compact scheme.

CDP DRIVING SUSTAINABLE ECONOMIES

RESPONSIBLE CARE® OUR COMMITMENT TO SUSTAINABILITY

THE TEN PRINCIPLES OF THE UN 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.

Human Rights

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

Labour

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

Environment

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

Anti-Corruption

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

Per A. Sørlie,
President and CEO, Borregaard

END POVERTY IN ALL ITS FORMS EVERYWHERE

- Borregaard and the industry in general deliver high added value. Through the purchase of goods and services as well as tax contributions, the industry creates positive social effects in the form of direct and indirect jobs.
- Significant tax payments. In 2017, the Borregaard Group's tax payments totalled NOK 170 million.
- Jobs are the way out of poverty. Borregaard employs 1,065 man-years in 16 countries.

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

- 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

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

- Several Borregaard products replace more hazardous chemicals, such as solvents
- Products that contribute to fat reduction
- Diagnostics (fine chemicals)
- Health focus for employees

ENSURE INCLUSIVE AND QUALITY EDUCATION FOR ALL AND PROMOTE LIFELONG LEARNING

- Prioritise training of employees – many training programmes within the Group
- Collaboration with schools (education, visitor programmes, equipment)
- Supports science centre

ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

- Policy on equal treatment. Active recruitment of women for all levels and positions.
- Over-representation of women in management development programmes
- In 2017, 25% of Borregaard employees were women

ENSURE ACCESS TO WATER AND SANITATION FOR ALL

- Focus on reducing water consumption
- Work on and invest in emission reductions
- Products used for water purification
- Own water purification facility

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

- Increased energy recovery from renewable sources
- Borregaard produces bioethanol for fuel and invests to further increase the proportion of fuel grade bioethanol
- Provides process heat for local district's heating system

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

- Borregaard and its suppliers deliver high added value and create ripple effects for society. Borregaard has 1,065 man-years in 16 countries.
- Significant tax payments
- Good conditions of employment and training programmes
- Over-recruitment of apprentices (more than internal needs)
- Financial sustainability secures investments, R&D and competence development

BUILD RESILIENT INFRASTRUCTURE, PROMOTE SUSTAINABLE INDUSTRIALISATION AND FOSTER INNOVATION

- Significant innovation initiatives with internal resources and projects for institutes and universities
- Sustainability is key to innovation
- Develops new sustainable bio-based industry through the innovation projects Exilva and BALI
- Produces green chemicals used in construction
- Uses a significant share of revenues on innovation

REDUCE INEQUALITY WITHIN AND AMONG COUNTRIES

- A high degree of collective welfare benefits in the company
- High degree of mobility across the organisation – opportunities for all

MAKE CITIES INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE

- Social commitment in local areas
- Support to schools, leisure activities, social measures and urban development

ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS

- Sustainable business model with bio-based products
- Investment in renewable energy (sustainability)
- Energy strategy for increased use of green and renewable energy and energy efficiency
- Environmental investments to reduce emissions and waste
- Improved chemical safety

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
- EHS/climate and energy strategy established
- GHG emissions are considered when choosing transportation
- Establish a science-based target for reduced GHG footprint
- Investments in renewable energy

CONSERVE AND SUSTAINABLY USE THE OCEANS, SEAS AND MARINE RESOURCES

- Reduced emissions to water
- Utilisation of lignin from pulp mills has led to lower emissions to sea/water
- Built and financed a salmon cultivation facility on own premises

SUSTAINABLY MANAGE FORESTS, COMBAT DESERTIFICATION, HALT AND REVERSE LAND DEGRADATION, HALT BIODIVERSITY LOSS

- Sustainability criteria when purchasing wood
- Active cooperation with stakeholders in the supply chain for forests

PROMOTE JUST, PEACEFUL AND INCLUSIVE SOCIETIES

- Guidelines for ethics and corporate responsibility
- Respect for the law and active contribution to good dialogue processes with authorities

REVITALISE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT

- Member of Global Compact and Responsible Care
- Environmental reporting: CDP, Global Compact and the company's annual report
- Represented in various environmental forums, nationally and internationally

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.

01 Corporate governance report

Borregaard is subject to the requirements of the *Norwegian Accounting Act*, Section 3–3b, the *Norwegian Code of Practice for Corporate Governance*, Clause 7 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 for Corporate Governance. It covers all clauses of the Code of Practice and describes how Borregaard complies with them. If there is a deviation, this is discussed and the reason given.

The Board of Directors (the Board) approved this report at its meeting on 13 March 2018. The statement is cited on page 105. The General Meeting will consider the statement at its meeting on 12 April 2018.

The Board will work to ensure that the Company complies with the requirements in the Accounting Act, Section 3–3b 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.

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 16 in this Annual Report. From page 32, the Annual Report gives an account of Borregaard's systematic work in areas important for stakeholders such as employees, business partners and the community.

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."*

Borregaard's activities focus on Performance Chemicals, Speciality Cellulose, Ingredients, Fine Chemicals and Cellulose Fibrils. 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 employed[1] (ROCE) minimum 15% over a business cycle. For a more detailed account of corporate goals and strategies, see the section *The Borregaard Group* on page 4.

03 Equity and dividends

The Group's equity as of 31 December 2017 was NOK 2,996 million. 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."

The Board has proposed an ordinary dividend of NOK 2.00 per share for the financial year 2017, up from NOK 1.75 per share in 2016. Dividend will be paid on 20 April 2018 to shareholders registered in the Company's shareholders' register as evidenced in a transcript as of 16 April 2018. If acquired shares are subject to ordinary settlement in the Norwegian Securities Register (VPS), shares acquired up to and including 12 April 2018 will carry the right to receive dividends.

The Board has no authority to issue new shares, and 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 2017, 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 2018, but no longer than 30 June 2018. 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 2017, Borregaard held 484,065 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 close associates

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. Similarly, the Board will arrange for a value assessment by an independent third party in the case of transactions between companies within the Group, if there are minority shareholders in one of the companies.

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.

[1] *Non-GAAP measure, see page 111 for definition.*

05 Free 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 Meeting

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, and that the General Meeting is an effective forum for expressing the views of shareholders and the Board. 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 General Manager, 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 and chaired by an independent person. The Chair is chosen by the General Meeting, but in the notice of a 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.

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 Borregaard, 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 a General Meeting and on the Borregaard 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, which is an exception from the main rule stipulated in Section 5-6 (5), whereby the annual accounts, annual report, auditor's report and the Statement from the Board of Directors must be sent to the shareholders no later than one week before the General Meeting. The documents will be available on the Borregaard website no later than 21 days prior to the General Meeting.

07 Nomination Committee

The Articles of Association stipulate that the Company shall have a Nomination Committee. The members and Chair of the Committee are elected by the General Meeting. There is an option to vote for each individual candidate for a position on the Nomination Committee. 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 2017 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 2018.

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. 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.

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.

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: 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 the requirements of 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 2018 General Meeting.

The Articles of Association do not require members of the Board to own shares in the Company. This 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 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

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 67 agenda items in 2017. The Board's annual evaluation process includes discussions regarding the work in more detail. See the 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. Kristine Ryssdal and Ragnhild Anker Eide are also 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. Jon Erik Reinhardsen 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, anti-corruption and corporate responsibility on an annual basis. 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.

10 Risk management and internal control

The Board of Directors is ultimately 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

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 annually or when needed by the Board 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 aggregate risk picture is consolidated by the CRO and reviewed with the Group Executive Management before it is submitted to the Audit Committee and finally to the Board.

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 SAP as the main accounting and purchasing system 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, HFM, 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 Committe prior to the Board meeting. The external auditor is also present at the Audit Committee meetings and attends the Board meeting when the annual financial statements are approved.

ETHICS AND CORPORATE RESPONSIBILITY

The Group companies work continuously with ethics, anti-corruption and corporate responsibility, which are integral parts of the basis for decisions by local companies. The status of the work by the business areas involving corporate responsibility is included in the Sustainability and Corporate Responsibility Report. In 2017, a dedicated Sustainability Board was established by the President and CEO. The Sustainability Board will address and follow up on important topics and initiate processes aimed at developing policies, actions and goals within the areas covered in the Sustainability and Corporate Responsibility report. The Sustainability Board is chaired by the SVP Organisation and Public Affairs. The Sustainability Board reports to the President and CEO.

In 2017, Borregaard established a Compliance Board consisting of the SVP Organisation and Public Affairs, 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 contributing to improvements. The Compliance Board reports to the President and CEO and the annual Compliance Report is reviewed by the Board of Directors.

WHISTLEBLOWING

Borregaard has established a whistleblowing system and a separate channel, currently 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.

11 Remuneration of the Board

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.

In its recommendation, the Nomination Committee proposed the compensation to the Board for the period up to the General Meeting in 2018.

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 terms once a year.

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 2017 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 communication

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

Borregaard strives to communicate actively and openly with the financial market. The Company's annual and quarterly reports contain information on the various aspects of the Company's activities. The Company's 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 2018 is published under "Investor Relations" at www.borregaard.com.

14 Approach to takeovers

The Board of Directors' 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 External 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, and at the same time 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.

THE GROUP EXECUTIVE MANAGEMENT

PER A. SØRLIE

President and Chief Executive Officer (CEO)

Per A. Sørlie 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. Sørlie held positions as CFO at Bjølsen Valsemølle and Hafslund's US operations. Mr. Sørlie holds a Degree in Business Administration (siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen, Norway.

MORTEN HARLEM

Executive Vice President (EVP), Performance Chemicals

Morten Harlem has served as EVP of Borregaard LignoTech (Performance Chemicals business) since 2003. Since joining Borregaard in 1994, he has assumed different roles in sales and marketing. Previously, Mr. Harlem held positions in various marketing roles with Nutreco. Mr. Harlem holds a Master of Science Degree in Business Administration from the University of Colorado in Boulder, USA.

TOM ERIK FOSS-JACOBSEN

Executive Vice President (EVP), Speciality Cellulose

Tom Erik Foss-Jacobsen has 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. Prior to that, he worked 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

Senior Vice President (SVP), R&D, Business Development and EVP Fine Chemicals

Gisle Løhre Johansen has served as SVP of Business Development/R&D since 2007 and EVP of Fine Chemicals since 2013. Since joining Borregaard in 1991, he 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)

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)

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.

DAG ARTHUR AASBØ

Senior Vice President (SVP), Organisation and Public Affairs

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

Tuva Barnholt has been SVP Purchasing and 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 HEGGEN

General Counsel

Sveinung Heggen 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. Heggen holds a Cand. Jur. Degree from the University of Oslo.

CONSOLIDATED FINANCIAL STATEMENTS 2017

CONSOLIDATED FINANCIAL STATEMENTS 2017

INCOME STATEMENT

Amounts in NOK million	NOTE	2017	2016
Sales revenues	2, 8	4,522	4,391
Other operating revenues		96	101
OPERATING REVENUES	2, 7	4,618	4,492
Cost of materials	21	-1,681	-1,686
Payroll expenses	9, 10	-928	-884
Other operating expenses	9, 11	-954	-901
Depreciation and impairment property, plant and equipment	17, 18	-306	-274
Amortisation intangible assets	17	-4	-4
Other income and expenses[1]	13	-9	13
OPERATING PROFIT		736	756
Finance income	14	199	131
Finance costs	14	-220	-163
Financial items, net	14	-21	-32
PROFIT/LOSS BEFORE TAXES		715	724
Taxes	15	-157	-171
PROFIT/LOSS FOR THE YEAR		558	553
Profit/loss attributable to non-controlling interests	31	-8	-2
Profit/loss attributable to owners of the parent	-	566	555
EBITDA adj.[1]	-	1,055	1,021
EBITA adj.[1]	7	749	747

EARNINGS PER SHARE

Amounts in NOK	NOTE	2017	2016
Earnings per share (100 million shares)	16	5.66	5.55
Diluted earnings per share	16	5.66	5.55

STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	NOTE	2017	2016
PROFIT/LOSS FOR THE YEAR		558	553
ITEMS NOT TO BE RECLASSIFIED TO P&L			
Actuarial gains and losses (after tax)	10, 15	-6	7
Total		-6	7
ITEMS TO BE RECLASSIFIED TO P&L			
Change in hedging reserve after tax (cash flow)	15, 29	82	227
Change in hedging reserve after tax (net investment in subsidiaries)	15	13	14
Translation effects		-15	-17
Translation effects joint venture	6	8	14
Total		88	238
TOTAL ITEMS NOT TO BE AND TO BE RECLASSIFIED TO P&L		82	245
THE GROUP'S COMPREHENSIVE INCOME		640	798
Profit/loss attributable to non-controlling interests	31	-11	-2
Profit/loss attributable to owners of the parent		651	800

[1] *Non-GAAP measure, see page 111 for definition.*

STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	31.12.2017	31.12.2016
ASSETS			
Intangible assets	17	111	125
Property, plant and equipment	18	3,126	2,471
Deferred tax assets	15	9	21
Investment in joint venture	6	118	121
Other assets	20	84	94
NON-CURRENT ASSETS		3,448	2,832
Inventories	21	734	626
Receivables	22	971	948
Cash and cash equivalents	23	180	265
CURRENT ASSETS		1,885	1,839
TOTAL ASSETS		5,333	4,671
EQUITY AND LIABILITIES			
Group equity	30	2,889	2,679
Non-controlling interests	31	107	34
TOTAL EQUITY		2,996	2,713
Deferred tax	15	80	53
Provisions and other liabilities	24	197	246
Interest-bearing liabilities	27	743	525
NON-CURRENT LIABILITIES		1,020	824
Interest-bearing liabilities	27	283	61
Income tax payable	15	134	136
Other liabilities	25	900	937
CURRENT LIABILITIES		1,317	1,134
EQUITY AND LIABILITIES		5,333	4,671

Sarpsborg, 13 March 2018

THE BOARD OF DIRECTORS OF BORREGAARD ASA

JAN ANDERS OKSUM
Chair

TERJE ANDERSEN

KRISTINE RYSSDAL

MARTHA KOLD BAKKEVIG

JON ERIK REINHARDSEN

ÅSMUND DYBEDAHL

RAGNHILD ANKER EIDE

PER A. SØRLIE
President and CEO

STATEMENT OF CASH FLOW

Amounts in NOK million	NOTE	2017	2016
Profit/loss before taxes		715	724
Amortisation, depreciation and impairment charges		316	278
Changes in net working capital, etc.		-92	170
Dividend/share of profit from joint venture	6	11	-1
Taxes paid		-170	-90
CASH FLOW FROM OPERATING ACTIVITIES		780	1,081
Investments property, plant and equipment and intangible assets*	17, 18	-968	-622
Other capital transactions		10	5
CASH FLOW FROM INVESTING ACTIVITIES		-958	-617
Dividends		-349	-149
Proceeds from exercise of share options		11	7
Buy-back of treasury shares		-29	-10
Gain/loss on hedges of net investments in subsidiaries		8	13
NET PAID TO SHAREHOLDERS		-359	-139
Repayment of interest-bearing debt		-258	-309
Proceeds from interest-bearing liabilities		668	106
Change in interest-bearing receivables/other liabilities		46	-23
CHANGE IN NET INTEREST-BEARING LIABILITIES	27	456	-226
CASH FLOW FROM FINANCING ACTIVITIES		97	-365
CHANGE IN CASH AND CASH EQUIVALENTS	23	-81	99
Cash and cash equivalents as of 1 January		265	169
Change in cash and cash equivalents		-81	99
Currency effect of cash and cash equivalents		-4	-3
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	23	180	265

* INVESTMENTS BY CATEGORY

Amounts in NOK million	NOTE	2017	2016
Replacement investments	17, 18	344	358
Expansion investments[1]	17, 18	624	264
TOTAL		968	622

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] Non-GAAP measure, see page 111 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 effect	Actuarial gains/ losses	Total Group equity	Non-controlling interests	Total equity
EQUITY 31 DECEMBER 2015	99	1,346	385	616	-456	89	-23	2,056	5	2,061
Profit/loss for the year	-	-	-	555	-	-	-	555	-2	553
Items in other comprehensive income	-	-	-	-	241	-3	7	245	-	245
The Group's comprehensive income	-	-	-	555	241	-3	7	800	-2	798
Paid dividend	-	-	-	-149	-	-	-	-149	-	-149
Buy-back of treasury shares (Note 30)	-	-	-	-10	-	-	-	-10	-	-10
Exercise of share options (Note 9, 30)	1	-	8	-	-	-	-	9	-	9
Shares to employees (Note 9, 30)	-	-	-	-	-	-	-	-	-	-
Option costs (share-based payment)	-	-	4	-	-	-	-	4	-	4
Additions of non-controlling interests (Note 31)	-	-	-	-31	-	-	-	-31	31	-
EQUITY 31 DECEMBER 2016	100	1,346	397	981	-215	86	-16	2,679	34	2,713
Profit/loss for the year	-	-	-	566	-	-	-	566	-8	558
Items in other comprehensive income	-	-	-	-	95	-4	-6	85	-3	82
The Group's comprehensive income	-	-	-	566	95	-4	-6	651	-11	640
Paid dividend	-	-	-	-349	-	-	-	-349	-	-349
Buy-back of treasury shares (Note 30)	-	-	-	-29	-	-	-	-29	-	-29
Exercise of share options (Note 9, 30)	-	-	-	-	-	-	-	-	-	-
Shares to employees (Note 9, 30)	-	-	15	-	-	-	-	15	-	15
Option costs (share-based payment)	-	-	6	-	-	-	-	6	-	6
Additions of non-controlling interests (Note 31)	-	-	-	-84	-	-	-	-84	84	-
EQUITY 31 DECEMBER 2017	100	1,346	418	1,085	-120	82	-22	2,889	107	2,996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2017

NOTE 01 General information

The consolidated financial statements for Borregaard ASA (Borregaard/Group), including notes, for the year 2017, were endorsed by the Board of Directors (the Board) of Borregaard ASA on 13 March 2018. 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 2017 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 2017. 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 expenses[1] (OIE) are presented as part of operating profit in the Income Statement, but are presented after EBITA adj.[1] 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 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 Performance Chemicals, Speciality Cellulose and Other Businesses.

Borregaard has largely switched to defined contribution pension plans. The contractual early retirement scheme in Norway is accounted for as a defined contribution plan. This may be changed if reliable and consistent data that justify accounting for the plan as a defined benefit plan can be obtained.

Impairment tests that have been carried out confirm that the value of the combined Borregaard Group's most exposed assets are intact as of 31 December 2017. See Note 5 for further details.

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 are recognised when it is probable that economic benefits will flow to the company and the amount of the revenue can be measured with reliability. 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] *Non-GAAP measure, see page 111 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 expenses[1] 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 CO_2 emission allowances expected to be used towards Borregaard's own emissions are recognised as intangible assets at nominal value (cost). The amounts are not amortised but are tested for impairment at least annually. In case there are actual CO_2 emissions exceeding the level covered by emission rights, those are recognised as a liability. Sale of government granted CO_2 emission rights are recognised at the time of sale at the transaction price. CO_2 emission allowances purchased for trading are measured and classified as inventory.

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.

[1] *Non-GAAP measure, see page 111 for definition.*

NOTE 03 New accounting standards

The consolidated financial statements will be affected by IFRS amendments in the future. Many IFRS projects are in the final phases, but many 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.

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective and approved by EU.

IFRS 9 FINANCIAL INSTRUMENTS

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity. The Group will implement changes in classification of certain financial instruments.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

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. Therefore, reclassification for these instruments is not required.

(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 will apply 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 determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The IASB has issued the revenue recognition standard, IFRS 15. The standard replaces existing IFRS revenue requirements. The core principle of IFRS 15 is that 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). The new revenue standard will supersede all current revenue recognition requirements under IFRS.

Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Borregaard will apply the full retrospective method. Borregaard has evaluated the potential consequences of the standard. For contracts with customers, sale of Borregaard's products is generally expected to be the only performance obligation, and the adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur 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. Summarised, no changes in equity are expected as a result of the IFRS 15 implementation. There will be some additional disclosures of revenue in the interim reports.

IFRS 16 LEASES

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 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). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Based on the reported lease obligations (see Note 12), it indicates a recognition of right to use assets of approximately NOK 289 million. This would have reduced the equity share from 56.2% to approximately 53% at the end of 2017. The standard is effective from 1 January 2019. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

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 2017	CARRYING VALUE 31 DECEMBER 2016
Property, plant and equipment	18	Recoverable amount and estimation of correct remaining useful life	3,126	2,471
Pension liabilities (net)	10	Economic and demographic assumptions	85	96
Environmental provisions	13/35	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	56	68

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 distinctions between operating and finance leases, and to the assessment of items presented as other income and expenses[1] 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.

[1] *Non-GAAP measure, see page 111 for definition.*

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.
In cases where the discounted value exceeds the capital employed by less than 20%, a further sensitivity analysis is carried out to check the calculation. When relevant, assumptions and estimates are reviewed, and the robustness of the investment is measured in relation thereto.

Borregaard's goodwill is related to the prior acquisition of Borregaard Austria Group:

	GOODWILL	
Amounts in NOK million	2017	2016
Borregaard Austria Group	32	30
TOTAL GOODWILL	32	30

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 2017 and the fair value exceeds the book value by more than 20%.

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 7-11% 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. A growth rate in terminal value of 2% is used in the impairment test.

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	2017	2016
Operating revenues	329	363
Operating expenses	-209	-191
Net financial items	16	11
Profit before taxes	136	183
Taxes	-32	-51
Profit/loss for the year before dividend	104	132
Borregaard's share of profit for the year	52	66
Non-current assets	175	147
Current assets	148	118
Cash and cash equivalents	46	96
Total assets	369	361
Equity	236	243
Non-current liabilities	53	75
Current liabilities	80	43
Equity and liabilities	369	361
Borregaard's carrying amount of the investment	118	121

	2017	2016
Share in joint venture 1 January	121	106
Share of profit after tax	52	66
Dividend	-63	-65
Currency translation effect	8	14
Share in joint venture 31 December	118	121

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). The business segments are Performance Chemicals, Speciality Cellulose and Other Businesses.

Performance Chemicals develops, produces, markets and sells lignin-based products as a niche supplier and solutions provider. Speciality Cellulose develops, produces, markets and sells speciality cellulose products as a niche supplier and solutions provider. In addition, Borregaard produces second generation bioethanol.

Performance Chemicals and Speciality Cellulose contribute to more than 80% of the revenue and adjusted EBITA adj.[1] in the Borregaard Group. Borregaard utilises the lignin from the sulphite pulping process to produce wood-based vanillin.

Other Businesses consists of the areas Ingredients, Fine Chemicals and Cellulose Fibrils in addition to services and captive production of certain chemicals at the Sarpsborg site and corporate functions.

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] *Non-GAAP measure, see page 111 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, EBITA adj.[1], amortisation and impairment of intangible assets, other income and expenses[1] and operating profit for each business area. It does not disclose internal sales between the various segments as it is considered immaterial.

The table on the next page shows the revenues generated by Performance Chemicals, Speciality Cellulose and Other Businesses.

The segment information also includes cash flow from operations[1], replacement investments, expansion investments[1] and working capital for each area.

[1] *Non-GAAP measure, see page 111 for definition.*

SEGMENTS 2017

Amounts in NOK million	PERFORMANCE CHEMICALS	SPECIALITY CELLULOSE	OTHER BUSINESSES	ELIMINATIONS	BORREGAARD GROUP
INCOME STATEMENT					
Total operating revenue	2,176	1,698	783	-39	4,618
Operating expenses and depreciation	-1,727	-1,348	-833	39	-3,869
EBITA adj.[1]	449	350	-50	-	749
Amortisation and impairment intangible assets	-4	-	-	-	-4
Other income and expenses[1]	-9	-	-	-	-9
Operating profit	436	350	-50	-	736
Net financial items	-	-	-	-	-21
Profit before tax	-	-	-	-	715
CASH FLOW					
Cash flow from operations[1]	504	408	48	-	960
Replacement investments	-57	-172	-115	-	-344
Expansion investments[1]	-510	-46	-68	-	-624
CAPITAL STRUCTURE					
Working capital at year-end	429	396	12	-	837
Capital employed[1] at year-end	-	-	-	-	4,107
Return on capital employed[1]	-	-	-	-	19.1%

SEGMENTS 2016

Amounts in NOK million	PERFORMANCE CHEMICALS	SPECIALITY CELLULOSE	OTHER BUSINESSES	ELIMINATIONS	BORREGAARD GROUP
INCOME STATEMENT					
Total operating revenue	2,161	1,590	776	-35	4,492
Operating expenses and depreciation	-1,644	-1,340	-796	35	-3,745
EBITA adj.[1]	517	250	-20	-	747
Amortisation and impairment intangible assets	-4	-	-	-	-4
Other income and expenses[1]	-	73	-60	-	13
Operating profit	513	323	-80	-	756
Net financial items	-	-	-	-	-32
Profit before tax	-	-	-	-	724
CASH FLOW					
Cash flow from operations[1]	572	426	206	-	1,204
Replacement investments	-64	-187	-107	-	-358
Expansion investments[1]	-104	-29	-131	-	-264
CAPITAL STRUCTURE					
Working capital at year-end	440	363	-62	-	741
Capital employed[1] at year-end	-	-	-	-	3,362
Return on capital employed[1]	-	-	-	-	21.7%

RECONCILIATION CAPITAL EMPLOYED[1]

Amounts in NOK million	2017	2016
CAPITAL EMPLOYED[1]	4,107	3,362
Other non-current assets	84	94
Cash and cash equivalents	180	265
Net deferred tax	-71	-32
Interest-bearing liabilities	-1,026	-586
Income tax payable	-134	-136
Other (derivatives, accruals, etc.)	-144	-254
EQUITY	2,996	2,713

[1] *Non-GAAP measure, see page 111 for definition.*

RECONCILIATION CASH FLOW FROM OPERATIONS[1]

Amounts in NOK million	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES	780	1,081
Financial items, net	21	32
Taxes paid	170	90
Share of JV dividend/profit after tax	-11	1
CASH FLOW FROM OPERATIONS[1]	960	1,204

RECONCILIATION WORKING CAPITAL

Amounts in NOK million	2017	2016
Receivables	971	948
Inventories	734	626
Other liabilities	-900	-937
Derivatives etc. not included in above items	32	104
WORKING CAPITAL	837	741

NOTE 08 Geographical breakdown

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 and sales revenues.

	NON-CURRENT OPERATING ASSETS		INVESTMENTS		NUMBER OF MAN-YEARS[2]		SALES REVENUES	
Amounts in NOK million	2017	2016	2017	2016	2017	2016	2017	2016
Norway	2,515	2,310	500	526	762	734	190	188
Rest of Europe	74	63	12	4	124	118	1,907	1,825
Asia	4	3	2	-	51	50	1,128	1,137
America	642	218	454	92	128	106	1,221	1,156
Rest of the world	2	2	-	-	-	-	76	85
TOTAL	3,237	2,596	968	622	1,065	1,008	4,522	4,391

SALES REVENUES PER PRODUCT GROUP

Amounts in NOK million	2017	2016
Performance Chemicals	2,117	2,094
Cellulose	1,566	1,472
Bioethanol	121	110
Fine Chemicals	358	253
Ingredients	242	335
Other	118	127
TOTAL REVENUES	4,522	4,391

[1] Non-GAAP measure, see page 111 for definition.
[2] Excluding employees in joint venture in LignoTech South Africa.

NOTE 09 Payroll expenses and remuneration

Amounts in NOK million	2017	2016
Wages	-760	-723
Share-based payments (options and discounted shares)	-10	-4
Employer's national insurance contribution	-96	-94
Pension costs (Note 10)	-59	-59
Remuneration to Board Members	-3	-3
PAYROLL EXPENSES	-928	-884
Average number of man-years	1,037	1,011

REMUNERATION OF THE EXECUTIVE MANAGEMENT

2017

Amounts in NOK thousand	BASE SALARY	BONUS	PENSION COST	BENEFITS IN KIND	TOTAL
Per A. Sørlie	3,159	1,202	675	240	5,276
Morten Harlem	2,128	573	371	208	3,280
Tom Erik Foss-Jacobsen	1,642	811	239	212	2,904
Gisle Løhre Johansen	1,646	631	255	207	2,739
Ole Gunnar Jakobsen	1,540	761	220	188	2,709
Tuva Barnholt	1,521	582	255	202	2,560
Per Bjarne Lyngstad	1,731	664	270	209	2,874
Dag Arthur Aasbø	1,517	582	228	191	2,518
Sveinung Heggen	2,064	255	340	204	2,863
TOTAL REMUNERATION	16,948	6,061	2,853	1,861	27,723

2016

Amounts in NOK thousand	BASE SALARY	BONUS	PENSION COST	BENEFITS IN KIND	TOTAL
Per A. Sørlie	3,067	1,515	638	222	5,442
Morten Harlem	2,020	999	319	198	3,536
Tom Erik Foss-Jacobsen	1,608	795	232	196	2,830
Gisle Løhre Johansen	1,611	797	249	194	2,851
Ole Gunnar Jakobsen	1,508	746	213	177	2,644
Tuva Barnholt	1,489	735	246	192	2,662
Per Bjarne Lyngstad	1,695	838	261	181	2,974
Dag Arthur Aasbø	1,485	735	220	183	2,624
Sveinung Heggen	2,018	430	330	167	2,945
TOTAL REMUNERATION	16,501	7,590	2,707	1,711	28,508

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 – 2017

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* 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 93.634 as of 31 December 2017.

Annual bonuses

Annual bonuses are based on performance within financial results (ROCE[1] and EVA-improvement[3]) 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.

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 shareholders 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.

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

[1] *Non-GAAP measure, see page 111 for definition.*
[3] *Economic value added.*

specialists in the business areas and corporate staff based on a number of defined criteria.

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 maximum be 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 salaries for the President and CEO and one annual 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.
- The members of the Group Executive Management team are expected to build up and own a holding of Borregaard shares corresponding to two annual salaries for the President and CEO and one annual salary for other members.

In 2014, The Board issued 500,000 share options (Programme 2014), corresponding to 0.5% of the total number of shares, to 21 employees. 285,000 of the options were granted to the members of the Group Executive Management. Strike price was set to NOK 49.25 which was 10% above the share price at the time of allocation.

In 2015, The Board issued 500,000 share options (Programme 2015), corresponding to 0.5% of the number of shares, to 21 employees. 290,000 of the options were granted to the members of the Group Executive Management team. Strike price was set to NOK 51.49 which was 10% above the share price at the time of allocation.

In 2017, The Board issued 364,000 share options (Programme 2017), corresponding to 0.36% of the number of shares, to 24 employees. 190,000 of the options were granted to the members of the Group Executive Management team. Strike price was set to NOK 104.11 which was 10% above the share price at the time of allocation. After the allocation, the total number of outstanding share options corresponds to 1.36% of the total number of shares.

Share-based related costs for 2017 for the Group Executive Management was NOK 3 million in total for all programs.

No share options have been exercised in 2017.

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

	2017		2016	
NUMBER OF SHARE OPTIONS	NO.	WAEP*	NO.	WAEP*
Outstanding at the beginning of the year	980,000	48.28	1,313,800	41.61
Exercised during the year	-	-	-312,855	-
Granted during the year	364,000	100.61	-	-
Forfeited during the year	-	-	-20,945	-
Outstanding at year-end**	1,344,000	59.90	980,000	48.28
Exercisable options at year-end**	480,000	43.00	-	-

** Weighted average exercise price adjusted for dividend. Amounts in NOK.*
*** Expire dates are 25 October 2019 for 480,000 options, 27 October 2020 for 500,000 options and 17 February 2022 for 364,000 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. In the model, new option awards have been based on the 2017 assumptions in the following table. See Note 35 for share options issued in 2018.

ASSUMPTIONS	2017	2016
Expected dividend-yield (%)	-	-
Expected volatility (%)	28.4	-
Historical volatility (%)	28.0	-
Risk-free return (%)	1.5	-
Expected life of option (years)	5.0	-
Weighted average share price (NOK)	93.06	-

SHARE OPTIONS AND SHARES HELD BY GROUP EXECUTIVE MANAGEMENT AND RELATED PARTIES AS OF 31 DECEMBER	PROGRAMME 2014 STRIKE NOK 43.00*		PROGRAMME 2015 STRIKE NOK 46.49*		PROGRAMME 2017 STRIKE NOK 100.61*		SHARES	
	No. of share options		No. of share options		No. of share options		No. of shares**	
	2017	2016	2017	2016	2017	2016	2017	2016
Per A. Sørlie	60,000	60,000	60,000	60,000	60,000	-	146,421	145,990
Morten Harlem	40,000	40,000	45,000	45,000	21,000	-	46,390	45,959
Tom Erik Foss-Jacobsen	30,000	30,000	30,000	30,000	17,000	-	36,046	35,615
Gisle Løhre Johansen	25,000	25,000	25,000	25,000	15,000	-	20,490	20,059
Ole Gunnar Jakobsen	25,000	25,000	25,000	25,000	15,000	-	28,794	28,363
Tuva Barnholt	25,000	25,000	25,000	25,000	15,000	-	29,599	29,168
Per Bjarne Lyngstad	30,000	30,000	30,000	30,000	17,000	-	54,027	53,596
Dag Arthur Aasbø	25,000	25,000	25,000	25,000	15,000	-	46,527	44,096
Sveinung Heggen	25,000	25,000	25,000	25,000	15,000	-	8,535	8,084
TOTAL REMUNERATION	285,000	285,000	290,000	290,000	190,000	-	416 829	410,930

* *The strike price has been adjusted for dividends.*
** *Total share ownership including related parties.*

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 2017, Borregaard sold a total of 159,315 shares to employees. The share price was NOK 65.07 per share after deduction of a 30% discount. Costs related to the programme in 2017 amounted to approximately NOK 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. Sørlie, 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.

If the EVP Performance Chemicals, Morten Harlem, 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 12 months after the period of notice. 75% of any income from another permanent post during the 12-month period will be deducted.

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 2017 it was determined that The Board of Directors is remunerated at annual rates for the period up to the next General Meeting in 2018:

BOARD OF DIRECTORS			
Board chair	NOK	443,000	per year
Board member	NOK	266,000	per year
Observer	NOK	88,500	per year
Deputy for observer	NOK	6,800	per meeting
AUDIT COMMITTEE			
Committee chair	NOK	83,000	per year
Member	NOK	55,500	per year
COMPENSATION COMMITTEE			
Committee chair	NOK	49,700	per year
Member	NOK	38,700	per year

REMUNERATION OF EMPLOYEE-ELECTED BOARD MEMBERS

2017

Amounts in NOK thousand	BASE SALARY	BOARD ALLOW-ANCE	BENEFITS IN KIND/ BONUS	PENSION
Åsmund Dybedal	625	264	37	32
Ragnhild Anker Eide	778	264	41	72

REMUNERATION OF THE NOMINATION COMMITTEE

The chair of the Nomination Committee receives NOK 55,000 per year and an additional NOK 8,900 per meeting exceeding 4 meetings. Other members receive NOK 38,700 per year and an additional NOK 7,200 per meeting exceeding 4 meetings.

FEES TO GROUP EXTERNAL AUDITOR

Amounts in NOK million	2017	2016
Statutory audit	4	4
Other attestation services	1	1
Tax consultancy services	1	1
Other non-audit services	1	1
TOTAL FEES TO EY	7	7
STATUTORY AUDIT FEE TO OTHER AUDITORS	-	-


Borregaard

NOTE 10 Pensions

Borregaard mainly has defined contribution pension plans, but also has 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, 2018, to the defined benefit plan obligation is NOK 12 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 multi-employer 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 2017, 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 61 years are included, in average 762 employees in 2017, and the cost in 2017 was NOK 10 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 on the next page.

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: RP-2014 with MP-2014 adjusted backward to 2006 and projected forward using MP-2016.

ASSUMPTIONS DEFINED BENEFIT PLANS	NORWAY		USA	
	2017	2016	2017	2016
Discount rate	2.4%	2.6%	3.5%	4.0%
Rate of return on assets	NA	NA	4.0%	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	11.8	12.8	2.91	2.45

* *1G is NOK 93,634 as of 31 December 2017.*

BREAKDOWN OF NET PENSION COSTS

Amounts in NOK million	2017	2016
Contribution plans	-52	-46
Current service cost	-7	-13
NET PENSION COSTS (incl. national insurance contributions)	-59	-59

BREAKDOWN OF NET PENSION LIABILITIES AS OF 31 DECEMBER

Amounts in NOK million	2017	2016
Present value of funded pension obligations	-422	-388
Pension plan assets (fair value)	422	388
Net funded pension assets	-	-
Present value of unfunded pension obligations	-85	-96
CAPITALISED NET PENSION LIABILITIES	-85	-96

CHANGES IN THE PRESENT VALUE OF PENSION OBLIGATIONS DURING THE YEAR

Amounts in NOK million	2017	2016
Pension obligations 1 January	-484	-484
Current service cost (incl. national insurance contributions)	-7	-13
Interest on pension obligations	-20	-19
Actuarial gains and losses	-38	10
Benefits paid during the year	23	14
Currency translations	19	8
PENSION OBLIGATIONS 31.12	-507	-484

CHANGES IN PENSION PLAN ASSETS DURING THE YEAR

Amounts in NOK million	2017	2016
Pension plan assets (fair value) 1 January	388	380
Expected return on pension plan assets	15	15
Contributions and benefits paid during the year	-9	-
Actuarial gains and losses	47	1
Currency translations	-19	-8
PENSION PLAN ASSETS (FAIR VALUE) 31.12	422	388

BREAKDOWN OF PENSION PLAN ASSETS (FAIR VALUE) AS OF 31 DECEMBER

	2017	2016
Cash and cash equivalents and money market investments	1%	0%
Bonds	31%	33%
Shares	68%	67%
Total pension plan assets	100%	100%

SUMMARY OF NET PENSION LIABILITIES AND ADJUSTMENTS IN PAST FIVE YEARS

Amounts in NOK million	2017	2016	2015	2014	2013
Pension obligations	-507	-484	-484	-387	-305
Pension plan assets	422	388	380	323	261
Net pension liabilities	-85	-96	-104	-64	-44

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 9% decrease in pension liability and 2% decrease in pension cost while a 1% reduction in discount rate would imply an 11% increase in pension liability and 0% 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	2017	2016
External distribution costs	-388	-346
Repair and maintenance costs	-161	-155
Consultants, legal advisors, temporary staff, etc.	-87	-95
Rental/leasing (Note 12)	-83	-71
Other	-235	-234
TOTAL OTHER OPERATING EXPENSES	-954	-901

NOTE 12 Leases and leasing

Leases are classified according to the extent to which the risks and rewards associated with ownership of a leased asset lie with the lessor or the lessee. A lease is classified as a finance lease if it substantially transfers all risks and rewards incidental to ownership of an asset to the Company. Finance leases will be capitalised and depreciated over the lease period. Other leases are operating leases. Lease expenses related to operating leases are reported as current operating expenses.

Reported costs relating to operating leases reflect the minimum leasing cost during the term of notice.

LESSEE – OPERATING LEASES										
RENTED/LEASED PROPERTY, PLANT AND EQUIPMENT	MACHINERY/ PLANT		LAND, BUILDING, PROPERTY		FIXTURES, VEHICLES, ETC.		OTHER ASSETS		TOTAL	
Amounts in NOK million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
COST CURRENT YEAR	-13	-14	-17	-17	-12	-12	-41	-28	-83	-71
Cost next year	-13	-14	-30	-18	-12	-13	-28	-23	-83	-68
Total costs 2–5 years	-34	-35	-55	-33	-16	-19	-28	-23	-133	-110
Total costs after 5 years	-	-	-61	-61	-1	-1	-11	-8	-73	-70
TOTAL FUTURE LEASING COSTS	-47	-49	-146	-112	-29	-33	-67	-54	-289	-248

Borregaard does not have any financial leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective from 1 January 2019. See Note 3 for further details and expected effect on equity.

NOTE 13 Other income and expenses[1]

Other income and expenses[1] 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 EBITA adj.[1] are more relevant to the company.

Amounts in NOK million	2017	2016
Write-down and accrual related to an external lignin storage tank in Norway	-9	-
Insurance compensation for property damage, net of deductibles and impairment of assets (fire at the production site in Sarpsborg in October 2015)	-	73
Provision for measures to strengthen ground water barriers and for handling polluted soil around the chlor-alkali plant in Sarpsborg (Note 35)	-	-60
TOTAL OTHER INCOME AND EXPENSES[1]	-9	13

[1] *Non-GAAP measure, see page 111 for definition.*

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.

Amounts in NOK million	2017	2016
Interest income	3	4
Foreign exchange gain	196	127
TOTAL FINANCE INCOME	199	131
Interest costs	-21	-22
Foreign exchange loss	-191	-134
Other finance costs	-8	-7
TOTAL FINANCE COSTS	-220	-163
NET FINANCIAL ITEMS	-21	-32

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	2017	2016
Profit before tax	715	724
Current tax expense	-162	-173
Deferred tax expense	5	2
TOTAL TAX EXPENSE	-157	-171
Tax as % of Profit/loss before taxes	22.0%	23.6%

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 24% (25%). The main tax components are specified.

Amounts in NOK million	2017	2016
24% (25%) of profit before taxes (tax rate in Norway)	-172	-181
Foreign operations with other tax rates than 24% (25%)	-11	-7
Changes in tax rate	11	3
Joint venture	13	17
Permanent differences	4	1
Other current taxes	1	-2
Correction previous years	-1	-1
Other deferred taxes	-2	-1
THE GROUP'S TOTAL TAX EXPENSE	-157	-171

The corporate income tax rate in Norway was 24% in 2017. The corporate income tax rate in Norway was reduced to 23% from 1 January 2018. In USA, the federal corporate income tax rate was reduced from 35% to 21% from 1 January 2018. The reductions in tax rates are reflected in the calculation of deferred tax as of 31 December 2017.

Entities in countries with tax rates other than 24% have the net effect of increasing the tax expense. The business in the US, subject to a nominal tax rate of 38% in 2017 (38%) including state tax, is in particular contributing to an increased tax expense.

As the profit after tax from the joint venture 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.

DEFERRED TAX LIABILITIES

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

Amounts in NOK million	2017	2016
DEFERRED TAX ON TAX INCREASING/(REDUCING) DIFFERENCES		
Hedging taken to comprehensive income	-8	-37
Intangible assets and Property, plant and equipment	107	108
Net pension liabilities	-19	-28
Gain and loss tax deferral	3	4
Other non-current items	-20	-21
Total non-current items	63	26
Current receivables	-1	-2
Inventories	23	19
Provisions	-4	-5
Other current items	-9	-3
Total current items	9	9
Losses carried forward	-8	-8
Net deferred tax	64	27
Deferred tax assets, not recognised	7	5
NET DEFERRED TAX, RECOGNISED	71	32
Change in deferred tax	-39	-81
Change in deferred tax taken to comprehensive income	45	84
Acquisitions/sale of companies, translation effects, etc.	-1	-1
CHANGE IN DEFERRED TAX INCOME STATEMENT	5	2

NET DEFERRED TAX PRESENTED IN STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	2017	2016
Deferred tax	80	53
Deferred tax assets	9	21
NET DEFERRED TAX	71	32

LOSSES CARRIED FORWARD BY EXPIRY DATE

Amounts in NOK million	2017	2016
Without expiry date	29	26
TOTAL TAX LOSSES CARRIED FORWARD	29	26

TAX REDUCING TIMING DIFFERENCES WITH CORRESPONDING DEFERRED TAX ASSETS

2017

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	29	-	7	7
TOTAL	29	-	7	7
Other tax reducing timing differences	261	61	-	61
TOTAL TAX REDUCING TIMING DIFFERENCES	290	61	7	68
Netted deferred tax	-227	-52	-	-52
NET TAX REDUCING TIMING DIFFERENCES	63	9	7	16

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 2017. As of 31 December 2017 there are 99,957,469 diluted shares. There were 100,076,679 diluted shares as of 31 December 2016.

Amounts in NOK million	2017	2016
Profit/loss for the year after non-controlling interests for continuing operations	566	555
Profit/loss/gains discontinued operations	-	-
Profit/loss for the year after non-controlling interests	566	555
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	2017	2016
Earnings per share	5.66	5.55
Earnings per diluted share	5.66	5.55

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 2017	75	20	30	125
Additions	1	-	-	1
Depreciation/Amortisation	-10	-5	-	-15
Impairment	-	-	-	-
Currency translations	-3	1	2	-
Book value 31 December 2017	63	16	32	111
Initial cost 31 December 2017	162	140	55	357
Accumulated amortisation and impairment	-99	-124	-23	-246
Book value 31 December 2017	63	16	32	111
Book value 1 January 2016	83	23	31	137
Additions	3	2	-	5
Depreciation/Amortisation	-10	-5	-	-15
Impairment	-	-	-	-
Currency translations	-1	-	-1	-2
Book value 31 December 2016	75	20	30	125
Initial cost 31 December 2016	164	139	55	358
Accumulated amortisation and impairment	-89	-119	-25	-233
Book value 31 December 2016	75	20	30	125

In addition, Borregaard expensed NOK 133 million in 2017 in research and development costs (NOK 107 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 4-15%, 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 217 million which is not recorded in the statement of financial position as of December 31, 2017 (NOK 82 million as of 31 December 2016).

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 2017	896	1,215	334	26	2,471
Additions	69	238	650	10	967
Disposals	-3	-	-	-1	-4
Reclassification	-	-	-	-	-
Transferred assets under construction	57	174	-231	-	-
Impairment	-	-6	-	-1	-7
Depreciation	-56	-232	-	-6	-294
Currency translation	-3	1	-5	-	-7
Book value 31 December 2017	960	1,390	748	28	3,126
Initial cost 31 December 2017	1,858	5,454	748	180	8,240
Accumulated depreciation and impairment	-898	-4,064	-	-152	-5,114
Book value 31 December 2017	960	1,390	748	28	3,126
Book value 1 January 2016	813	1,068	218	23	2,122
Additions	61	256	294	6	617
Disposals	-	-1	-	-	-1
Reclassification	-6	-	6	-	-
Transferred assets under construction	80	103	-185	2	-
Impairment	-	-2	-	-	-2
Depreciation	-49	-207	-	-5	-261
Currency translation	-3	-2	1	-	-4
Book value 31 December 2016	896	1,215	334	26	2,471
Initial cost 31 December 2016	1,721	4,904	334	166	7,125
Accumulated depreciation and impairment	-825	-3,689	-	-140	-4,654
Book value 31 December 2016	896	1,215	334	26	2,471

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 2016 and 2017. 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 2017

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	-	-	-	36	36	1	36
Non-current derivatives	20, 29	2	-	48	-	-	48	-	48
TOTAL			-	48	-	36	84	1	84
CURRENT ASSETS									
Accounts receivable	22		-	-	-	761	761	-	761
Other current receivables	22		-	-	-	12	12	-	12
Current derivatives	22, 29	2	6	52	-	-	58	-	58
Cash and cash equivalents	23		-	-	-	180	180	180	180
TOTAL			6	52	-	953	1,011	180	1,011
NON-CURRENT LIABILITIES									
Non-current financial liabilities	27	2, 3	-	-	753	-	753	743	753
Non-current derivatives	24, 29	2	-	61	-	-	61	-	61
TOTAL			-	61	753	-	814	743	814
CURRENT LIABILITIES									
Current financial liabilities	27	2	-	-	283	-	283	283	283
Accounts payable	25		-	-	456	-	456	-	456
Other current liabilities	25		-	-	2	-	2	-	2
Current derivatives	25, 29	2	1	74	-	-	75	-	75
TOTAL			1	74	741	-	816	283	816
TOTAL FINANCIAL INSTRUMENTS			5	-35	-1,494	989	-535	-845	-535
Total measurement level 1			-	-	-	-	-	-	-
Total measurement level 2, assets			6	100	-	36	142	1	142
Total measurement level 2, liabilities			-1	-135	-836	-	-972	-826	-972
Total measurement level 3			-	-	-200	-	-200	-200	-200

OVERVIEW OF FINANCIAL INSTRUMENTS 2016

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	-	-	-	65	65	21	65
Non-current derivatives	20, 29	2	-	29	-	-	29	-	29
TOTAL			-	29	-	65	94	21	94
CURRENT ASSETS									
Accounts receivable	22		-	-	-	718	718	-	718
Other current receivables	22		-	-	-	70	70	-	70
Current derivatives	22, 29	2	1	8	-	-	9	-	9
Cash and cash equivalents	23		-	-	-	265	265	265	265
TOTAL			1	8	-	1,053	1,062	265	1,062
NON-CURRENT LIABILITIES									
Non-current financial liabilities	27	2, 3	-	-	535	-	535	525	535
Non-current derivatives	24, 29	2	-	72	-	-	72	-	72
TOTAL			-	72	535	-	607	525	607
CURRENT LIABILITIES									
Current financial liabilities	27	2	-	-	61	-	61	61	61
Accounts payable	25		-	-	457	-	457	-	457
Other current liabilities	25		-	-	2	-	2	-	2
Current derivatives	25, 29	2	1	117	-	-	118	-	118
TOTAL			1	117	520	-	638	61	638
TOTAL FINANCIAL INSTRUMENTS			-	-152	-1,055	1,118	-89	-300	-89
Total measurement level 1			-	-	-	-	-	-	-
Total measurement level 2, assets			1	37	-	65	103	21	103
Total measurement level 2, liabilities			-1	-189	-396	-	-586	-386	-586
Total measurement level 3			-	-	-200	-	-200	-200	-200

For current assets and liabilities, fair value is estimated close or equal to book value. The bond is determined as measurement level 3. The fair value of the bond is deemed to equal its booked value. The bond carries floating interest terms and the issuer's credit quality is not considered to have changed since the bond was issued in February 2014.

NOTE 20 Other assets (non-current)

Receivables are initially recognised at fair value which is generally the original invoice amount. Subsequently, receivables are recognised at amortised cost using the effective interest rate method, less write-downs. Receivables are written down if events potentially causing a loss have occurred that can be measured reliably and that will affect collection of the receivable. The interest rate element is disregarded if it is insignificant, which is the case for the majority of receivables.

Amounts in NOK million	2017	2016
Non interest-bearing derivatives (Note 19)	48	29
Receivables interest-bearing (Note 19)	1	21
Receivables non interest-bearing (Note 19)	35	44
TOTAL OTHER ASSETS	84	94

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 2017 there is a total write-down of inventories of NOK 9 million (NOK 5 million). There are no reversed write-downs from earlier years. Inventories are measured at net realisable value total NOK 45 million (NOK 8 million).

Amounts in NOK million	2017	2016
Raw materials	103	95
Work in progress	39	41
Finished goods and merchandise	592	490
TOTAL INVENTORIES	734	626

Amounts in NOK million	2017	2016
Wood costs	-370	-341
Energy costs	-414	-367
Other materials	-997	-924
Change in work in progress and finished goods	100	-54
COST OF MATERIALS	-1,681	-1,686

NOTE 22 Receivables (current)

Receivables are initially recognised at fair value which is generally the original invoice amount. Subsequently, receivables are recognised at amortised cost using the effective interest rate method, less write-downs. Receivables are written down if events potentially causing a loss have occurred that can be measured reliably and that will affect collection of the receivable. The interest rate element is disregarded if it is insignificant, which is the case for the majority of receivables.

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 continuously reviewed and are written down if there are objective criteria that indicate that an event causing a loss has occurred, and the amount of the loss can be reliably measured and will affect payment of the receivable.

Amounts in NOK million	2017	2016
Accounts receivable (Note 19)	761	718
Non interest-bearing derivatives (Note 19)	58	9
Other current receivables (Note 19)	12	70
Total financial receivables	831	797
Advance payment to suppliers/earned income	131	147
Tax receivables	9	4
TOTAL CURRENT RECEIVABLES	971	948

CHANGE IN PROVISIONS FOR BAD DEBT:

Amounts in NOK million	2017	2016
Provisions for bad debts 1 January	11	7
Bad debts recognised as expense (- income)	-1	6
Realised losses	-	-2
Translation effects	-	-
PROVISIONS FOR BAD DEBTS 31 DECEMBER	10	11

ACCOUNTS RECEIVABLES HAVE THE FOLLOWING DUE DATES:

Amounts in NOK million	2017	2016
Accounts receivable not due	663	651
Overdue receivables 1-30 days	89	64
Overdue receivables 31-60 days	9	6
Overdue receivables 61-90 days	2	4
Overdue receivables over 90 days	8	4
ACCOUNTS RECEIVABLE CARRYING AMOUNT 31 DECEMBER	771	729

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	2017	2016
TOTAL CASH AND CASH EQUIVALENTS	180	265

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	2017	2016
Pension liabilities (Note 10)	85	96
Derivatives (Note 19)	61	72
Other non-current liabilities	10	9
Other provisions (Note 35)	41	69
TOTAL	197	246

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	2017	2016
Accounts payable (Note 19)	456	457
Non interest-bearing derivatives (Note 19)	75	118
Non interest-bearing liabilities (Note 19)	2	2
Total financial liabilities non interest-bearing	533	577
Value-added tax, employee taxes, etc.	61	58
Accruals	306	302
TOTAL OTHER LIABILITIES	900	937

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 February 2014, Borregaard made a five-year NOK 400 million issue in the Norwegian bond market. A buy-back of NOK 200 million was made in October 2016. 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 new 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 ratio[1]: the ratio of Net Interest-Bearing Debt[1] to EBITDA adj.[1] shall not exceed 3,25:1 during the life of the Agreements.
2. Equity ratio[1]: the ratio of Total Consolidated Equity to Total Assets shall not be lower than 25%.
3. Interest coverage ratio: the ratio of Consolidated EBITDA adj.[1] 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 2017, see the table on the next page.

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 project 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 project completion. As of 31 December 2017, USD 31 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 2017, 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. A commercial paper amounting to NOK 200 million was issued in two separate tranches in late 2017 with maturity in late February 2018. 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

[1] Non-GAAP measure, saee page 111 for definition.

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.

The Group's capital consists of net interest-bearing debt and equity:

Amounts in NOK million	2017	2016
Total interest-bearing liabilities	1,026	586
Total interest-bearing receivables	-1	-21
Cash and cash equivalents	-180	-265
NET INTEREST-BEARING DEBT	845	300
Group's equity	2,996	2,713
Equity ratio[1]	56.2%	58.1%
Leverage ratio[1]	0.80	0.29
Interest coverage ratio	40.7	41.2

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 remaining proceeds from its NOK 200 million bond (maturing 2019, NOK 400 million issued originally of which NOK 200 million was bought back in 2016), 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[1], equity ratio[1] 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 2017, USD 31 million of the facility was drawn.

For liquidity and cash management purposes, multi-currency overdraft facilities of NOK 225 million from two banks providing cash management services are in place. In addition, Borregaard has issued commercial paper of NOK 200 million maturing late February 2018.

	BOOK VALUE		FAIR VALUE	
Amounts in NOK million	2017	2016	2017	2016
NON-CURRENT INTEREST-BEARING LIABILITIES				
Bank loans/bond	743	514	743	514
Other interest-bearing liabilities	-	11	-	11
Total non-current interest-bearing liabilities	743	525	743	525
CURRENT INTEREST-BEARING LIABILITIES				
Bank loans/overdraft/commercial paper	252	49	252	49
Other interest-bearing liabilities	31	12	31	12
Total current interest-bearing liabilities	283	61	283	61
Total interest-bearing liabilities	1,026	586	1,026	586
INTEREST-BEARING RECEIVABLES				
Non-current interest-bearing receivables	1	21	1	21
Cash and cash equivalents	180	265	180	265
Total interest-bearing receivables	181	286	181	286
NET INTEREST-BEARING LIABILITIES	845	300	845	300

[1] *Non-GAAP measure, see page 111 for definition.*

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 JANUARY 2017	CASH FLOWS	ACQUISITION	FOREIGN EXCHANGE MOVEMENT	FAIR VALUE CHANGES	31 DECEMBER 2017
Long-term borrowings	525	192	-	26	-	743
Short-term borrowings	61	218	-	4	-	283
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	586	410	-	30	-	1 026

	1 JANUARY 2016	CASH FLOWS	ACQUISITION	FOREIGN EXCHANGE MOVEMENT	FAIR VALUE CHANGES	31 DECEMBER 2016
Long-term borrowings	802	-258	-	-19	-	525
Short-term borrowings	9	55	-	-3	-	61
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	811	-203	-	-22	-	586

There were no drawings under the Bank Facilities Agreements as of 31 December 2017. Drawings originating from the bond issue, the term loan with Nordic Investment Bank, the commercial paper issue, and the term loan related to LignoTech Florida amounted to NOK 995 million as of 31 December 2017. The maturity profiles of the Group's interest-bearing liabilities are shown in the table below and are based on the current financing. See Note 26.

MATURITY PROFILE INTEREST-BEARING LIABILITIES AND UNUTILISED CREDIT FACILITIES

	GROSS INTEREST-BEARING LIABILITIES		UNUTILISED CREDIT FACILITIES	
Amounts in NOK million	2017	2016	2017	2016
Maturity < 1 year	283	61	225	225
Maturity 1-3 years	339	307	-	-
Maturity 3-5 years	173	97	1,500	1,500
Maturity 5-7 years	147	97	-	-
Maturity > 7 years	84	24	-	-
TOTAL	1,026	586	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, 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. The agreement between Eidsiva and Borregaard secures power deliveries for Borregaard's plants in Sarpsborg from January 2013 until December 2024. The deliveries constitute around 15% of Eidsiva's total annual production of power. 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 2017, Borregaard has entered into forward contracts totalling 204 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 below.

FOREIGN EXCHANGE CONTRACTS LINKED TO HEDGING OF FUTURE REVENUES AND COSTS

2017

Amounts in million

PURCHASE CURRENCY	AMOUNT	SALE CURRENCY	AMOUNT	MATURITY
USD	1	NOK	11	2018
USD	1	NOK	9	2019
NOK	1,177	USD	143	2018
NOK	895	USD	107	2019
NOK	534	USD	66	2020
EUR	5	USD	6	2018
NOK	803	EUR	86	2018
NOK	818	EUR	85	2019
NOK	529	EUR	54	2020
EUR	5	NOK	51	2018
SEK	48	NOK	47	2018

2016

Amounts in million

PURCHASE CURRENCY	AMOUNT	SALE CURRENCY	AMOUNT	MATURITY
USD	1	NOK	11	2017
USD	1	NOK	9	2019
NOK	1,171	USD	146	2017
NOK	1,162	USD	141	2018
NOK	741	USD	89	2019
EUR	5	USD	6	2017
NOK	619	EUR	70	2017
NOK	708	EUR	75	2018
NOK	475	EUR	49	2019
EUR	1	NOK	10	2017
SEK	87	NOK	84	2017

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.

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[1], 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 on the next page 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 interest rate curves are applied to estimate future interest payments. Similarly, forward prices are used to determine the future settlement amounts for electric power and currency derivatives.

[1] *Non-GAAP measure, see page 111 for definition.*

MATURITY PROFILE FINANCIAL LIABILITIES

2017

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	1,026	1,026	283	339	173	147	84
Interest payable	-	95	23	35	22	11	4
Accounts payable	456	456	456	-	-	-	-
Gross settled derivatives*	30	-	-	-	-	-	-
Inflow	-	-5,829	-3,043	-2,786	-	-	-
Outflow	-	5,859	3,061	2,798	-	-	-
TOTAL	1,512	1,607	780	386	195	158	88

2016

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	586	586	61	307	97	97	24
Interest payable**	-	41	12	18	9	2	-
Accounts payable	457	457	457	-	-	-	-
Gross settled derivatives*	152	-	-	-	-	-	-
Inflow	-	-5,888	-2,812	-3,076	-	-	-
Outflow	-	6,030	2,923	3,107	-	-	-
TOTAL	1,195	1,226	641	356	106	99	24

* *Including derivatives recognised as assets.*
** *Figures changed slightly from last year's report to be comparable to the 2017 figures.*

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. 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.

Borregaard considers its credit risk related to other financial instruments to be low. Firstly, only core 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	2017	2016
Cash and cash equivalents	180	265
Accounts receivable	761	718
Other current receivables	12	70
Non-current receivables	36	65
Derivatives	106	38
TOTAL	1,095	1,156

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

2017

Amounts in NOK million

CURRENCY	AMOUNT	MATURITY
NOK	36	2018
NOK	11	2019
NOK	4	2020

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 hypothetical 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

2017	ACCOUNTING EFFECTS ON			
	INCOME STATEMENT OF		EQUITY OF	
Amounts in NOK million	INCREASE	DECREASE	INCREASE	DECREASE
FINANCIAL INSTRUMENTS IN HEDGING RELATIONSHIPS				
Interest rate risk: 100 bp parallel shift in interest curves all currencies	-8	8	-	-
Currency risk: 10% change in FX-rate USD/NOK	-	-	-195	195
Currency risk: 10% change in FX-rate EUR/NOK	-	-	-170	170
Currency risk: 10% change in FX-rate SEK/NOK	-	-	4	-4

2016	ACCOUNTING EFFECTS ON			
	INCOME STATEMENT OF		EQUITY OF	
Amounts in NOK million	INCREASE	DECREASE	INCREASE	DECREASE
FINANCIAL INSTRUMENTS IN HEDGING RELATIONSHIPS				
Interest rate risk: 100 bp parallel shift in interest curves all currencies	-3	3	-	-
Currency risk: 10% change in FX-rate USD/NOK	-	-	-240	240
Currency risk: 10% change in FX-rate EUR/NOK	-	-	-135	135
Currency risk: 10% change in FX-rate SEK/NOK	-	-	6	-6

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. Borregaard currently has no embedded derivatives. Purchases and sales of derivatives are recognised at trade date.

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 – the hedging effectiveness is expected to be between 80% and 125%,
(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

	2017		2016	
Amounts in NOK million	ASSETS	LIABILITIES	ASSETS	LIABILITIES
CASH FLOW HEDGES				
Currency forwards, currency swaps	88	135	34	189
Power hedges	1	-	-	-
HEDGES OF NET INVESTMENTS				
Currency forwards, currency swaps	11	-	2	-
OTHER DERIVATIVES - FAIR VALUE CHANGES RECOGNISED IN INCOME STATEMENT				
Currency forwards, currency swaps, options	6	1	2	1
TOTAL DERIVATIVES	106	136	38	190

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.

In 2017, a loss of NOK 1.4 million (2016: loss of NOK 0.1 million) was recorded in the income statement as a result of hedging inefficiency. All expected cash flows which have been hedged during 2017 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	2017	2016
OPENING BALANCE HEDGING RESERVE BEFORE TAX	-289	-612
Reclassified to P/L - operating revenues	104	203
Reclassified to P/L - operating costs	-1	-2
Reclassified to P/L - net financial income	-	1
Reclassified to Balance sheet	2	-3
Fair value change cash flow hedges	4	105
Change in gain/(loss) on hedges of net investments in subsidiaries	17	19
CLOSING BALANCE HEDGING RESERVE BEFORE TAX	-163	-289
Deferred tax and tax payable hedging reserve	43	74
CLOSING BALANCE HEDGING RESERVE AFTER TAX	-120	-215

A negative hedging reserve means a negative recognition in the income statement in the future. In 2017, the operating profit in Borregaard decreased with NOK 72 million (NOK 115 million) related to hedging activities. Accumulated hedging losses from cash flow hedges recognised in the equity hedging reserve as of 31 December 2017 are expected to be recycled to the income statement as follows (before tax):

2018: NOK -33 million (NOK -111 million)
After 2018: NOK -13 million (NOK -44 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 2017-2018.

DERIVATIVES NOT INCLUDED IN IFRS HEDGING RELATIONSHIPS

There are also derivatives not included in hedging relationships according to IFRS for the following reasons:

- Derivatives are not designated in formal hedging relationships when changes in the fair value of hedging instruments and hedging objects are naturally offset in the income statement, for example currency risk on loans and other monetary items.
- Meeting strict IFRS hedge accounting criteria is not always possible or practical. Some of the other currency hedges are in this category.

Changes in the fair value of derivative instruments which are not part of a hedging relationship, are immediately recognised in the income statement.

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 2017	100,000,000	1	100
31 December 2016	100,000,000	1	100

THE 20 LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2017*

SHAREHOLDER	NUMBER OF SHARES	% OF CAPITAL
1 NN INVESTMENT PARTNERS	6,520,242	6.52%
2 ODIN FUND MANAGEMENT	5,122,334	5.12%
3 JPMORGAN ASSET MANAGEMENT	5,029,773	5.03%
4 NORDEA BANK AB	4,796,300	4.80%
5 MUST INVEST	4,300,000	4.30%
6 TAIGA FUND MANAGEMENT	4,180,210	4.18%
7 FOLKETRYGDFONDET	3,354,514	3.35%
8 ALFRED BERG	3,244,855	3.24%
9 ALLIANZ GLOBAL INVESTORS	2,578,148	2.58%
10 STOREBRAND INVESTMENTS	2,551,512	2.55%
11 VANGUARD GROUP	2,305,734	2.31%
12 PARETO FORVALTNING	1,894,129	1.89%
13 ABERDEEN STANDARD INVESTMENTS	1,769,073	1.77%
14 JANUS HENDERSON INVESTORS	1,641,106	1.64%
15 BLACKROCK INVESTMENT MANAGEMENT	1,569,386	1.57%
16 SR-FORVALTNING	1,334,174	1.33%
17 ARCTIC ASSET MANAGEMENT	1,328,978	1.33%
18 DEGROOF GESTION INSTITUTIONNELLE	1,250,000	1.25%
19 DIMENSIONAL FUND ADVISORS	1,147,963	1.15%
20 MORGAN STANLEY	1,130,087	1.13%
Total shares	57,048,518	57.05%

** 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 2016	493,880	493,880	24
Exercise of share options in 2016	-312,855	-312,855	-
Shares to employees	-	-	-
Purchase/Buy-back of treasury shares	162,355	162,355	-
31 December 2016	343,380	343,380	29
Exercise of share options in 2017	-	-	-
Shares to employees	-159,315	-159,315	-
Purchase/Buy-back of treasury shares	300,000	300,000	-
31 December 2017	484,065	484,065	39

NOTE 31 Non-controlling interests

As of 31 December 2017, non-controlling interests consist of LignoTech Ibérica SA and LignoTech Florida LLC. Borregaard owns 60% of LignoTech Ibérica located in Spain, and 55% LignoTech Florida located in USA. The entities are fully consolidated into the Borregaard Group's financial statements and minority interests are recognised.

Spending related to construction of the LignoTech Florida plant started late 2016 and has continued in 2017. The plant is expected to be completed in mid-2018. As of 31 December 2017, non-current assets in LignoTech Florida amounted to NOK 512 million, non-current liabilities amounted to NOK 254 million and total equity was NOK 241 million.

Operations in non-controlling interests have not been material for the Group in 2017.

Amounts in NOK million	2017	2016
CHANGES IN NON-CONTROLLING INTERESTS:		
Non-controlling interests 1 January	34	5
Non-controlling interests' share of profit/loss	-8	-2
Additions of non-controlling interests	84	31
Translation differences, etc.	-3	-
NON-CONTROLLING INTERESTS 31 DECEMBER	107	34

NOTE 32 Pledges and guarantees

By virtue of the joint venture agreement with Sappi Saiccor, Borregaard AS is liable for export accounts receivable (86 million NOK 31.12.2017) 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 project completion. 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 Saiccor. 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 765,000 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.

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 132 million in government grants in 2017 (NOK 112 million)[4]. Of this amount, NOK 103 million was recognised as reduced costs (NOK 89 million), while NOK 29 million was recognised as a reduction of the acquisition cost of the asset concerned (NOK 23 million). The grants are provided by Norwegian government and the European Union mainly on research and development projects, environmental investments and CO_2 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 programme[5], 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.

[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.*

NOTE 35 Other matters and subsequent events

Environment, Health and Safety issues (EHS): Sulphur dioxide (SO_2) is one of the most important chemicals used in the productions processes at Borregaard. There are several EHS regulations to secure safe operations, safe working environment and low emissions to environment. The use of SO_2 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 is continually working on measures to reduce the frequency of extraordinary emissions of SO_2 and the inherent risk associated with SO_2 in parts of the production processes. Estimates for future investments related to reduced SO_2 emissions and reduced SO_2 risk in the production processes are uncertain and may depend on among other things technological developments and future regulatory requirements.

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. A plan for cleaning and deposition of polluted soil areas downstream of the ground water barrier will be submitted for approval in 2018. Borregaard reports progress to the Norwegian Environment Agency quarterly.

A total provision of NOK 60 million was recognised in 2016, see Note 13. Remaining provision as of 31 December 2017 is NOK 43 million.

Opsund landfill: The permanent closure of the Opsund landfill continues according to the plan. Remaining provision as of 31 December 2017 is NOK 13 million.

Shares to employees: As part of the employee share programme, Borregaard has sold a total of 309,301 shares to employees in February 2018. The share price was NOK 55.05 per share including a 25% discount. Cost in 2018, including administration costs, related to the employee share programme amounts to approximately NOK 6.5 million. For more details, see notifications to the Oslo Stock Exchange on 5, 12 and 28 February 2018.

Share options issued: In February 2018, 400,000 share options at a strike price of NOK 80.00 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 7 February 2018.

Treasury shares: During February and March 2018, Borregaard has purchased a total of 300,000 own shares. After having sold shares to employees as part of the discounted shares to employees program and purchased own shares, the total amount of treasury shares held by Borregaard is 474,764. See notifications to the Oslo Stock Exchange 19 February and onwards.

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
2017

INCOME STATEMENT

Amounts in NOK thousand	NOTE	2017	2016
Other operating expenses	5, 9	-6,146	-5,787
OPERATING PROFIT		-6,146	-5,787
Finance income	6, 9	518,035	523,648
Finance costs	6	-4,507	-10,754
Financial items, net	6, 9	513,528	512,894
PROFIT/LOSS BEFORE TAXES		507,382	507,107
Taxes	8	-121,841	-126,841
PROFIT/LOSS FOR THE YEAR		385,541	380,266
Proposed dividend		-199,032	-348,798

STATEMENT OF FINANCIAL POSITION

Amounts in NOK thousand	NOTE	2017	2016
ASSETS			
Deferred tax assets	8	26	43
Shares in subsidiaries	7	1,158,347	1,158,347
Loans to Group companies	9	935,087	917,553
Non interest-bearing receivables		146	271
NON-CURRENT ASSETS		2,093,606	2,076,214
Receivables	9	700,525	500,257
Cash, cash equivalents and deposits in Group cash pool		2,687	2,353
CURRENT ASSETS		703,212	502,610
TOTAL ASSETS		2,796,818	2,578,824
EQUITY AND LIABILITIES			
Share capital	11	100,000	100,000
Treasury shares		-484	-343
Share premium		1,758,347	1,758,347
Other paid in equity		15,614	8,447
Retained earnings		201,245	35,327
EQUITY		2,074,722	1,901,778
Interest-bearing liabilities	10	200,000	200,000
NON-CURRENT LIABILITIES		200,000	200,000
Interest-bearing liabilities	10	200,000	-
Dividends		199,032	348,798
Income tax payable	8	121,824	126,831
Accounts payable	9	343	729
Other liabilities		897	688
CURRENT LIABILITIES		522,096	477,046
EQUITY AND LIABILITIES		2,796,818	2,578,824

Sarpsborg, 13 March 2018
The Board of Directors of Borregaard ASA

JAN ANDERS OKSUM
(Chair)

TERJE ANDERSEN

KRISTINE RYSSDAL

MARTHA KOLD BAKKEVIG

JON ERIK REINHARDSEN

ÅSMUND DYBEDAHL

RAGNHILD ANKER EIDE

PER A. SØRLIE
(President and CEO)

CASH FLOW

Amounts in NOK thousand	2017	2016
Profit/loss before taxes	507,382	507,107
Changes in net working capital, etc.	84	-349,503
Taxes paid	-126,831	-43,459
CASH FLOW FROM OPERATING ACTIVITIES	380,635	114,145
CASH FLOW FROM INVESTING ACTIVITIES	-	-
Dividends	-348,306	-149,275
Proceeds from sales of treasury shares	14,810	19,584
Buy-back of treasury shares	-28,867	-9,845
Net paid to/from shareholders	-362,363	-139,536
Change in interest-bearing liabilities	200,000	-200,000
Change in interest-bearing receivables	-217,938	227,377
Change in net interest-bearing liabilities	-17,938	27,377
CASH FLOW FROM FINANCING ACTIVITIES	-380,301	-112,159
CHANGE IN CASH AND CASH EQUIVALENTS	334	1,986
Cash and cash equivalents as of 1 January	2,353	367
Change in cash and cash equivalents	334	1,986
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	2,687	2,353

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 2015	100,000	-494	1,758,347	2,734	-	1,860,587
Profit/loss for the year					380,266	380,266
Proposed dividend 2015				31,936	117,323	149,259
Actual paid-out dividend in 2016				-31,936	-117,339	-149,275
Proposed dividend for 2016					-348,798	-348,798
Buy-back/sales of treasury shares		151		5,713	3,875	9,739
EQUITY 31 DECEMBER 2016	100,000	-343	1,758,347	8,447	35,327	1,901,778
Profit/loss for the year					385,541	385,541
Proposed dividend 2016				-	348,798	348,798
Actual paid-out dividend in 2017				-	-348,306	-348,306
Proposed dividend for 2017					-199,032	-199,032
Buy-back/sales of treasury shares		-141		7,167	-21,083	-14,057
EQUITY 31 DECEMBER 2017	100,000	-484	1,758,347	15,614	201,245	2,074,722

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 Basis for preparation

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

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 project completion.

NOTE 05 Remuneration and contractual arrangements

REMUNERATION OF THE BOARD OF DIRECTORS

In the General Meeting of the Company's shareholders in April 2017 it was determined that The Board of Directors is remunerated at annual rates for the period up to the next General Meeting in 2018:

BOARD OF DIRECTORS			
Board chair	NOK	443,000	per year
Board member	NOK	266,000	per year
Observer	NOK	88,500	per year
Deputy member	NOK	6,800	per meeting
AUDIT COMMITTEE			
Committee chair	NOK	83,000	per year
Member	NOK	55,500	per year
COMPENSATION COMMITTEE			
Committee chair	NOK	49,700	per year
Member	NOK	38,700	per year

REMUNERATION OF THE NOMINATION COMMITTEE

The Chair of the Nomination Committee receives NOK 55,000 per year and an additional NOK 8,900 per meeting exceeding 4 meetings. Other members receive NOK 38,700 per year and an additional NOK 7,200 per meeting exceeding 4 meetings.

SHAREHOLDINGS OF CEO AND MEMBERS OF THE BOARD OF DIRECTORS

	NUMBER OF SHARES*
PRESIDENT & CEO	
Per A. Sørlie	146,421
SHAREHOLDER-ELECTED BOARD MEMBERS	
Jan A. Oksum	10,000
Terje Andersen	3,571
Martha Kold Bakkevig	2,084
Jon Erik Reinhardsen	4,000
Kristine Ryssdal	2,100
EMPLOYEE-ELECTED BOARD MEMBERS	
Ragnhild Anker Eide	2,443
Åsmund Dybedahl	11,895
EMPLOYEE-ELECTED BOARD OBSERVERS	
Bente Seljebakken Klausen	1,020
Roy Kåre Appelgren	431
TOTAL	183,965

** Total share ownership including related parties*

FEES TO EXTERNAL AUDITOR

Amounts in NOK thousand	2017	2016
Statutory audit	402	348
Tax consultancy services	-	19
TOTAL	402	367

NOTE 06 Finance income and finance costs

Amounts in NOK thousand	2017	2016
Group contribution	500,000	500,000
Interest income from Borregaard AS	18,001	23,623
Interest income	34	25
TOTAL FINANCE INCOME	518,035	523,648
Interest costs	-4,504	-8,550
Foreign exchange loss	-3	-4
Other finance costs	-	-2,200
TOTAL FINANCE COSTS	-4,507	-10,754
FINANCIAL ITEMS, NET	513,528	512,894

Other finance costs is related to the buy-back of Borregaard's bond. See Note 10.

NOTE 07 Shares in subsidiaries

SHARES AND OTHER SECURITIES

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 Sarpsborg, 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%
Nutracell 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 Ltda	100%
LignoTech Brasil Produtos de Lignina Ltda	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%

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	2017	2016
Profit before tax	507,382	507,107
Current tax expense	-121,824	-126,831
Change in deferred tax	-17	-10
TOTAL TAX EXPENSE	-121,841	-126,841
Tax as % of Profit/loss before taxes	24%	25%

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	2017	2016
DEFERRED TAX ON TAX INCREASING/REDUCING DIFFERENCES		
Provisions	-26	-43
DEFERRED TAX LIABILITIES/ASSETS	-26	-43
This year's change in deferred tax	-17	-10
CHANGE IN DEFERRED TAX INCOME STATEMENT	-17	-10

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	2017	2016
24% (25%) of profit before taxes	-121,772	-126,777
Change in tax rate	-2	-2
Other non-deductible expenses	-67	-62
TOTAL TAX EXPENSE	-121,841	-126,841

The tax rate in Norway was reduced from 24% to 23% from 1 January 2018. This is considered in the calculation of deferred taxes as of 31 December 2017.

NOTE 09 Related parties

INTERCOMPANY RELATIONS WITH BORREGAARD AS

Amounts in NOK thousand	2017	2016
Other operating expenses (Note 5)	3,101	3,020
Group contribution	500,000	500,000
Interest income from Group companies	18,001	23,623
Loans to Group companies*	935,087	917,553
Current receivable Group contribution	500,000	500,000
Short-term loans to Group companies*	200,404	-
Accounts payable	336	729

** The loan is interest-bearing and the interest is calculated in accordance with market conditions.*

NOTE 10 Interest-bearing liabilities

UNSECURED BOND LOAN

On 14 February 2014 Borregaard issued NOK 400 million as a 1st tranche of an open bond issue with a borrowing limit of NOK 600 million. The bond issue has a 5-year tenor, and is priced at 3 months NIBOR plus 95 basis points. Settlement of the transaction took place on 26 February 2014. Maturity is 26 February 2019.

On 31 October 2016, a buy-back of NOK 200 million was made on Borregaard's bond. Post settlement, the Company holds NOK 200 million nominal of the total NOK 400 million nominal outstanding amount.

COMMERCIAL PAPER

A commercial paper amounting to NOK 200 million was issued in two separate tranches in late 2017 with maturity in late February 2018.

NOTE 11 Other matters

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 2017, 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, 13 March 2018

THE BOARD OF DIRECTORS OF BORREGAARD ASA

JAN ANDERS OKSUM
Chair

TERJE ANDERSEN

KRISTINE RYSSDAL

MARTHA KOLD BAKKEVIG

JON ERIK REINHARDSEN

ÅSMUND DYBEDAHL

RAGNHILD ANKER EIDE

PER A. SØRLIE
President and CEO

AUDITOR´S REPORT

Statsautoriserte revisorer
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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 statement of financial position as at 31 December 2017, the income statement, 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 statement of financial position as at 31 December 2017, the income statements, 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 2017, and of its financial performance and its cash flows for the year ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

Key audit matters

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

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

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. Future estimated cash flows to clean up affected areas aue uncertain, dependent on requirements from authorities that may change over time, and cost of suggested measures. Further, the application of accounting standards to recognize or release provisions requires judgement. Hence, we consider recognition and measurement of environmental provisions to be a key audit matter.

We read 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 for use of estimates, note 24 for provisions other current liabilities and note 35 about other matters and subsequent events.

Revenue recognition and cut-off

The Group has customers worldwide and revenue is recognized when the significant risks and reward of ownership to the goods is transferred. The assessment of transfer of risk and reward is complex due to a large number of shipments and various trade terms. Consequently, there is a risk that significant transactions near yearend are recognized in the incorrect period. We therefore consider revenue recognition and cut-off of revenue to be a key audit matter.

We obtained an understanding of the process for revenue recognition and cut-off. We evaluated the Group's considerations for transfer of risk and rewards of ownership and tested controls performed by Group management. For transactions recorded close to yearend we compared trade terms and status of shipments to underlying contractual information and other supporting documentation to assess correct cut off. We analyzed the level of accruals for invoiced unrecognized revenue compared to previous periods and as a percentage of sales.

We refer to disclosures in note 2 for revenue recognition principles.

Hedging of cash flows related to sales

The Group is exposed to currency risk as a significant part of sales are invoiced in other currencies than the Groups' functional currency. A portion of future forecasted cash flows from sales are hedged using currency forward contracts. Borregaard applies hedge accounting for currency forward contracts. The use of hedge accounting requires effective hedging relationships and supporting hedging documentation, and as accounting for cash flow hedging related to sales has significant impact on the financial statements for Borregaard we consider this a key audit matter.

We assessed the Group's hedge accounting by comparing accounting treatment with accounting standards. We tested, on a sample basis, that the cash flow hedging documentation and the hedge relationships between forecasted sales and hedging instruments meets the requirements in the accounting standards. Furthermore, we considered the prospective and retrospective effectiveness testing to assess whether the hedge relationships are effective. We obtained external confirmations for unrealized forward contracts at yearend. 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 financial instruments.

Building a better working world

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 Director (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and in the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report 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 have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 16 March 2018
ERNST & YOUNG AS

Kjetil Rimstad
State Authorised Public Accountant (Norway)

HISTORICAL KEY FIGURES

	DEFINITIONS		2017	2016	2015	2014	2013
PROFIT & LOSS							
Operating revenues		(mill.NOK)	4,618	4,492	4,164	3,939	3,886
EBITA adj.[1]		(mill.NOK)	749	747	497	486	489
Amortisation intangible assets		(mill.NOK)	-4	-4	-1	-	-2
Other income and expenses[1]		(mill.NOK)	-9	13	37	-30	14
Operating profit		(mill.NOK)	736	756	533	456	501
EBITA adj. margin[1]		(%)	16.2	16.6	11.9	12.3	12.6
Ordinary profit before taxes		(mill.NOK)	715	724	506	430	460
Profit/loss for the year		(mill.NOK)	558	553	384	332	331
CASH FLOW							
Cash flow from operating activities		(mill.NOK)	780	1,081	563	600	526
RETURN							
Return on capital employed[1]		(%)	19.1%	21.7%	15.6%	16.5%	16.9%
CAPITAL AS OF 31 DECEMBER							
Booked value of total assets		(mill.NOK)	5,333	4,671	4,169	3,748	3,427
Market capitalisation	1	(mill.NOK)	8,108	8,469	4,901	5,429	2,984
Equity ratio[1]		(%)	56.2	58.1	49.4	52.0	54.2
Net interest-bearing debt[1]		(mill.NOK)	845	300	624	608	728
Leverage ratio[1]			0.80	0.29	0.82	0.83	1.03
Interest coverage ratio	2		40.7	41.2	24.0	16.4	14.5
Share of floating interest-bearing liabilities	3	(%)	100	100	100	100	100
SHARES AS OF 31 DECEMBER							
Number of shares outstanding diluted		(x 1,000)	99,957	100,077	99,735	99,578	99,592
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)	81.50	84.50	49.40	55.50	30.20
Earnings per share diluted	4	(NOK)	5.66	5.55	3.87	3.35	3.36
Ordinary dividend per share (proposed for 2017)		(NOK)	2.00	1.75	1.50	1.25	1.10
Extraordinary dividend		(NOK)	-	1.75	-	-	-
Payout ratio	5	(%)	35.34	63.06	38.76	37.31	32.74
Price/earnings ratio	6		14.40	15.23	12.76	16.57	8.99
PERSONELL							
Number of man-years at 31 December (excluding JV)[2]			1,065	1,008	1,027	1,028	1,002

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 + Net interest expenses)/(Net interest expenses)
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] *Non-GAAP measure, see page 111 for definition.*
[2] *Excluding employees in the joint venture LignoTech South Africa.*

NON-GAAP 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 non-GAAP 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 non-GAAP 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

EBITA ADJUSTED (EBITA ADJ.)

EBITA adj. is defined by Borregaard as operating profit before amortisation and other income and expenses.

EBITA ADJ. MARGIN

EBITA adj. margin is defined by Borregaard as EBITA adj. divided by operating revenues.

EBITDA ADJUSTED (EBITDA ADJ.)

EBITDA adj. 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 10) divided by last twelve months' (LTM) EBITDA adj.

NET INTEREST-BEARING DEBT

Net interest-bearing debt is defined by Borregaard as interest-bearing liabilities minus interest-bearing assets (see Note 10).

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.

RETURN ON CAPITAL EMPLOYED (ROCE)

Return on capital employed (ROCE) is defined by Borregaard as last twelve months' (LTM) EBITA adj. divided by average capital employed based on the ending balance of the last five quarters.

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