

## **Appendix to the Annual General Meeting**

### **Item 3: Guidelines for Remuneration of Senior Management**

The requirements of the Public Limited Liability Companies Act make it appropriate to divide this point into three sections:

1. The board's statement on remuneration policy
2. Advisory vote on remuneration policy
3. Binding vote on share-related remuneration

#### ***3.1. The board's statement on remuneration policy***

In connection with the listing of Borregaard in 2012, the company's guidelines for remuneration for persons in senior positions were established. The guidelines have since been revised and further developed, and are divided into guidelines for base salaries, pensions, annual bonuses and long term incentives (LTIs)/options. Comparable data from an external company are used in the assessment of remuneration levels.

In connection with the listing, share options were issued with separate regulations. Subsequent allocations, in 2014, 2015 and 2017, were based on new regulations which the board was authorised to implement by the general meetings of those years.

The board and its compensation committee have used the approved guidelines as the basis for remuneration for employees in senior positions. The board has also ensured that the exercise of options and bonus allocations are in line with the guidelines and intentions of the schemes.

The board declares that the company's remuneration policy has been adhered to during 2016.

#### **The board's proposal**

*The general meeting takes the board's statement on remuneration policy under consideration.*

### **3.2. Advisory vote on remuneration policy**

The company's general guidelines for policies on remuneration and associated conditions:

- In general, the conditions for remuneration must be competitive
- The schemes must be simple, long-term and sufficiently flexible
- Remuneration schemes must ensure consistency between the company's goals and results and the various elements of the individual terms and conditions

#### The main elements of the remuneration schemes

*Base salary* - The level should be close to the median for comparable companies and positions.

*Pension scheme* - Should be based on the intention of the established defined contribution scheme to provide the same relative pension irrespective of salary level.

*Annual bonus scheme* - Pre-defined criteria that emphasise good performance and progress.

The criteria include the return on capital employed (ROCE), economic value added (EVA), safety matters and sick leave in addition to personal goals. The maximum annual bonus is 50% of annual base salary. The defined level for "good performance" is about 30%. If it appears that errors have occurred in the basis for bonuses paid during the last three years, the company has the right to correct this in future bonus payments.

*Long-term incentive scheme* - Option- or cash-based scheme linked to movements in the share price.

(For more detailed guidelines, see point 3.3)

#### **The board's proposal**

*The general meeting recommends the presented guidelines for determining remuneration for senior personnel for the 2017 financial year.*

### **3.3. Vote on share incentives**

The general meeting must approve the guidelines for share-related remuneration, including the right of leaders to participate in the “Shares for Employees” scheme which involves the possibility to buy a limited number of shares at a discount.

### **Guidelines for the Borregaard share-related option scheme**

#### General information about the scheme

The Borregaard long-term incentive (LTI) scheme is a share option scheme related to the share price and forms part of an overall remuneration programme for employees in senior positions. The option scheme implies that employees in the scheme can obtain share options that entitle them to purchase a defined number of shares at a given value after a fixed period of time. When the options are exercised, the sale of these shares will realise a gain. In order to adapt the scheme to its objectives, opportunities for gain are subject to a number of restrictions.

The board of directors will consider on an annual basis whether to allocate options, and can provide recommendations 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 board and its compensation committee will ensure that the allocation of options and the administration of the scheme comply with the intentions. For the allocations in 2014, 2015 and 2017, the strike price was set at 10% above the price on the date of allocation.

The board proposes two adjustments to the rules on restrictions on the allocation of options. In view of the considerable increase in the value of the company since the rules were established, the board will propose restricting the overall maximum number of outstanding stock options from 2.5% to 2.0% of the company's shares. The board also proposes a reduction from 1.0% to 0.8% in the maximum number of options that may be awarded annually. This means that the option scheme, and the company's expenses for this, will be reduced somewhat overall. The board considers that the main restriction at the individual level is on the gain (per calendar year). No changes have been made to this, but the board proposes deleting the clause that limits allocation to individuals, namely “The maximum annual allocation of options on an individual basis is the number of options multiplied by the share price on the date of allocation which corresponds to two annual salaries for the CEO and one annual salary for other employees.” The Board believes that the restrictions proposed for the total allocation and the current limits on gain are sufficient constraints at the individual level.

The guidelines are therefore proposed as follows:

#### The purpose of the scheme

The scheme is based on two main factors:

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

#### Allocation criteria

Options may be allocated to employees in certain senior positions where there is a particular need for a long-term commitment to the company:

- The CEO and other members of the group executive management as well as key personnel and specialists in the business areas and corporate staff, based on the following criteria:
  - The employee/position is particularly important/critical for achievement of the company's goals.

- The employee has shown a good performance in line with company culture and values.
- The employee is considered difficult to replace, and there may be a risk that he/she will leave the company.
- The scheme/rights are only valid as long as the option holder is employed (has not already resigned) in the Group.
- The scheme does not automatically follow a particular position, and one or more allocations do not entitle the holder to subsequent allocations.

#### Restrictions on allocations

- The total annual allocation of new share options may be no more than 0.8% of the company's shares. The total number of outstanding options may be no more than 2.0% of the company's shares.

#### Restrictions on gain

- Share options must have a pre-defined strike price based on a share price increase determined at allocation, where actual interest rates are part of the assessment of the strike price.
- The strike price is adjusted for dividends and other factors relevant to share capital (e.g. buy-backs, write-downs and new share issues).
- The total individual pre-tax gain on exercising the option per calendar year may not exceed two annual salaries for the CEO and one annual salary for other employees.

#### Time limits

- The options may not be exercised earlier than three years after their allocation, and must be exercised within two years of the first opportunity.

#### 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.
- 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 CEO and one annual salary for other employees.

#### Discounted shares for employees

In 2013, Borregaard established a scheme that allowed employees to buy a limited number of shares at a discount of 30% off the market price with a maximum amount of NOK 28 000 (after the discount). The scheme was also implemented in 2014, 2015 and 2017. Every year, the board will decide whether the scheme will be implemented.

The scheme is available to all Borregaard employees, with the exception of a few countries where practical/legal circumstances make this difficult. Between 200 and 450 employees have participated in the scheme. Senior staff are entitled to participate in the scheme. The scheme is also planned for the upcoming general meeting period.

#### **The board's proposal**

*The general meeting approves the guidelines for share-related remuneration.*