



Borregaard

ANNUAL REPORT



ANNUAL REPORT 2016



"Borregaard provides sustainable solutions based on renewable raw materials and unique competence"

CONTENTS

THE BORREGAARD GROUP	04
MESSAGE FROM THE CEO	06
THE BOARD OF DIRECTORS	08
REPORT OF THE BOARD OF DIRECTORS	10
SUSTAINABILITY AND CORPORATE RESPONSIBILITY	16
CORPORATE GOVERNANCE	36
THE GROUP EXECUTIVE MANAGEMENT	44
CONSOLIDATED FINANCIAL STATEMENTS 2016	46
BORREGAARD ASA – FINANCIAL STATEMENTS 2016	89
STATEMENT FROM THE BOARD OF DIRECTORS	97
AUDITOR'S REPORT	98
HISTORICAL KEY FIGURES	102
NON-GAAP MEASURES ¹	103
GROUP DIRECTORY	104

¹ Non-GAAP measure, see page 103 for definition.



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 2nd generation bioethanol.

OTHER BUSINESSES

Only producer of wood-based vanillin. Largest producer of C₃-aminodiols for non-ionic X-ray contrast media. Pioneer in cellulose fibrils.

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.

BORREGAARD IN A NUTSHELL

- A biorefinery with high value-added
- Specialisation in global niches
- Strong innovation ability and continuous improvement
- Competence is 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% 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 outside Norway dedicated to producing lignin-based products. The company also has sales offices in 16 countries in Europe, Asia, Africa² and the Americas serving its global customer base. At the end of 2016, the Group employed 1,008 man-years².

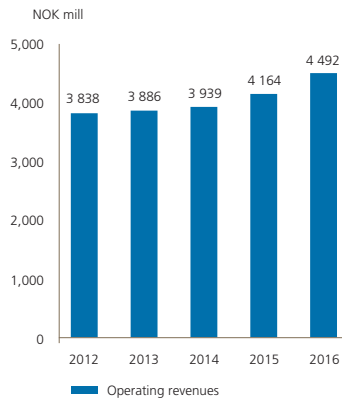
SPECIALISATION IN GLOBAL NICHES

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 its product portfolio also includes vanillin, second generation bioethanol, fine chemicals and cellulose fibrils.

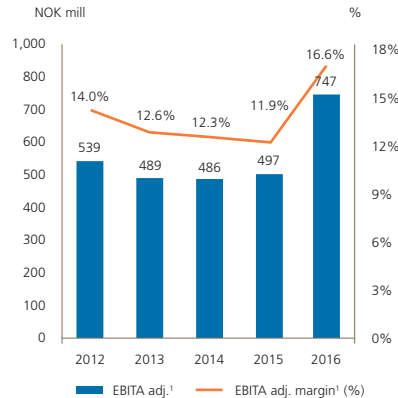
² See Note 6 in the Consolidated Financial Statements regarding treatment of the Joint Venture in South Africa.

KEY FIGURES

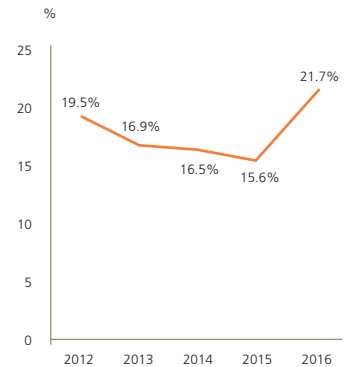
OPERATING REVENUES



EBITA adj.¹



ROCE¹



¹ Non-GAAP measure, see page 103 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 comprehensive understanding of its markets, production of advanced and specialised products and local presence in the form of a global sales and marketing organisation.

COMPETENCE IS THE MAIN COMPETITIVE ADVANTAGE

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

Borregaard has a leading research centre combining wood chemistry and fine chemistry and focusing on the development of new or improved products, applications and technologies. The Group had 97 employees in R&D as of 31 December 2016, of whom 76 were based in Sarpsborg.

BORREGAARD IS ORGANISED IN 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 includes trading of 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 in the production of cellulose ethers, cellulose acetate and other speciality grades. The production and sale of second generation bioethanol are 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. Borregaard 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; SenseFi for food products and Exilva for industrial applications. Other Businesses also includes sales of basic chemicals from the chlor-alkali production in Sarpsborg and unallocated corporate costs.

MESSAGE FROM THE CEO

Borregaard's specialisation strategy is based on innovation and continuous improvement. In 2016 we reached several important milestones on our strategic agenda. Looking forward, we are now well positioned to deliver both volume and value growth, as well as productivity improvement.



At the beginning of 2014, Borregaard announced three strategic priorities that described our aspirations for the future and set the direction for the company's development over the next five to ten years:

- Volume growth and specialisation in Performance Chemicals
- Increased specialisation and improved productivity at the Sarpsborg biorefinery
- Establishment of the Exilva project as a new business area for Borregaard

Following this announcement, we have worked diligently on a number of initiatives to deliver on these priorities. We have made several important investment decisions during this period, and the main focus going forward will be on execution in the marketplace.

MARKET INTRODUCTION OF NEW LIGNIN VOLUMES

We are in the process of establishing a new lignin operation in Florida, USA. LignoTech Florida is owned 55 percent by Borregaard and 45 percent by Rayonier Advanced Materials. Phase one of the project is expected to be completed mid-2018 and will represent a capacity of 100,000 metric tonnes dry solids lignin. Phase two will add another 50,000 tonnes. We are also increasing the capacity by 20,000 tonnes at LignoTech South Africa, our joint venture with Sappi. The new capacity will be available from mid-2017. Finally, our joint lignin operation in Spain resumed operations in the 4th quarter of 2016 after a standstill of more than three years, as our lignin raw material supplier and partner restarted its pulp mill operation.

Altogether, these developments represent a potential volume increase of between 40 and 50 percent from today's sales level over the next five years. We are currently hard at work to secure a successful market introduction of these new volumes.

DEVELOPMENT OF THE SARPSBORG BIOREFINERY

A key element in Borregaard's specialisation strategy is to secure maximum flexibility in the marketplace. During 2016 we completed the installation of new technology for large-scale production of the new Ice Bear product range in Speciality Cellulose. With this high-purity cellulose we are targeting new "niches within the niches" as well as improving our offering to existing markets. The target applications include acetate plastics, LCD technology, tire cord, food and pharma. We are currently investing NOK 63 million in an upgrade of the bioethanol plant and a new facility to capture and store biogas. Installation of modern technology will significantly reduce the specific use of energy in the production process and make it possible to supply the entire production as water-free bioethanol for use in automotive fuel. In 2017, we will also initiate a capacity expansion in Fine Chemicals to meet the growing demand for C3 aminodiols for use in non-ionic X-ray contrast media. Altogether these projects will provide further specialisation and improved competitiveness for the Sarpsborg biorefinery.

We are also continuing efforts to realise the full potential of our state-of-the-art Control Centre in Sarpsborg. Back in 2010, we combined 15 separate control rooms into one common control centre, making it possible to operate 15 plants from one location. In 2016, we took this project one step further by reducing the number of control consoles from six to four. A combination of operator training, alarm optimisation and technical improvements was the key driver to deliver a reduction in operator workload and an improved stability in operations.

The next steps will be to further explore utilisation of sensor technology, advanced process digitalisation and big data with the aim to develop new working methods and tools for operator support. This will in turn lead to more efficient work processes and increased availability in operations.



Finally, we continue to explore other specialisation and capacity expansion opportunities for the Sarpsborg biorefinery.

CELLULOSE FIBRILS AS A NEW BUSINESS

Late 2016, we commenced commercial production of Exilva, Borregaard's new microfibrillar cellulose product, at our premises in Sarpsborg. The new product improves flow, stability, flexibility and strength in industrial formulations and materials. We see a broad range of opportunities in areas such as coatings, adhesives, personal care, home care, agriculture and construction.

Through our large-scale pilot plant for the production of the cellulose based food ingredient SenseFi in Wisconsin, USA, we deliver advanced texture systems for food applications. This project is still in a demonstration phase and the intention is to make a decision on commercial operations during 2017.

In summary, all these initiatives have put us in a good position to strengthen our businesses in the times ahead.

Our business model is based on sustainability and products with favourable climate footprint. Our ambitions within EHS (Environment, Health and Safety) and our commitment to high standards in business ethics and anti-corruption are integrated into our corporate culture and values. Altogether, our business model, specialisation strategy and corporate culture provide a sound framework for our business.

In closing, I would like to thank all Borregaard employees for their dedicated efforts in 2016 and our shareholders for placing their trust in us.

Kind regards

Per A. Sørli,
President and CEO

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 and leadership development, strategy and project execution. He has worked in various positions at Norske Skogindustrier ASA including the position as CEO. Mr. Oksum is also chair of the board of Norconsult AS and has served as chair and director of various national and international companies, such 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 9 out of 9 board meetings in 2016.



**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 Gränges AB, Sapa AS 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 9 out of 9 board meetings in 2016.



**KRISTINE
RYSSDAL**
Member

Member of the Board since October 2012. Ms. Ryssdal is General Counsel in Yara International ASA. She has previously served as Vice President Legal in Statoil ASA

and as Senior Vice President and Chief Legal Officer of Renewable Energy Corporation ASA (REC). She holds a Cand. Jur. degree from the University of Oslo and a Master of Laws degree from the London School of Economics. Ms. Ryssdal has attended 8 out of 9 board meetings in 2016.



RAGNHILD WIBORG

Member

Member of the Board since April 2013. Ms. Wiborg is partner of Wiborg Kapitalforvaltning. She has held senior positions in a number of financial institutions

and companies, such as Odin Fund Management (CIO/ Portfolio manager), Pareto and First Chicago. Ms. Wiborg serves as a board member at IM Skaugen SE, REC Silicon ASA, Granges AB, Sevan Drilling ASA, Intrum Justitia AB and Skandiabanken ASA. She has master studies in Macroeconomics, a Bachelor of Science degree in Economics and a major in International Business. Ms. Wiborg has attended 9 out of 9 board meetings in 2016.



JON ERIK REINHARDSEN

Member

Member of the Board since April 2016. Mr. Reinhardsen is President & CEO of PGS ASA. 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 Kvaerner system, both in Norway and USA. Mr. Reinhardsen serves as board member in Telenor ASA, Awillhelmsen Management AS and Oceaneering International Inc. He holds a Master's degree in Applied Mathematics and Geophysics from the University of Bergen and has participated in the International Executive Programme at IMD, Switzerland. Mr. Reinhardsen has attended 5 out of 7 board meetings in 2016.



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 9 board meetings in 2016.



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 and chair of the Board of the Joint Union for officials and Engineers at Borregaard. Ms. Eide has attended 9 out of 9 board meetings in 2016.



BENTE SELJEBAKKEN KLAUSEN

Observer

Observer of the Board since October 2012. Ms. Seljebakken Klausen works as a Laboratory Technician at Borregaard R&D, Sarpsborg. She is Chair of the

Norwegian Engineers and Managers Association (FLT) at Borregaard, Treasurer 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. Seljebakken Klausen has attended 7 out of 9 board meetings in 2016.



ROY KÅRE APPELGREN

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 and a member of the Joint Union for Officials and Engineers at Borregaard. Mr. Appelgren has attended 8 out of 9 board meetings in 2016.



REPORT OF THE BOARD OF DIRECTORS

2016 was a satisfactory year for Borregaard, both in terms of financial performance and business development. Earnings and return on capital employed¹ reached all-time high levels.

OVERVIEW AND HIGHLIGHTS 2016

With an industrial heritage spanning more than 125 years, Borregaard is a leading global player with strong positions within selected niches of bio-based speciality chemicals, ingredients and fine chemicals. In Sarpsborg, the company operates one of the world's most advanced biorefineries with high value-added 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.

Borregaard's head office and main production facilities are located in Sarpsborg, Norway. The Group has global operations with plants and sales offices in 16 countries. See Note 7 in the Financial Statements for Borregaard ASA.

In 2016, important milestones were reached in the implementation of Borregaard's strategic agenda. Construction of the joint lignin plant in Florida was approved by both parties, Borregaard and Rayonier Advanced Materials. The first phase of the project is expected to be completed mid-2018, adding 100,000 mtds lignin capacity. The capacity expansion of 20,000 mtds in LignoTech South Africa is scheduled to come on stream mid-2017. Resumed operations at Sniace, Borregaard's partner and raw material supplier

in Spain, increased available lignin volume from the end of 2016. Extensive work is currently being carried out to ensure successful market introduction of these additional volumes.

Installation of new equipment in 2016 for large-scale production of the new Ice Bear product range enhanced specialisation and created a wider product portfolio of speciality cellulose. Commercial production of Exilva, Borregaard's new microfibrillar cellulose product, commenced at the Sarpsborg site and a wide range of market opportunities is being explored. These market development efforts are supported by a financial grant from EU's Horizon 2020 programme. At the biorefinery in Sarpsborg, an upgrade of the bioethanol plant and construction of a new facility to capture and store biogas were decided. This project is supported financially by Enova². New value-creating opportunities at the Sarpsborg site, including a number of productivity and energy conservation measures, are being explored.

Increased innovation efforts carried out in 2016 will contribute to further improving the Group's innovation rate and market position. In 2016, Borregaard's gross expenditure on research and innovation efforts increased to 5.6% of the Group's operating revenues. Grants from both Norwegian authorities and the European Union contributed to the high activity level.

¹ Non-GAAP measure, see page 103 for definition.

² A Norwegian government agency which promotes environmentally friendly restructuring of energy end-use, renewable energy production and new energy and climate technology.

Environment, health and safety (EHS) remain integral parts of Borregaard's business model. In 2016, the Borregaard Group achieved a further reduction in the number of injuries and seriousness of these incidents. The lost time injury rate, measured as H1 (LTI) value (number of injuries resulting in sick leave per million hours worked), decreased from 2.6 in 2015 to 1.6 in 2016. Sick leave increased slightly for the Group from a low level in 2015. An energy efficiency programme resulted in lower energy consumption. The Group's emissions of organic compounds to water (COD), SO₂ and NO_x were reduced, while CO₂ emissions increased slightly. See the Sustainability and Corporate Responsibility Report from page 16.

Borregaard ASA's share price was NOK 84.50 at the end of 2016. During 2016, the share value rose by 76% assuming reinvestment of dividend.

MARKET TRENDS

During 2016, market conditions for important Borregaard products continued to be negatively affected by a weak business climate and stronger competition in a number of markets. However, a diversified product portfolio and global market exposure provide flexibility and a natural hedge against the negative impact of market fluctuations. Borregaard has benefitted from a weak Norwegian krone during the year.

For Performance Chemicals, market conditions remained challenging in several regions (Asia, Middle East, Brazil) with reduced demand and strong price competition, particularly in the construction sector. Deliveries of low-margin volume to Eastern Europe were reduced due to a large customer's change of technology. Reallocation efforts throughout the year contributed to market optimisation and stable inventory levels during 2016. The increased competition and reduced demand had a slightly negative price impact in sales currency. However, Specialities sales volume rose by 4% from 2015. Growth was especially strong in the agrochemicals and batteries applications. The acquired Flambeau business strengthened Borregaard's presence in North America and broadened the market offering to customers.

After several years with declining speciality cellulose prices, Borregaard achieved a relatively stable average price in sales currency compared with 2015. Market balance in the acetate segment was affected by customer destocking, lower demand and continued excess capacity. The ether segment showed continued growth in 2016, with an improvement within the construction and coating applications. In the textile cellulose segment, there were increasing demand and higher prices. Producers of dissolving wood pulp have benefitted from higher prices and lower availability of cotton and cotton linter pulp.

The challenging market situation for Ingredients continued in 2016. There was market growth for key products within Fine

Chemicals. Marketing activities for Cellulose Fibrils continued at a high level, and a number of potential customers are evaluating the Exilva and SenseFi products.

FINANCIAL PERFORMANCE IN 2016

In 2016, Borregaard's operating revenues increased to NOK 4,492 million (NOK 4,164 million). EBITA adj.¹ reached NOK 747 million (NOK 497 million), an all-time high level. Compared with the preceding year, there was progress in all business areas, primarily due to currency effects. Product mix improved in Speciality Cellulose, the Fine Chemicals business had sales growth for key products and Performance Chemicals increased sales of specialities. Production output at the Sarpsborg site was slightly lower than in 2015, mainly as a consequence of the silo fire incident in October 2015. The production loss has been compensated by business interruption insurance coverage. Energy conservation measures, partly supported by Enova², contributed positively at the Sarpsborg site. The local raw material supply to the lignin plant in Spain resumed towards the end of the year. The Exilva project received a substantial EU grant from 1 May and commercial operation of the new plant commenced in the 4th quarter.

Other income and expenses¹ amounted to NOK 13 million (NOK 37 million). NOK 73 million reflects insurance compensation for property damage caused by the silo fire incident at the Sarpsborg production site in October 2015. A provision of NOK 60 million was made for remediation of contaminated soil related to previously phased-out chlor-alkali technology.

Net financial items amounted to NOK -32 million (NOK -27 million). Profit before tax increased to NOK 724 million (NOK 506 million). Income tax expense was NOK 171 million (NOK 122 million), giving a tax rate of 24% (24%). The corporate income tax rate in Norway was reduced from 25% to 24% from 1 January 2017.

The Borregaard Group had a profit of NOK 553 million in 2016 (NOK 384 million). Earnings per share increased by 44% to NOK 5.55 (NOK 3.86).

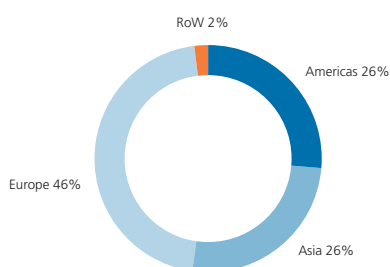
CASH FLOW AND FINANCIAL STRUCTURE

Cash flow from operating activities was NOK 1,081 million (NOK 563 million) in 2016. The strong cash flow was due to higher profit before taxes and a decrease in net working capital compared with 2015. Investments amounted to NOK 622 million (NOK 430 million). Replacement investments were impacted by the construction of new wood chip seasoning silos. Expansion investments¹ were at a higher level than last year and were mainly related to the Exilva, Ice Bear and Florida lignin plant projects. Dividend of NOK 149 million (NOK 124 million) was paid out in the 2nd quarter.

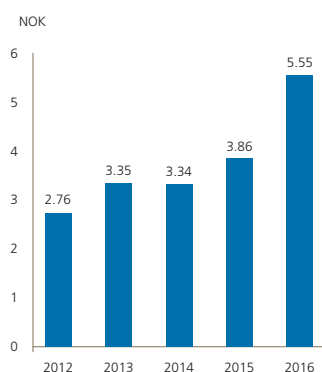
¹ Non-GAAP measure, see page 103 for definition.

² A Norwegian government agency which promotes environmentally friendly restructuring of energy end-use, renewable energy production and new energy and climate technology.

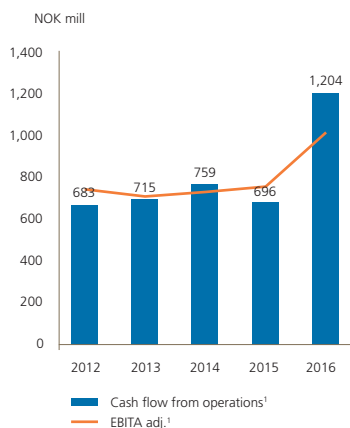
NET SALES BY GEOGRAPHICAL AREA 2016



EARNINGS PER SHARE¹



CASH FLOW FROM OPERATIONS¹

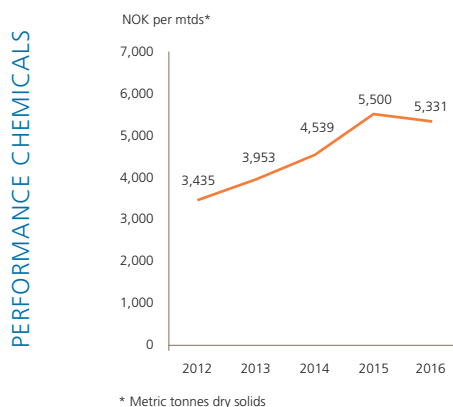


Realised effect of hedging of net investments in subsidiaries was NOK 13 million (NOK -76 million). The Group has sold and repurchased treasury shares with a net payment of NOK 10 million (NOK 5 million). At the end of 2016, the Group was well capitalised with an equity ratio¹ of 58% and a leverage ratio¹ of 0.29. Net interest-bearing debt was NOK 300 million (NOK 624 million). In 2016, a buy-back of NOK 200 million was made on Borregaard's bond issued in 2014 and maturing in 2019. Tenor of Borregaard's long-term facilities with DNB, Handelsbanken and SEB, totalling NOK 1,500 million, was further extended by one year with new expiry in September 2021. See Note 26. The Group is therefore well positioned to execute on future strategic investments.

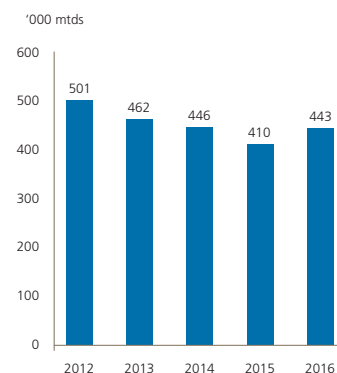
BUSINESS SEGMENTS

Performance Chemicals operating revenues increased to NOK 2,161 million (NOK 2,008 million). EBITA adj.¹ reached NOK 517 million (NOK 447 million), an all-time high level. The improvement was primarily due to beneficial currency effects. An improved product mix also contributed as Specialities sales volume rose by 4% from 2015. Growth was especially strong in the agrochemicals and batteries applications. Total sales volume (443,000 mtds) increased by 8% due to the added Flambeau business. Specialities' share of total sales volume was 18% in 2016 (19%). Construction accounted for 48% (52%), while Miscellaneous accounted for 34% (29%). Excluding Flambeau and currency impact, there was a slight decline in

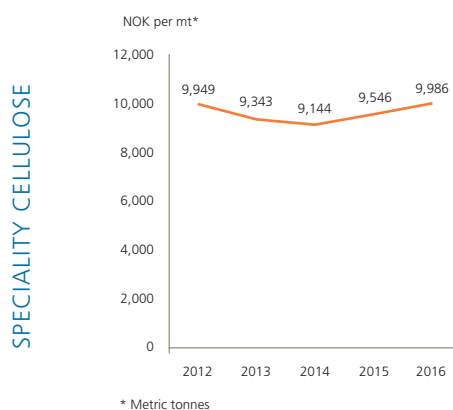
GROSS AVERAGE PRICE



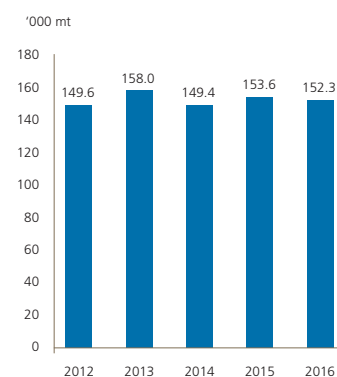
SALES VOLUME



GROSS AVERAGE PRICE



SALES VOLUME



¹ Non-GAAP measure, see page 103 for definition.

average sales price, mainly due to price pressure in Construction. Reallocation efforts throughout the year contributed to market optimisation and stable inventory levels during 2016. Raw material and energy costs were relatively stable, whereas fixed costs increased.

Operating revenues for *Speciality Cellulose* in 2016 totalled NOK 1,590 million (NOK 1,436 million). EBITA adj.¹ increased to NOK 250 million (NOK 104 million). The improvement was due to beneficial currency impact and an improved product mix. Lower demand and continued excess capacity affected the acetate segment. The ether segment showed continued growth in 2016, with an improvement within the construction and coating applications. In the textile cellulose segment, there were increasing demand and higher prices. The volume share of highly specialised cellulose grades increased to 64% (57%). Average price in sales currency was marginally lower than in the preceding year. Production output was slightly lower than in 2015, mainly as a consequence of the silo fire incident in October 2015. The production loss has been compensated by business interruption insurance coverage. In total, costs were stable. Contribution from bioethanol increased due to higher prices and improved product mix.

Operating revenues in *Other Businesses* were NOK 776 million (NOK 755 million). EBITA adj.¹ was NOK -20 million (NOK -54 million). The improvement was primarily due to positive currency effects, increased sales of x-ray contrast media intermediates in Fine Chemicals and lower net costs in the Exilva project. The Exilva project received a substantial EU grant from 1 May and commercial operation at the new plant commenced in the 4th quarter. Marketing and business development activities for Exilva and SenseFi products have been intensified. Corporate costs were in line with 2015.

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. Borregaard's 2016 report on sustainability and corporate responsibility from page 16 outlines our ambitions and achievements within EHS, and our commitment to business ethics and anti-corruption. 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 2016, 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 as well as 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 processing plants. 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 major Scandinavian banks. As of 31 December 2016, 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 ratio¹ and good liquidity, the company has adequate resources to continue its operations for the foreseeable future. Hence, in accordance with the 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. An overall report on Corporate Governance at Borregaard is found from page 36. This report is an integral part of the Report of the Board of Directors.

REMUNERATION OF GROUP EXECUTIVE MANAGEMENT

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

¹ Non-GAAP measure, see page 103 for definition.

connection with this programme and the share option programme for the Group Executive Management and other key employees, Borregaard ASA held 343,380 treasury shares both as of 31 December 2016 and as of 21 March 2017. See Note 9 regarding share options.

Total number of shares outstanding as of 31 December 2016 was 100 million, including 343,380 treasury shares. Total number of shareholders was 7,729. Borregaard ASA's share price was NOK 84.50 at the end of 2016, compared with NOK 49.40 at the end of 2015.

The company is unaware of any agreements between shareholders aiming at restricting the free trading of the company's shares or limiting the exercise of ownership rights for such shares. The company has not entered into any material agreements which become enforceable, altered or will expire in the case of an offer being made to acquire the company.

OTHER MATTERS AND SUBSEQUENT EVENTS

Shares to employees

As part of the employee share programme, Borregaard has sold a total of 159,315 shares to employees in February 2017. The share price was NOK 65.07 per share including a 30% discount. See *notifications to the Oslo Stock Exchange on 13 and 20 February 2017*.

Share options issued

In February 2017, 364,000 share options at a strike price of NOK 104.11 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 17 February 2017*.

Treasury shares

During February and March 2017, 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 484,065. See *notification to the Oslo Stock Exchange from 27 February and onwards*.

Supply of lignin raw material from Sniace resumed

The Sniace Group re-started its pulp production mid-October, and lignin raw material supply to LignoTech Ibérica resumed. See *Borregaard's stock exchange notices from 19 October, 27 May and 21 March 2016, 8 September, 25 July and 26 June 2013*.

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.

ALLOCATION OF PROFIT

The Board of Directors has proposed an ordinary dividend of NOK 1.75 (NOK 1.50) per share for the 2016 financial year. In addition, the Board has decided to propose an extraordinary dividend of NOK 1.75 per share due to increased earnings and a strong cash flow. In total, the proposed dividend is NOK 3.50 per share, corresponding to 63% of net earnings per share. Dividend payment is estimated at NOK 349 million. The exact amount will depend on the number of treasury shares held at the date of the General Meeting.

In 2016 Borregaard ASA had a profit of NOK 380 million (NOK 117 million). Borregaard ASA is well capitalised with an equity ratio of 74% after payout of the proposed dividend. The Board of Directors proposes the following allocation (NOK million):

Dividend	349
Retained earnings	31
TOTAL	380

OUTLOOK FOR 2017

Market conditions for Borregaard's lignin products are expected to be negatively affected by a continued weak business climate with stronger competition and price pressure in important regions for construction products. Efforts to reallocate lignin volumes will continue. Total sales volume in 2017 is forecast to reflect the increased lignin output in Spain and South Africa, but the added volume is expected to have limited impact on profitability.

Average cellulose price in 2017 in sales currency is expected to be 3-5% above the 2016 level. Price uncertainty is mainly related to textile cellulose. Product mix in 2017 is forecast to improve from 2016.

No major changes are expected in market conditions for Ingredients and Fine Chemicals. In the first four months of 2017, Exilva project costs, net of EU grant, are expected to be below the corresponding period of 2016. In 2017, corporate costs will remain at largely the same level as in 2016.

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

¹ Non-GAAP measure, see page 103 for definition.



Sarpsborg, 21 March 2017

THE BOARD OF DIRECTORS OF BORREGAARD ASA


JAN ANDERS OKSUM
Chair


TERJE ANDERSEN


KRISTINE RYSSDAL


RAGNHILD WIBORG


JON ERIK REINHARDSEN


ÅSMUND DYBEDAHL


RAGNHILD ANKER EIDE

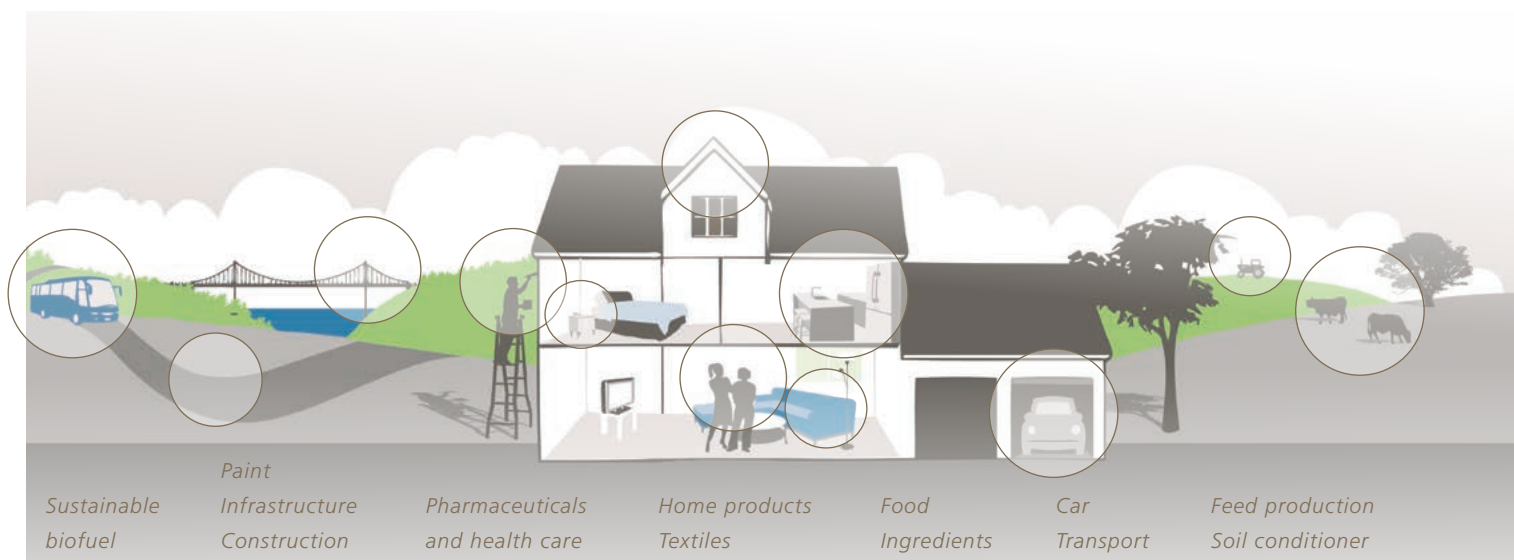

PER A. SØRLIE
President and CEO

SUSTAINABILITY AND CORPORATE RESPONSIBILITY





"Sustainable solutions based on renewable raw materials and unique competence"



SUSTAINABILITY AND CORPORATE RESPONSIBILITY IN BORREGAARD¹

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.

At the end of 2015, the leaders of a large number of nations reached a historic and ambitious agreement at the COP21 event in Paris to reduce climate-changing pollution. The agreement contains implementation programmes likely to drive increased demand for green alternatives to petrochemical products and thereby puts Borregaard in a favourable position for future market demand. The UN has recently adopted the 2030 Agenda for Sustainable Development with 17 goals which seek to balance the three dimensions of sustainable development: economic, social and environmental. In this document, Borregaard has defined the Group's contribution towards achieving these goals.

SUSTAINABLE SOLUTIONS

Borregaard's objective is to develop and deliver sustainable solutions using natural raw materials and its unique competence. Hence, both the company's aspirations and challenges are linked to our organisation's responsibility and Borregaard's sustainable development.

Borregaard executes its corporate responsibility by developing and running its operations profitably in a manner that conforms to 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.

STAKEHOLDER AND MATERIALITY ANALYSIS

Borregaard has conducted a Stakeholder and Materiality Analysis based on the company's sustainability strategy. This analysis focuses on the areas of greatest importance for Borregaard as a company and our stakeholders. It identifies the economic, social and environmental impacts of our operations and aspects with the greatest effect on stakeholders assessment and decisions. The result of the Borregaard analysis is to be found on page 33.

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."

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 hence has the biggest challenges in terms of EHS, climate and community issues. See Note 6 to the Consolidated Financial Statements.

STAKEHOLDER DIALOGUE

Maintaining good contact with the Group’s various stakeholders is vital for creating trust in Borregaard and an understanding of what the company does in local communities and society at large. 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 must also assess the need to implement improvement projects in areas where specific challenges exist.

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

MAIN AREAS

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

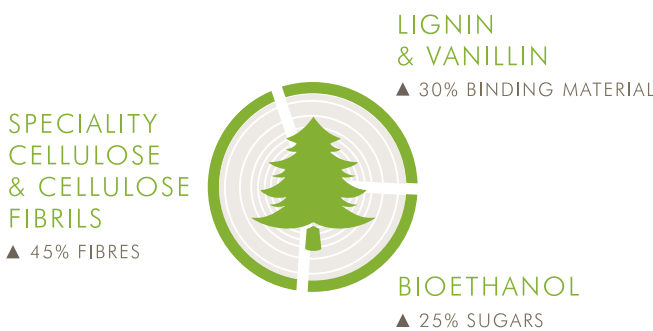
ORGANISATION AND RESPONSIBILITIES

Borregaard has a number of guidelines and reporting procedures as part of its corporate responsibility policy. The main documents are approved by the Board of Directors. Corporate responsibility is a line management responsibility in Borregaard. This means that corporate responsibility must form an integral part of the activities of various management teams, units and departments. The Group Executive Management has the overall responsibility to monitor the company’s aspirations, initiatives and results in this area.

REFERENCES

- Guidelines on corporate responsibility
- Ethical guidelines
- Anti-corruption manual
- Competition law manual
- Guidelines on responsible procurement
- Guidelines on human rights
- Guidelines on whistleblowing
- Guidelines on climate, environment, health and safety

A 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. In the investment research report entitled “10 for 2016 – The Paris Agreement”, the leading global provider of ESG and corporate governance research, Sustainalytics, profiles Borregaard as one of ten global companies taking unique steps to address climate change. Borregaard’s bio-based products are alternatives to petrochemical-based products, thereby helping to resolve some of the long-term global challenges associated with

access to resources and the impact of this on the environment and climate.

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 greenhouse gas emissions in its own processes, including elimination of heavy oil 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 the products from cradle to gate. The study was first carried out in 2008 and has since been updated several times, most recently in 2015 (using 2014 figures). 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 has been investigated by Østfold Research. All comparisons encompass a number of environmental impact categories. Borregaard's products show 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 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 increased in 2016 with gross expenditures amounting to around NOK 250 million (220 million), or 5.6% of the company's revenues. The increase compared to 2015 was mainly due to a significant ramp-up of activities within Cellulose Fibrils (Exilva and SenseFi). Borregaard has an R&D team of 97 employees, including 36 PhDs. Research is primarily carried out at the Group's corporate research centre in Norway, which at year-end 2016 had 68 employees from eight countries. R&D activities are also conducted in Spain, South Africa, India and the USA. Part of the research work is carried out via an extensive partnership with customers, universities and research institutions in a number of countries.

In 2016, Borregaard recognised NOK 66 million (30 million) in funding for ongoing research projects, mainly from EU's Horizon 2020, the Research Council of Norway and Innovation Norway. In addition, Borregaard has received other grants from both the Norwegian Government and the European Union. See Note 35 to the Consolidated Financial Statements.

SUSTAINABLE WOOD

Borregaard's biorefinery uses raw materials which also meet environmental and sustainability criteria. The Group attaches great importance to purchasing wood from forests managed in a sustainable and eco-friendly manner. Read more about certified wood on page 29.

KEY INITIATIVES AND RESULTS IN 2016

Borregaard's sustainability profile has been strengthened during 2016 by reductions in most 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 will produce sustainable biomaterials that can replace non-renewable products 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 will be taken during 2017. These two projects, Exilva and SenseFi, both entail a continuation and a further specialisation of the biorefinery concept.

Innovation plays an important role in maintaining sustainability and Borregaard measures its innovation effort as the percentage of sales coming from new products launched during the previous five years. In 2016, Borregaard's innovation rate was 17% (18%). The average innovation rate for the last five years increased to 14% (12%).

KEY TARGETS 2016

ACHIEVED

Commissioning of the Exilva® plant	
An innovation rate of 15% (average last five years)	
Further improvement of sustainability in an LCA perspective	

KEY TARGETS 2017

Continued development of the biorefinery concept
An innovation rate of 15%
Further improvement of sustainability in an LCA perspective

B CLIMATE, ENVIRONMENT, HEALTH AND SAFETY

Climate, environment, health and safety are integral parts of Borregaard's business model. 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).

Borregaard has established a risk assessment and management system which is part of the Group's management activities. This system is regularly reviewed (at least every year) by management groups and the Board of Directors. Risk management covers every aspect of Borregaard's activities, including self-assessments on environment, health and safety.

Climate and EHS factors are a management responsibility. Borregaard also has its own dedicated support functions for environment, health and safety and risk management.

CLIMATE CHANGE – GREENHOUSE GAS EMISSIONS

Borregaard's business model involves using renewable raw materials to produce climate-friendly products that can replace products from fossil raw materials. With regard to greenhouse gas emissions from a life cycle perspective, Borregaard's products more than compensate for the emissions from production (see page 19).

A particular focus in 2016 was to continue an ongoing energy efficiency programme which resulted in further reduced energy consumption at the site in Sarpsborg. Borregaard's direct emissions of the greenhouse gas CO₂ primarily come from fossil fuels used in production of energy for heating purposes.

During the past decade, the Sarpsborg site has implemented an energy strategy to replace the use of heavy fuel oil with more climate and eco-friendly energy sources. In this period, Borregaard has reduced its direct CO₂ emissions by 50%. At present, Borregaard meets its base load needs for energy for heating purposes through recovery of heat from production, bioenergy and incineration of waste. 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). The peak load steam production is now based on a combination of LNG, light fuel oil and electricity. The CO₂ emissions associated with production of energy for heating purposes will vary from year to year depending on the energy sources used for steam generation.

Total direct CO₂ emissions generated by all of the Group's plants were 132,289 mt in 2016 (129,319 mt). In spite of reduced energy consumption, CO₂ emissions at Borregaard

Sarpsborg increased by 5,343 mt compared with the previous year, and totalled 121,639 mt (92% of the total emissions). The increase was mainly due to a higher portion of LNG in the peak load steam production and an increase in lignin powder production compared with 2015.

Borregaard reports CO₂ emissions to CDP (formerly known as the Carbon Disclosure Project). This calculation of CO₂ emissions is according to the Greenhouse Gas Protocol (GHGP). Scope 1 emissions are almost the same as the direct emissions calculated, except that they include internal transportation. Scope 1 emissions for Borregaard in 2016 were 134,176 mt (130,939 mt), while scope 2 emissions were 60,785 mt (66,223 mt). Scope 2 emissions are mainly CO₂ from the production of electricity and the steam bought from the external waste incineration plant at the site in Sarpsborg.

Borregaard aims to reduce CO₂ emissions by planned investments in the energy efficiency programme. The most important project is an instalment of a heat pump during the 1st quarter of 2017, which will increase the temperature of feed water to the boiler house at the Sarpsborg site in Norway, and hence save energy.

Borregaard is investing 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 green energy from 2018. The project has been awarded a grant of NOK 18.9 million from Enova². The upgrade includes installing modern production technology which will reduce the specific use of energy in the bioethanol production process.

Targets to reduce greenhouse gas (GHG) emissions are considered "science-based" if they are in line with the level of decarbonisation required to keep the global temperature increase below two degrees Celsius compared with pre-industrial temperatures, as described in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR5). Borregaard has evaluated its future emission plans. The evaluation shows that it is possible to achieve a science-based target by continuing to reduce energy consumption and increase the use of renewable sources for energy. The plan was presented at the Capital Markets Day in 2016. In 2017, Borregaard will apply for approval of the Group's target to the Science Based Targets Initiative³.

ENVIRONMENT

Borregaard is making efforts to reduce its environmental impact in a number of areas. The most significant environmental challenges are associated with the main production site in Sarpsborg.

² A Norwegian government agency which promotes environmentally friendly restructuring of energy end-use, renewable energy production and new energy and climate technology.

³ Partnership between CDP, UN Global Compact, WRI and WWF.

After a fire in the wood seasoning silos for reduction of extractives in wood chips in October 2015, the Sarpsborg site has experienced some operational problems due to more extractives in process flows. This has led to the need for more frequent washing of process equipment as well as compensating measures in some production steps. As a result, the emissions of copper increased in 2016, and the reduction in emission of organic compounds to water (COD) was lower than expected. However, the emissions will be normalised when the new silos are in operation during the first half of 2017.

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

Borregaard Deutschland has a renewed operating permit for the spray-drying process effective from 2016 with stricter limits. To meet the requirements of the new permit, Borregaard has implemented several actions including a rebuild of the spray driers, which has reduced dust emissions by 20%.

A. Energy production and consumption

The total amount of energy consumed by all Borregaard plants amounted to 1,617 GWh in 2016 (1,687 GWh): 1,093 GWh of energy for heating purposes (1,165 GWh) and 524 GWh of electricity-specific consumption (522 GWh).

The majority of the energy was consumed at Borregaard's site in Sarpsborg, where total consumption amounted to 1,538 GWh in 2016 (1,584 GWh): 1,038 GWh of energy for heating purposes (1,088 GWh) (66% are from energy recovery from sorted waste and renewable energy sources) and 499 GWh of electricity-specific consumption (495 GWh) (98% renewable

electricity). Borregaard has an energy efficiency programme aimed at reducing the annual energy consumption at the Sarpsborg site by minimum 60 GWh within three years (starting from 2014). This programme delivered savings of 51 GWh in 2015 and an additional 10 GWh in 2016. The programme includes making better use of the surplus energy from heating and waste to be able to reduce the amount of natural gas and electricity used. The programme receives financial support from Enova, representing 42% of the total investment of NOK 107 million.

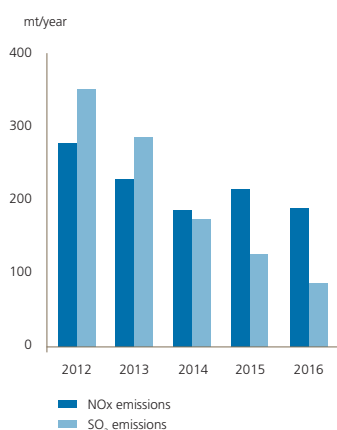
B. Emissions to air

Total SO₂ emissions for the Borregaard Group amounted to 87 mt in 2016 (126 mt). The Sarpsborg site had SO₂ emissions of 79 mt in 2016, a reduction of 39 mt or 33% compared with 2015. This was mainly due to the installation of a new SO₂ scrubber in the cellulose bleaching plant.

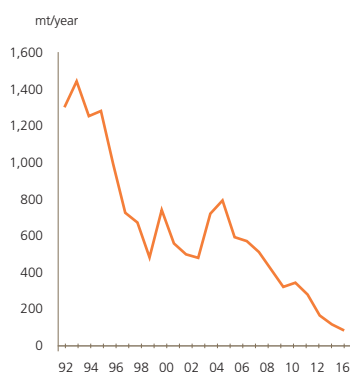
Borregaard is continually working on measures to reduce the frequency of extraordinary emissions of SO₂. These include additional facilities for monitoring and controlling SO₂ emissions from its plants. In 2016, Borregaard installed six additional SO₂ detectors to more easily detect elevated emissions. An ongoing programme aimed at replacing the pipework system by the end of 2017, as well as installing more scrubber capacity, will also reduce emissions, putting the aim of zero exceedances within reach.

Local air quality is to be taken into account in the municipality's land use planning. There are special regulatory requirements related to the localisation of activities around industry which may involve exposure to vulnerable venues such as health institutions and nurseries. In cooperation with local authorities, Borregaard has prepared a dispersion map showing potential exposure of SO₂ in Sarpsborg, taking these requirements into consideration. Sarpsborg municipality measures local air quality also in terms of SO₂ content. The results of these measurements show a reduction in the

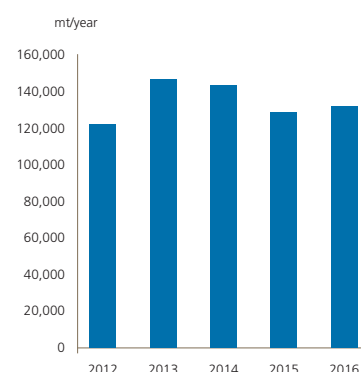
NO_x AND SO₂ EMISSIONS BORREGAARD GROUP⁴



SO₂ EMISSIONS SARPSBORG SITE



CO₂ EMISSIONS BORREGAARD GROUP⁴



⁴ The figures have been recalculated from previous years due to a change of reporting. See Note 6 to the Consolidated Financial Statements.

concentrations of SO₂ in the local environment, but isolated incidents at Borregaard can lead to short-term elevation of values. In 2016, Sarpsborg municipality registered 8 hourly exceedances (17) and 2 daily exceedances (3) of the SO₂ level in the air around Borregaard's plant. Due to these exceedances, Borregaard was obligated to map potential SO₂ reducing activities to get emissions in line with the local air quality regulation. The mapping led to a plan that was approved by Sarpsborg municipality in December 2016.

The total amount of NOx emissions from the Borregaard Group was 189 mt in 2016, representing a reduction of 13% from 2015. In Borregaard Sarpsborg, the NOx emissions were reduced from 208 mt in 2015 to 183 mt in 2016, due to operational changes in the bioboiler.

In 2016, Borregaard made a survey of the malodourous emissions from the Sarpsborg site in Norway. The biological treatment plant, the new scrubber in the lignin plant as well as improved cleaning procedures of existing lignin spray driers, have all reduced the measured smell emission units and the levels are well below the recommended limits.

C. Emissions to water

In 2014, Borregaard Sarpsborg inaugurated a new biological purification plant. The permitted level for emissions of organic compounds (COD) was then reduced to 69 mt per day. In 2015, the degradation rate of the biological treatment plant was improved by investments in equipment to clean inlet streams and optimisation of the process. Better environmental parameters for some products also led to reduced emissions.

In 2016, emissions to water were reduced due to increased recycling. On the other hand, the increased need for washing process equipment as well as other compensating measures while operating without wood seasoning silos led to increased emissions of both COD and copper. Overall the COD emissions were 63.4 mt per day, representing a 4% reduction

compared with 2015. Borregaard's discharge of copper increased by 2.8 kg per day to a level of 11.5 kg per day.

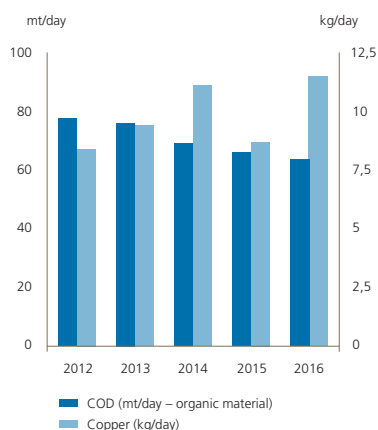
The COD and copper figures only reflect emissions in Sarpsborg, since the Group's other operations do not have any significant emissions to water. The emission target for 2017 is 64 mt COD per day and 8.5 kg copper per day.

In the period 1949-1997, 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 groundwater barrier was built and a water monitoring programme was established. In the winter of 2015, a higher level of mercury was detected by the monitoring. Borregaard has undertaken measures to strengthen the ground water barriers and the infrastructure of the emission pipeline, in order to prevent mercury leakage from discontinued operations. During 2016, the Norwegian Environment Agency ("Miljødirektoratet") agreed to planned actions and Borregaard made provision in the financial statements according to estimated costs. In 2016, Borregaard reached a normal emission rate of mercury, and ground water wells showed decreasing levels of mercury. In 2017, Borregaard will finalise the strengthening of the ground water barriers, and then implement a programme for cleaning or depositing polluted soil.

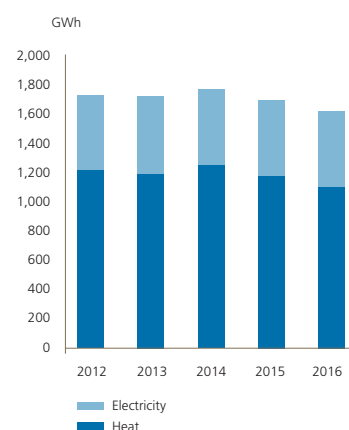
D. The ecological status of the river Glomma

Borregaard and the Norwegian Institute for Water Research (NIVA) monitor the river Glomma according to the requirements of, and standards in, the EU Water Framework Directive. The monitoring programme shows that the emissions of easily degradable organic matter from Borregaard have caused a proliferation of bacteria covering bottom sediments downstream from the emissions. As a result, the ecological status varies between bad and poor in the immediate vicinity of the outlet. The first step of the plan to reduce emissions is to comply with BREF and the new permit regarding emissions to water from 2019. Borregaard has also

EMISSIONS TO WATER SARPSBORG SITE



ENERGY CONSUMPTION BORREGAARD GROUP⁴



initiated a pre-project aimed at reducing emissions after 2019. The target is to reduce emissions of organic material in the effluent in order to reach good ecological status by 2027.

Emissions from industrial operations and water level control have negative consequences for spawning and growth conditions of the wild salmon stock in the river Glomma, close to Borregaard's Sarpsborg plant. In 2012, in partnership with two other companies, Borregaard constructed and financed a salmon cultivation facility on Borregaard's premises. The goal was to reach the salmon stock target for the river Glomma within a period of four to five years. Investigations conducted by NIVA in 2015 showed that there was a substantial rise in the number of salmon fry in the river Glomma 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 due to the ecological status of the river, as the natural cultivation still need some assistance from the salmon cultivation facility.

E. Waste

Plants in the Borregaard Group practise waste sorting. At the site in Sarpsborg 97% of the waste was sorted in 2016. The waste is processed by certified waste operators. The Sarpsborg plant has developed waste plans for both the industrial plant and the company's quay facility. Total waste was 19,861 mt in 2016 (19,939 mt), whereas the amount of hazardous waste was 3,105 mt (3,721 mt). The energy and material recovery rate of the waste is high (61% in 2016).

The Opsund landfill, a waste disposal site on Borregaard's premises in Sarpsborg, was discontinued in 2009. In late 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 according to plan.

F. Water consumption

Borregaard Sarpsborg is self-sufficient in terms of water, thanks to its access to the river Glomma and its own water purification facility. Water is used in processes such as cooling, steam generation and hot water production, as well as transportation of biomass through production and washing. Even though the consumption of water is relatively high at 23.2 million m³ of water in 2016 (22.8 million m³), it is sustainable and future reduction in water usage will be motivated by potential gains in energy saving.

The amount of water used at Borregaard's production facilities outside Norway is moderate and the water is sourced from public waterworks or adjoining industrial areas.

G. Transportation

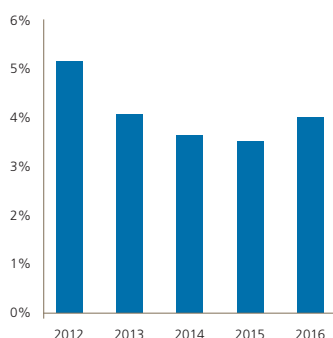
Borregaard strives for effective and eco-friendly road, rail and maritime logistics solutions. This applies to both the transportation of raw materials to the plants and the transportation of products to customers around the world. Having production units for lignin on three continents reduces the need to transport both raw materials and finished products over very long distances.

Borregaard wants to transport more goods by sea and rail, but current capacity constraints due to Norway's port infrastructure and the railway network reduce the possibility of increased use of these forms of transportation. 35% of the logs from Norway was transported by rail in 2016.

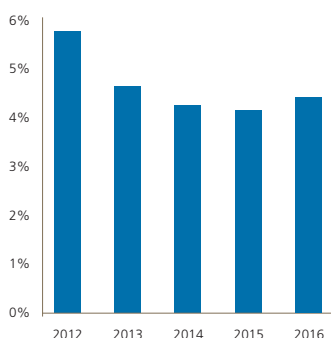
Borregaard Sarpsborg joined the EU funded project "Marco Polo" in 2012, with the aim to reduce CO₂ emissions through increased sea transport while also relieving the growing levels of traffic on European roads. Borregaard received a pledge of NOK 6.5 million for moving 50,000 mt of its outgoing transport from road to sea per year by the end of 2016.

Borregaard managed to move 25,000 mt of goods from road to sea during the project period, resulting in a grant of NOK 2.3

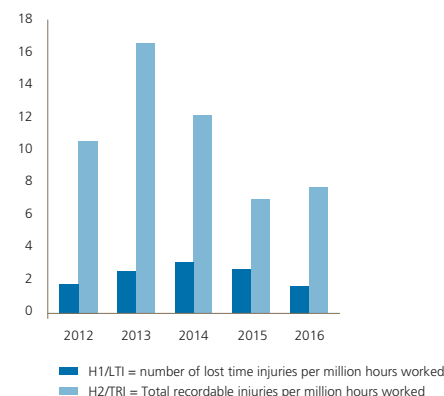
SICK LEAVE
BORREGAARD GROUP⁴



SICK LEAVE
SARPSBORG SITE



INJURY RATE
BORREGAARD GROUP⁴



⁴ The figures have been recalculated from previous years due to a change of reporting. See Note 6 to the Consolidated Financial Statements.

million (275,000 EUR), and savings of 2,600 tonnes of CO₂. The Marco Polo project has led to significant focus on sustainable transportation in Borregaard and the Group has gained recognition for its CO₂ reductions connected to transport.

The total volume of goods shipped shortsea to Europe is approximately 40,000 mt. Overall, in 2016, Borregaard moved around 50% (45%) of its goods by sea, 35% by road (40%) and 15% (15%) by rail (outbound from Sarpsborg site).

In accordance with the European Commission's strategy to curb CO₂ emissions from heavy-duty vehicles over the coming years, Borregaard monitors emissions from the transportation of logs and wood chips. In 2016, Borregaard had a target of 90% Euro 5 and higher emission standards for vehicles supplying wood to the biorefinery in Sarpsborg. At the end of 2016 this figure was 89% (88%). Emissions from vehicles are considered in the approval process of transportation services. The target for 2017 is 100 % of transported goods by road powered by trucks with EURO 5 or better engines to/from the Sarpsborg site, and 40 % shall be EURO 6.

Heavy-duty vehicle traffic constitutes a large proportion of emissions from the transport sector and these are among the emissions that have increased the most globally. A shift towards greener transportation provides large reductions in emissions of greenhouse gases. 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.

HEALTH AND THE WORKING ENVIRONMENT

Borregaard strives to ensure that working conditions are conducive to good health for its employees. To meet this objective, preventative activities and initiatives have been introduced to reduce stressful aspects of working conditions. 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.

There is a close follow-up of employees on sick leave and on adapting tasks for individual employees. Temporary facilitation in the working environment by providing appropriate work tasks or shorter working hours for a period of time are examples of measures made to accommodate employees with different needs.

Results in 2016

The sick leave rate⁵ in the Borregaard Group was 4% in 2016 (3.5%).

The sick leave rate at Borregaard in Sarpsborg increased slightly to 4.4% (4.1%) after three years of historically low

sick leave. Borregaard will continue its focus on and use of appropriate health promoting measures in close collaboration with employee representatives in 2017. Dialogue and physical and organisational facilitation of the workplace, flexible work hours as well as an available psychologist are all measures to reduce sick leave. Borregaard's units outside Norway are also focusing on facilitation of the workplace as well as measures such as physical exercise, health and lifestyle counselling, vaccinations and stress awareness.

WORKPLACE SAFETY

Safety is integrated into every aspect of Borregaard's operations. Borregaard has a worldwide safety programme called Zero Harm. Important measures aimed at achieving fewer injuries include: basic EHS training, 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. All injuries are investigated to identify root causes, implement corrective actions and document lessons that can be learned. Safety is also a permanent agenda item at the shift handover meeting for all workers in Sarpsborg who are starting a new shift period.

Results in 2016

The Group's lost-time injury rate, measured as H1 (LTI) value (number of injuries resulting in sick leave per million hours worked), decreased from 2.6 in 2015 to 1.6 in 2016. The total number of injuries, measured as H2 (TRI) value (number of injuries per million hours worked), was 7.7 in 2016 (6.9).

The Zero Harm process continued with Safety Leadership Team guidance and third party auditing ensuring compliance. In recent years, Borregaard has worked hard to reduce the number of injuries and the seriousness of these incidents.

The Sarpsborg plant had a total of nine injuries in 2016, one of which resulted in sick leave. The H1 value in Borregaard Sarpsborg decreased from 2.9 in 2015 to 0.8 in 2016. The H2 value was reduced from 8.1 in 2015 to an all-time low level of 6.8 in 2016. 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. Among the most serious injuries that occurred in 2016, two injuries were caused by chemical exposure, two were caused by burns from exposure to hot liquids and two were caused by crushing. In 2016, there were two lost-time injuries at Borregaard's plants outside Norway; one at the US plant due to a hot liquid burn and one at the Borregaard Deutschland plant where a worker fell from height and broke his arm. The plant in the UK marked 13 years since the last recorded lost-time injury.

In 2016, the focus on preventative safety work increased significantly through the project "The Safety Year 2016" at the

⁵ Number of total hours sick leave/available working hours.

Sarpsborg plant. The project divided the year into quarterly focus areas: safety management, preventative fire protection, environment (process safety) and personal safety. This way of concentrating on the different aspects of safety work is reflected by the H1 and H2 improvements in 2016 which show an increased safety and risk awareness at all organisation levels.

Borregaard Sarpsborg experienced two fires and 22 potential fires in 2016. The fires resulted in minimal damage and the potential for a severe fire was low. The root causes of the potential fires were investigated, and preventative measures are in progress. In 2016, a digital system to strengthen internal controls and routines for preventing fires was installed. Borregaard will continue to work systematically to reduce the number of fires based on a three-year plan (2017-2019) for improving and renewing the fire detection system.

In 2015, Borregaard installed a new and improved deviation system which provides even better monitoring of and focus on EHS incidents. From 2017, Borregaard will launch a new internal EHS report based on data from the deviation system that will give a better overview of the development of risk factors.

Initiatives in 2017

The "Safety Year" project will continue with quarterly focus areas in 2017, but with a further emphasis on competence as well as risk awareness. The margins between hazardous conditions or near accidents and actual accidents are narrow. 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. Work on reporting, analysing root causes and implementing measures in connection with near accidents and hazardous conditions as well as frequent inspections at the plants will continue in 2017. EHS training will continue to be a key focus area, starting with a safety training programme for external workers at the site in Sarpsborg.

PUBLIC SAFETY

Borregaard continuously assesses safety conditions in relation to the community outside the company. This applies in particular to Borregaard's Sarpsborg facility, which is regulated by the Council Directive 96/82/EC, an EU directive to prevent major accidents.

Risk assessments







Each member of the Group Executive Management is responsible for internal control and risk assessment within their respective areas. Risk management systems ensure that risks which are relevant to Borregaard's objectives are identified, analysed and dealt with at the earliest possible

stage. The Board of Directors conducts a review of the Group's risk picture at least once a year. Borregaard is continuously working on risk assessment in order to ensure that safe operations are maintained. 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 in line with the recommendations in the Council Directive 96/82/EC.

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 sulphur dioxide (SO₂) at its plant in Sarpsborg. Risk analysis shows that a major SO₂ incident could have fatal consequences for a third party. SO₂ is an important raw material in Borregaard's production processes. This means that there will be an inherent risk associated with SO₂ in parts of the processes also in the future. In 2015, Borregaard invested in emergency tanks in the digester plant to reduce the potential impact of an SO₂ incident.

Chemical substitution

Borregaard has internal procedures to ensure that all new chemicals which are 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.

KEY EHS TARGETS 2016	ACHIEVED
Reduce direct emissions by 5000 mt CO ₂ (Sarpsborg site)	
Implement energy efficiency measurements equivalent to 10 GWh (Sarpsborg site)	
Zero lost time injury rate (H1)	
Group sick leave rate below/maximum 3%	
90% of transported goods by road with trucks powered by Euro 5 or better engines to/from the Sarpsborg site	
0 fires and below 7 potential fires (Sarpsborg site)	
KEY EHS TARGETS 2017	
Establish science based target for long term CO ₂ emissions (Group)	
Reduce specific energy consumption by 4% (Sarpsborg)	
COD emissions below 64 mt/day (Sarpsborg)	
Reduce emissions and risks related to SO ₂ (Sarpsborg)	
TRI rate of 0 (Group)	
Sickleave rate below 2016 level; 4.0% (Group)	

C EMPLOYEE AND COMPETENCE DEVELOPMENT

The number of man-years in the Borregaard Group was 1,008 (1,027) by the end of 2016⁶. The turnover rate⁷ is generally low in the Group and 2.3% in Sarpsborg (2.9%).

STRONG CORPORATE CULTURE

Borregaard has, over many years and through changing times, developed a strong corporate culture which helps create a common mind-set, 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 subsequently been incorporated into various introductory and development programmes and included in internal discussions about how the company is described externally.

The corporate culture and core values also 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 (see list on page 19). Borregaard's ambitions and guidelines in corporate responsibility are integrated in the Group's introduction programmes and management training.

DEVELOPING CORE COMPETENCE

Borregaard's core competence lies in the areas of sales and marketing, research and development, and production.

At present, the company's competence within these areas, and the interaction between them, is Borregaard's most important competitive advantage. Therefore, it is crucial that the company manages to maintain and strengthen this unique competence base, both through recruitment and employee development.

Borregaard has set up internal training programmes within its areas of core expertise. 15% of its 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 an "Application School" and an international Sales Training Academy for its employees all over the world.

Since Borregaard's production processes are complex and involve a significant 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, as well as participation in an external production academy.

In 2016, Borregaard Deutschland continued cross-over training between different parts of the organisation, increasing the competence of the employees even further. The company's apprentices who will finalise their education in the beginning of 2018 are already capable of operating all machinery and thus in a position to replace experienced retiring personnel.

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

The Group invests significant resources in management training. Its objective is to recruit most of its 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 over-represented in these programmes. Among the 23 participants enrolled in the Borregaard Management Programme in 2016, seven were women and 13 came from units outside Norway.

Borregaard believes it is important to create an internal job market and therefore favours a high degree of job rotation and internal recruitment to fill vacancies. This provides employees with new challenges, while the company retains, develops and spreads its competence around the Group.

In 2016, Borregaard started a new two-year trainee programme for graduates with a master's or doctoral degree to enhance long-term recruitment plans. During the first year the Group recruited three trainees who will work in innovation and business development within the various business areas, before taking up permanent positions at Borregaard.

RESTRUCTURING AND ORGANISATIONAL DEVELOPMENT

Borregaard strives to maintain its global competitiveness through innovation, technology, productivity and cost-efficiency. Thanks to continuous improvement, based on greater expertise and interaction at the common control centre,

⁶ Last year's report included 50% of employees at the joint venture LignoTech South Africa. These are not included in this year's report. See Note 6 to the Consolidated Financial Statements.

⁷ 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.

the site in Sarpsborg has achieved improvements through better production and quality, as well as through improved EHS conditions. An extensive training programme and the introduction of new technology are also important factors. The restructuring processes are demanding, partly because of the need to reduce the number of employees. Borregaard believes it is important to involve and maintain a dialogue with employees and trade unions during restructuring processes.

The improvement programme for Borregaard's operations in Sarpsborg continued in 2016. The number of consoles at the control centre was reduced from six to four during the first half of 2016, using such means as reducing the operators' workload and stabilising operations through training, alarm optimisation and technical improvements. The staff reductions were achieved without entailing redundancies, using internal job rotation and retirement.

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

Based on today's age composition of the workforce as well as planned commercialisation of innovation projects, Borregaard Sarpsborg will have a growing need for qualified employees in the years to come. To meet these challenges, Borregaard is accelerating its recruitment activities aimed at lower secondary school students who choose upper secondary school programme options that provide relevant qualifications. Borregaard Sarpsborg enrolled 20 new apprentices in 2016, increasing the total number to 46. In addition, Borregaard Deutschland has two apprentices.

DIVERSITY

Borregaard wants to contribute towards positive diversity

among the company's employees and is committed to avoiding discrimination based on gender, ethnicity, religion or age. Borregaard has its own guidelines for this area.

Borregaard has initiatives aimed at promoting the recruitment of female managers and employees. It purposely has a high proportion of women in management and technical programmes and in the company's recruitment base. In 2016, 24% (24%) of Borregaard's employees were women. The lowest proportion of female employees is in production, while the female ratio is high in R&D and customer service. Three of the company's seven board members are women (ratio of women: 43%). A total of 30% (28%) of the managers at Borregaard are women, while the Executive Management Group includes one woman (ratio of women: 11%).

WHISTLEBLOWING PROCEDURES

Borregaard wants transparency and a strong corporate culture to help ensure that difficult or undesirable situations are discussed and resolved. However, situations may arise where reports from employees about adverse situations do not reach the right person or where they feel unfairly treated and cannot find a solution to their problems. In such circumstances, there are established procedures and guidelines for whistleblowing, in terms of contacting various specific functions in the organisation or by using a special telephone number and email address.

KEY COMPETENCE AND EMPLOYEE TARGETS 2016

ACHIEVED

Establish an internal production academy



Increase the proportion of female employees and managers



KEY COMPETENCE AND EMPLOYEE TARGETS 2017

Establish an internal production academy

Increase the proportion of female employees and managers

Establish internal senior leadership programme

D SUPPLIERS AND BUSINESS PARTNERS

Borregaard has several thousand business partners, such as customers, suppliers and others. This often involves well-established, long-term relationships that go back many years. Borregaard endeavours to ensure that this contact and cooperation is characterised by trust, integrity and mutual respect, and that transactions and business practices comply with laws, regulations and recognised ethical standards. A number of documents containing guidelines have been drawn up to regulate matters and help employees cultivate good relationships and sound business practices. The guidelines cover the general ethical framework (Code of Conduct) and

there are more specific guidelines on competition law, anti-corruption and human rights.

Borregaard basically expects the same ethical standards from its suppliers and business partners as it does for its own business operations. These requirements and expectations are set out in separate guidelines for choosing suppliers and are also incorporated into major purchase contracts.

In 2016, the roll-out of guidelines and standards for responsible procurement throughout the Group was completed.

The guidelines and standards aim to enable identification of risk of violations of human and workers' rights and environmental legislation or anti-corruption legislation in the company's supply chain. A pre-screening of existing suppliers was conducted and Sedex⁸ is assisting Borregaard in requiring high risk suppliers to register with Sedex, complete a self-assessment questionnaire and share the information with Borregaard.

ANTI-CORRUPTION MEASURES

Borregaard has its own guidelines for anti-corruption. During the last three years, the Group has carried out training programmes on anti-corruption for selected employee groups.

In 2016, Borregaard finalised a corruption risk assessment to ensure that relevant measures against corruption are focused and implemented. The result of the risk assessment did not reveal any high corruption risk factors. In 2017, Borregaard will implement further measures to increase the organisation's awareness of corruption risks, including local audits and retraining procedures.

PURCHASE OF CERTIFIED WOOD

Borregaard's biorefinery uses raw materials which also meet environmental and sustainability criteria. Borregaard purchases approximately 1 million solid cubic metres of wood annually for its Sarpsborg site. The Group attaches great importance to purchasing wood from forests that are managed in a sustainable and eco-friendly manner. In 2016, 79% of the wood came from Norwegian forests, 19% came from Swedish forests and the remaining 2% came from German and Latvian sources. All the wood purchased is cut according to the country of origin's laws on felling. The Norwegian suppliers deliver wood in accordance with the PEFC standard for silviculture and biodiversity.

PURCHASE OF LIGNIN RAW MATERIAL

In general, Borregaard receives lignin raw material produced by 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 production, as well as a range of industry-specific factors, including the supply and cost of raw materials. All medium to long-term contracts, which in total represent above 90% of the total supply of lignin raw materials, are with partners whom we believe are sound businesses with sustainable business models. All of these suppliers purchase wood that comes from FSC certified sources.

There is only a limited number of pulp producers using the sulphite pulping process necessary to produce the lignin required by Borregaard for its lignin-based products. In the past, some of Borregaard's lignin raw material sources have been closed down. However, today's main suppliers of lignin

raw material are considered sustainable in the long term, and Borregaard has plans for further expansion. The lignin capacity in South Africa is being 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. Borregaard has also developed the patented BALI concept as a long-term option for additional lignin raw material, allowing the extraction of lignin-based products from various biomasses. This new technology has not yet been put into commercial operation, but represents an alternative for the future.

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 96 man-years as of 31 December 2016. Borregaard is represented on the board of the company. LTSA is a supplier of lignin products based on raw material from Sappi Saiccor's adjacent pulp mill. The lignin products produced at LTSA represent sustainable alternatives to oil-based products.

The company has its own Social, Ethics and Transformation Committee tasked with monitoring social, ethical, transformation and sustainability 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 2016, internal and external audits of LTSA and its suppliers did not expose any violations of the United Nations Global Compact Principles.

In 2016, LignoTech South Africa maintained its OHSAS 18001:2007 certification, an international occupational health and safety management system, and celebrated 1 million man-hours without a lost-time injury. The company organised its annual "Safety Day", raising awareness about safety risks in the workplace. 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 testing for those employees who want it. The company also offers medicines to those who are affected. In addition, the company supports a local school and selected charitable causes.

LignoTech South Africa is consciously striving to ensure that the profile of its labour force reflects the country's

⁸ The Supplier Ethical Data Exchange

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. In addition the company donated 1,350,000 rand (EUR 95,200) towards funding the next generation of specialists, including students from the “missing middle”⁹, in the fields of chemical engineering, chemistry and organic chemistry and accountancy at the University of KwaZulu-Natal.

LignoTech South Africa paid income taxes totalling NOK 29 million (NOK 28 million) in 2016.

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

SUPPLIERS AND BUSINESS PARTNERS TARGETS 2016 **ACHIEVED**

Conduct a corruption risk assessment as a tool for continuous improvement of anti-corruption efforts	
Ensure use of guidelines and standards for responsible procurement throughout the Group	

SUPPLIERS AND BUSINESS PARTNERS TARGETS 2017

Implement additional measures based on risk assessment of suppliers
Implement new anti-corruption measures based on risk assessment

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 2016, Borregaard employed 1,008 man-years in 16 countries. The Group has production plants in Norway, the UK, Germany, Spain, the Czech Republic, South Africa and the USA.

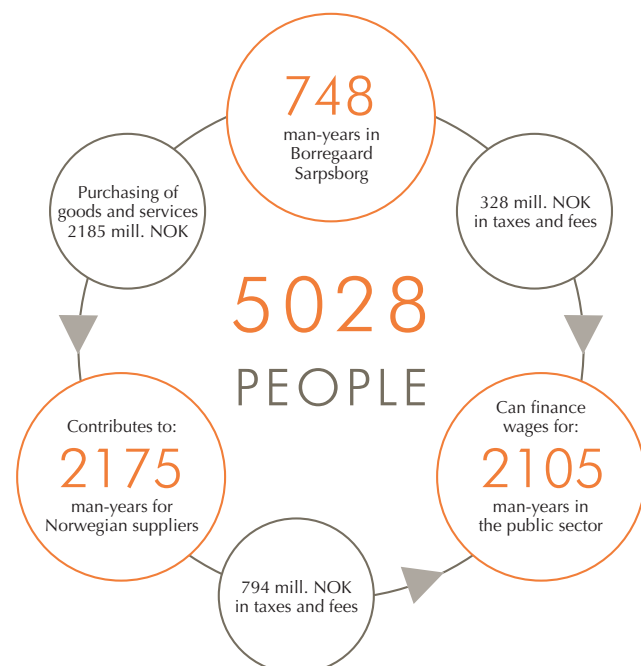
NOK 90 MILLION IN INCOME TAX PAYMENTS

Borregaard paid income taxes totalling NOK 90 million in 2016 (NOK 92 million). The income taxes paid for operations in Norway amounted to NOK 47 million, while income taxes paid in the other locations were NOK 17 million in the rest of Europe, NOK 18 million in the Americas, NOK 5 million in Asia and NOK 3 million in Africa.

Borregaard’s tax planning is consistent with a responsible approach. The company 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 local communities where they are located. The Group’s plants outside Norway are relatively small, while Borregaard has been a cornerstone company in Sarpsborg for generations. Borregaard 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. A social audit report produced by the Confederation of Norwegian Enterprise (NHO) in 2015 shows that, overall, Borregaard’s operations in Sarpsborg create and finance 5028 man-years in the company itself, as well as for suppliers and the public sector. Borregaard and its suppliers



⁹ Term used for those students who do not qualify for grants, but still cannot afford University fees.

(companies and employees) contributed a total of about NOK 1.2 billion in taxes and duties to Norwegian society in 2014.

SUPPORT FOR SOCIAL DEVELOPMENT

Borregaard has a broad stakeholder base in Sarpsborg 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 2016, the company also contributed around NOK 4 million to support measures that mutually 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.

Borregaard and Sarpsborg share a common history and are in many respects highly interconnected. In that sense it was natural for Borregaard to actively participate in the city's 1000-year anniversary in 2016. Among other contributions, Borregaard funded a new hiking trail and outdoor exercise equipment for the town's population.

COLLABORATION WITH EDUCATIONAL INSTITUTIONS

Borregaard in Sarpsborg works closely with schools and educational institutions in the area. 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 2016, 1,740 students 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 in the company.

Borregaard has programmes and instructors for apprenticeship schemes involving cooperation with vocational schools in the

region. These provide apprentices with relevant experience to supplement their theoretical training. In 2016, Borregaard had a total of 46 apprentices at the biorefinery in Sarpsborg.

AWARDS AND RECOGNITIONS

Over the years Borregaard has received several awards and recognitions from external bodies. In 2016, the Group received "The Norwegian Industry Climate Award" ("Næringslivets klimapris"), an award given out by NHO¹⁰, NTNU¹¹ and Zero¹² for promoting the green shift. The Norwegian Paper and Fibre Research Institute awarded the Borregaard employees Kristin Misund, Gisle L. Johansen and Gudbrand Rødsrud "The Norwegian Pulp and Paper Industry Prize" for their ground-breaking biorefinery work. In addition Borregaard was named "Company of the year" by Sarpsborg Industry Association and Sarpsborg Arbeiderblad (local newspaper) for its good business practices, innovativeness, social engagement and demonstration of growth and employment.

Borregaard conducts an annual reputation survey among the people of Østfold County regarding their views on matters including Borregaard as a workplace, environmental matters, contribution to the local community and people's general impression of the company. In 2016, the survey showed all-time high results on all factors confirming the company's strong position in the local communities near our 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)

¹⁰ The main representative organisation for Norwegian employers.

¹¹ The Norwegian University of Science and Technology.

¹² Zero Emission Resource Organisation.



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 according to the Global Compact scheme.

ENVIRONMENTAL REPORTING

Borregaard reports climate change data annually to the Norwegian authorities and to CDP (formerly the Carbon Disclosure Project). CDP is an international, not-for-profit

organisation providing a global system to measure, disclose, manage and share vital environmental information. CDP's climate change programme aims to reduce companies' greenhouse gas emissions and mitigate climate change risk.



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. Sørli,
President and CEO, Borregaard



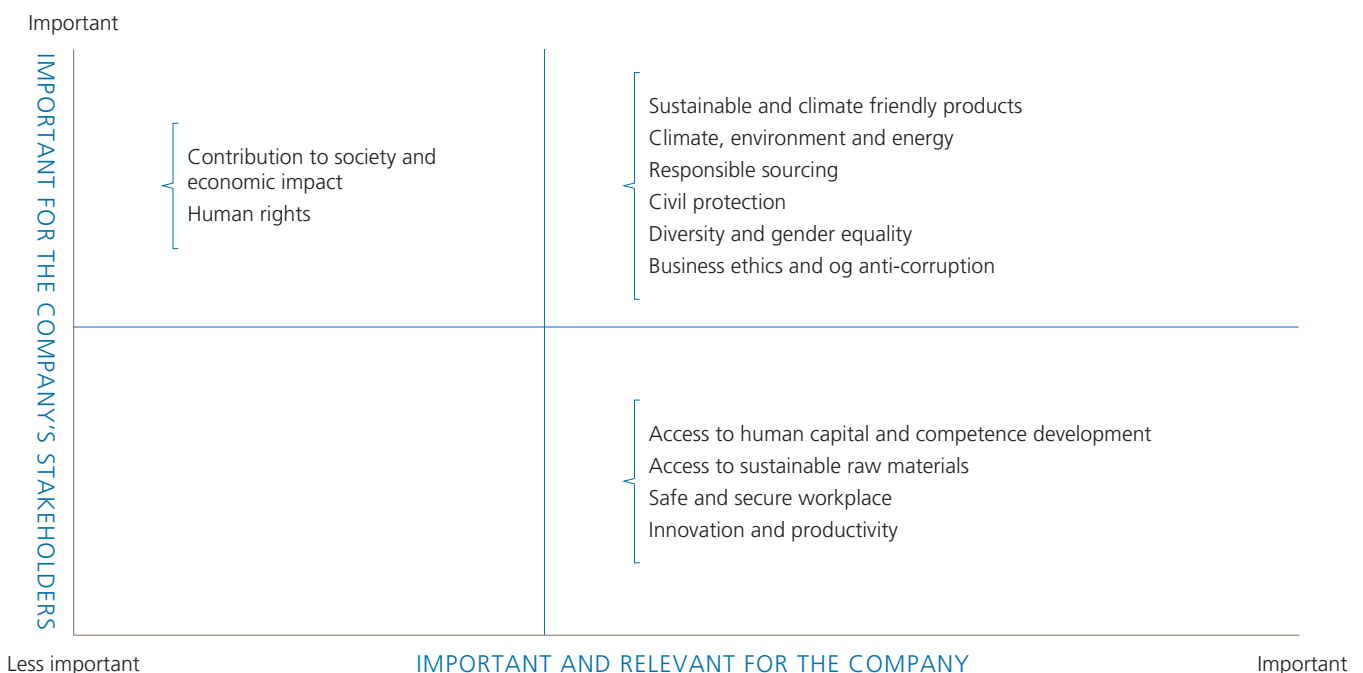
THE BORREGAARD MATERIALITY ANALYSIS

Borregaard has conducted a Stakeholder and Materiality Analysis based on the company's sustainability strategy. The analysis was conducted by an internal interdisciplinary group and the Borregaard management team, in light of relevant government regulations and international standards for corporate social responsibility.

The analysis focuses on the most important areas for us as a company and our stakeholders. The stakeholder groups considered to be the most important for Borregaard are investors, employees, the government, customers (including potential customers), suppliers, the local community and business partners. These have therefore been emphasised most strongly in our analysis of the interests and concerns of our stakeholders.

Our analysis identifies the economic, social and environmental impacts of our operations and aspects with the greatest effect on stakeholders assessments and decisions. 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 and Contribution to society.

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



1 NO POVERTY



END POVERTY IN ALL ITS FORMS EVERYWHERE

- Borregaard and the industry in general give high added value. Through the purchase of goods and services and tax contributions, the industry creates positive social effects in the form of direct and indirect jobs.
- Significant tax payments. In 2016, the Borregaard Group's tax payments totalled 87 million.
- Jobs are the way out of poverty. Borregaard employs 1,008 man-years in 16 countries

2 ZERO HUNGER



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

- Sustainable agriculture and feed products
- Products enhance agricultural plants
- Products for increased milk production (SoyPass)
- Raw materials do not compete with food production

3 GOOD HEALTH AND WELL-BEING



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

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

4 QUALITY EDUCATION



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

5 GENDER EQUALITY



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
- 24% of Borregaard employees were women in 2016

6 CLEAN WATER AND SANITATION



ENSURE ACCESS TO WATER AND SANITATION FOR ALL

- Focus on reducing water consumption
- Work on and invest in emission reductions

7 AFFORDABLE AND CLEAN ENERGY



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

- Increased energy recycling and use of renewable energy
- Borregaard produces bioethanol for fuel and invests to further increase the proportion of clean bioethanol
- Provides process heat for local district's heating system

8 DECENT WORK AND ECONOMIC GROWTH



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

- Borregaard and the industry in general give high added value. Borregaard has 1,008 man-years in 16 countries
- Significant tax payments
- Jobs are the way out of poverty
- Good conditions of employment and training programmes
- Over-recruitment of apprentices (more than internal needs)

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



BUILD RESILIENT INFRASTRUCTURE, PROMOTE SUSTAINABLE INDUSTRIALISATION AND FOSTER INNOVATION

- Significant innovation initiatives with internal resources and assignments for institutes and universities
- Sustainability is key to innovations
- Develops new sustainable bio-based industry through the innovation projects Exilva and BALI
- Produces green chemicals used in construction

10 REDUCED INEQUALITIES



REDUCE INEQUALITY WITHIN AND AMONG COUNTRIES

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

11 SUSTAINABLE CITIES AND COMMUNITIES



MAKE CITIES INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE

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

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS

- Sustainable business model with green 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

13 CLIMATE ACTION



TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS

- The biorefinery concept is an integral part of the business model – an important climate measure
- EHS/climate and energy strategy established
- Greenhouse gas emissions are considered when choosing transportation
- Investments to reduce emissions

14 LIFE BELOW WATER



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

15 LIFE ON LAND



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

- Sustainability criteria when purchasing timber/forest raw materials
- Active cooperation with stakeholders in the supply chain for forests

16 PEACE, JUSTICE AND STRONG INSTITUTIONS



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

17 PARTNERSHIPS FOR THE GOALS



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.lovdatab.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 approved the report at its meeting on 21 March 2017. The statement is cited on page 97. The General Meeting will consider the statement at its meeting on 20 April 2017.

The Board of Directors 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 27, 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 bio-chemicals, biobased 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* from page 4. Borregaard's goal is to deliver good profitability with a targeted return on capital employed¹ (ROCE) above 15% over the business cycle. For a more detailed account of corporate goals and strategies, see the section *The Borregaard Group*.

03 Equity and dividends

The Group's equity as of 31 December 2016 was NOK 2,713 million. The Board of Directors 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 a dividend of NOK 1.75 per share for the financial year 2016, up from NOK 1.50 per share in 2015. In addition, the Board has proposed an extraordinary dividend of NOK 1.75. Dividend will be paid on 3 May 2017 to shareholders registered in the company's shareholders' register as evidenced in a transcript as of 24 April 2017. If acquired shares are subject to ordinary settlement in the Norwegian Securities Register (VPS), shares acquired up to and including 20 April 2017 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 2016, 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 2017, but no longer than 30 June 2017. The authorisation may only be used in connection with share-based incentive programmes for Borregaard's management, shares for employees and for repurchase of shares for cancellation. As of 31 December 2016, Borregaard held 343,380 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 Directors of Borregaard ASA* include rules for dealing with cases of transactions with close associates. The Instructions for the Board of Directors 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 34 in 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 of Directors 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 open up 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 on their own initiative must inform their superiors of any case of impartiality or conflict of interest, and they must not take part in the processing of such items.

¹ Non-GAAP measure, see page 103 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 Directors 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 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 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 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 that will 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 that will be dealt with at the General Meeting should not be sent to the 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 always demand to have documents sent relating to items that will 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 is available under "Investor Relations" at www.borregaard.com. The members and Chair of the Nomination Committee were elected in 2016 on the basis of a proposal from the Nomination Committee as recommended by the Code of Practice.

At its meeting in 2016, the General Meeting changed the Articles of Association and the Instructions for the Nomination Committee of Borregaard ASA. From April 2016, the Nomination Committee has consisted of four members, elected for one year, i.e. until the General Meeting in 2017.

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 establishes guidelines for the preparation and conducting of elections to the Nomination Committee and Board, as well as the criteria for electability, general require-

ments 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 is a member of the Board, nor does the Nomination Committee include the President and CEO or any other executive personnel.

The members are:

- Terje R. Venold (Chair)
- Mimi K. Berdal
- Erik Must
- Rune Selmar

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 2017 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 for which 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 BOARD'S TASKS

The tasks 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 handling of cases by the Board are also determined in the Instructions for the Board of Directors. The Instructions for the Board of Directors 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 for 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 nine meetings and dealt with 73 agenda items in 2016. The Board's annual evaluation process includes discussions regarding the work in more detail. See 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 of Directors contain provisions for the handling of issues, 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. The committees pass no resolutions, but they supervise the 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 of Directors. 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. Ragnhild Wiborg 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 recommendation of the Nomination Committee provides 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 of Directors.

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.

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 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 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 a 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 towards identification, analysis and handling of risks across business areas and professional 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.

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

When the Group's quarterly reports are to be presented, they are reviewed by the Audit Committee prior to the Board meeting. The external auditor is also present at the Audit Committee meetings. The external auditor attends the board meeting when the annual financial statements are approved.

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. All entities within the Group monthly reports financial figures into the consolidation system, HFM. The reporting is monitored by key finance personnel and deviations from expectations are followed up with local managements in the relevant entities. Personnel within finance and controlling functions perform internal control reviews in the Group's legal entities.

Borregaard has established a whistle-blowing system and a separate channel, currently operated by Borregaard's General Counsel. Any unethical behaviour can be reported by e-mail or by phone according to Borregaard's Code of Conduct, Section 4.2.

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.

The Board of Directors 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.

11 Remuneration of the Board

All remunerations of the Board have been disclosed in Note 5 in the financial statements for 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 2017.

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 in the consolidated financial

statement) contains an account of the remunerations given to executive personnel and the Group's Remuneration Guidelines 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 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 Company 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 2017 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 to 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 general 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.

Stay up-to-date on investor relations by visiting our website:
www.borregaard.com/investor-relations



THE GROUP EXECUTIVE MANAGEMENT



**PER A.
SØRLIE**
*President and Chief
Executive Officer (CEO)*

President and Chief Executive Officer (CEO) Per A. Sørliie 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. Sørliie held positions as CFO at Bjølsen Valsemølle and Hafslund's US operations. Mr. Sørliie 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 Borregaard ChemCell (Speciality Cellulose business) 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 Borregaard Synthesis

(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), Purchasing and 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, Borregaard 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 2016





INCOME STATEMENT	48
EARNINGS PER SHARE	48
STATEMENT OF COMPREHENSIVE INCOME	48
STATEMENT OF FINANCIAL POSITION	49
STATEMENT OF CASH FLOWS	50
STATEMENT OF CHANGES IN EQUITY	51
NOTES	52
STATEMENT FROM THE BOARD OF DIRECTORS	97
AUDITOR'S REPORT	98

CONSOLIDATED FINANCIAL STATEMENTS 2016

INCOME STATEMENT

Amounts in NOK million	NOTE	2016	2015
Sales revenues	8	4,391	4,075
Other operating revenues		101	89
OPERATING REVENUES	7	4,492	4,164
Cost of materials	19	-1,686	-1,671
Payroll expenses	9, 10	-884	-825
Other operating expenses	9, 11	-901	-910
Depreciation and write-down property, plant and equipment	17, 18	-274	-261
Amortisation intangible assets	17	-4	-1
Other income and expenses ¹	12	13	37
OPERATING PROFIT		756	533
Finance income	13	131	252
Finance costs	13	-163	-279
Financial items, net	13	-32	-27
PROFIT/LOSS BEFORE TAXES		724	506
Taxes	14	-171	-122
PROFIT/LOSS FOR THE YEAR		553	384
Profit/loss attributable to non-controlling interests	31	-2	-2
Profit/loss attributable to owners of the parent		555	386
EBITDA adj. ¹	7	1,021	758
EBITA adj. ¹		747	497

EARNINGS PER SHARE

Amounts in NOK	NOTE	2016	2015
Earnings per share (100 million shares)	15	5.55	3.86
Diluted earnings per share	15	5.55	3.87

STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	NOTE	2016	2015
PROFIT/LOSS FOR THE YEAR		553	384
ITEMS NOT TO BE RECLASSIFIED TO P&L			
Actuarial gains and losses (after tax)	10, 14	7	-19
Total		7	-19
ITEMS TO BE RECLASSIFIED TO P&L			
Change in hedging reserve after tax (cash flow)	14, 29	227	-156
Change in hedging reserve after tax (net investment in subsidiaries)	14	14	-52
Translation effects		-17	80
Translation effects joint venture	6	14	-14
Total		238	-142
TOTAL ITEMS NOT TO BE AND TO BE RECLASSIFIED TO P&L		245	-161
THE GROUP'S COMPREHENSIVE INCOME		798	223
Profit/loss attributable to non-controlling interests	31	-2	-3
Profit/loss attributable to owners of the parent		800	226

¹ Non-GAAP measure, see page 103 for definition.

STATEMENT OF FINANCIAL POSITION


Amounts in NOK million	NOTE	31.12.2016	31.12.2015
ASSETS			
Intangible assets	17	125	137
Property, plant and equipment	18	2,471	2,122
Deferred tax assets	14	21	50
Investment in joint venture	6	121	106
Other assets	24	94	71
NON-CURRENT ASSETS		2,832	2,486
Inventories	19	626	676
Receivables	22	948	838
Cash and cash equivalents	23	265	169
CURRENT ASSETS		1,839	1,683
TOTAL ASSETS		4,671	4,169
EQUITY AND LIABILITIES			
Group equity	30	2,679	2,056
Non-controlling interests	31	34	5
TOTAL EQUITY		2,713	2,061
Deferred tax	14	53	1
Provisions and other liabilities	20	246	407
Interest-bearing liabilities	27	525	802
NON-CURRENT LIABILITIES		824	1,210
Interest-bearing liabilities	27	61	9
Income tax payable	14	136	47
Other liabilities	25	937	842
CURRENT LIABILITIES		1,134	898
EQUITY AND LIABILITIES		4,671	4,169

Sarpsborg, 21 March 2017

THE BOARD OF DIRECTORS OF BORREGAARD ASA


 JAN ANDERS OKSUM
 Chair


 TERJE ANDERSEN


 KRISTINE RYSSDAL


 RAGNHILD WIBORG


 JON ERIK REINHARDSEN


 ÅSMUND DYBEDAHL


 RAGNHILD ANKER EIDE


 PER A. SØRLIE
 President and CEO

STATEMENT OF CASH FLOW

Amounts in NOK million	NOTE	2016	2015
Profit/loss before taxes		724	506
Amortisation, depreciation and impairment charges		278	269
Changes in net working capital, etc.		170	-106
Dividend/share of profit from joint venture	6	-1	-14
Taxes paid		-90	-92
CASH FLOW FROM OPERATING ACTIVITIES		1,081	563
Investments property, plant and equipment and intangible assets*	17,18	-622	-430
Other capital transactions		5	5
CASH FLOW FROM INVESTING ACTIVITIES		-617	-425
Dividends		-149	-124
Proceeds from exercise of share options		7	11
Buy-back of treasury shares		-10	-5
Gain/loss on hedges of net investments in subsidiaries		13	-76
NET PAID TO SHAREHOLDERS		-139	-194
Repayment of interest-bearing debt		-309	-109
Proceeds from interest-bearing liabilities		106	100
Change in interest-bearing receivables/other liabilities		-23	21
CHANGE IN NET INTEREST-BEARING LIABILITIES	27	-226	12
CASH FLOW FROM FINANCING ACTIVITIES		-365	-182
CHANGE IN CASH AND CASH EQUIVALENTS	23	99	-44
Cash and cash equivalents as of 1 January		169	168
Change in cash and cash equivalents		99	-44
Currency effect of cash and cash equivalents		-3	45
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	23	265	169

* INVESTMENTS BY CATEGORY

Amounts in NOK million	NOTE	2016	2015
Replacement investments	17,18	358	246
Expansion investments ¹	17,18	264	184
TOTAL		622	430

¹ Non-GAAP measure, see page 103 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 2014	99	1,346	367	359	-248	22	-4	1,941	8	1,949
Profit/loss for the year	-	-	-	386	-	-	-	386	-2	384
Items in Comprehensive income	-	-	-	-	-208	67	-19	-160	-1	-161
The Group's comprehensive income	-	-	-	386	-208	67	-19	226	-3	223
Paid dividend	-	-	-	-124	-	-	-	-124	-	-124
Buy-back of treasury shares (Note 30)	-	-	-	-5	-	-	-	-5	-	-5
Exercise of share options (Note 9, 30)	-	-	3	-	-	-	-	3	-	3
Shares to employees (Note 9, 30)	-	-	12	-	-	-	-	12	-	12
Option costs (share based payment)	-	-	3	-	-	-	-	3	-	3
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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016





54	NOTE 01 General information	75	NOTE 19 Inventories and cost of materials
54	NOTE 02 Basis for preparation	76	NOTE 20 Provisions and other non-current liabilities
55	NOTE 03 New accounting standards	76	NOTE 21 Overview of financial instruments
56	NOTE 04 Key accounting principles	78	NOTE 22 Receivables (current)
60	NOTE 05 Use of estimates	78	NOTE 23 Cash and cash equivalents
61	NOTE 06 Joint Ventures	78	NOTE 24 Other assets (non-current)
61	NOTE 07 Segments	78	NOTE 25 Other liabilities (current)
63	NOTE 08 Geographical breakdown	79	NOTE 26 Capital management
64	NOTE 09 Payroll expenses and remuneration	80	NOTE 27 Funding and interest-bearing liabilities
68	NOTE 10 Pensions	81	NOTE 28 Financial risk
70	NOTE 11 Other operating expenses	84	NOTE 29 Derivatives and hedging
70	NOTE 12 Other income and expenses ¹	85	NOTE 30 Equity and share capital
70	NOTE 13 Net financial items	86	NOTE 31 Non-controlling interests
71	NOTE 14 Taxes	86	NOTE 32 Leases and leasing
72	NOTE 15 Earnings per share (EPS)	87	NOTE 33 Pledges and guarantees
72	NOTE 16 Impairment assessments	87	NOTE 34 Related parties
74	NOTE 17 Intangible assets	87	NOTE 35 Government grants
75	NOTE 18 Property, plant and equipment	88	NOTE 36 Other matters and subsequent events

NOTE 01 General information

The consolidated financial statements for Borregaard ASA (Borregaard/Group), including notes, for the year 2016, were endorsed by the Board of Directors of Borregaard ASA on 21 March 2017. 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 2016 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 2016. 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 lock in favourable

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 4 and information regarding currency risks is provided in Note 28. Other income and expenses¹ (OIE) are presented as part of operating profit in the Income Statement, but are presented after EBITA adj.¹ in the segment information in Note 7, which are reported according to management reporting. See Note 12 for details and specifications. The accounting policies for business areas are described in Note 4 and segment information for the various business areas is provided 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 divided into 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 2016. See Note 16 for further details.

NOTE 02 Basis for preparation

Borregaard ASA was incorporated as a public limited liability company on 22 August 2012. The company was inserted as a holding company of Borregaard AS. The transaction was not a business combination and did not result in any change of economic substance. Accordingly, the consolidated financial statements of Borregaard ASA are a continuation of the existing Borregaard Group. The Biorefinery business was transferred from Borregaard Industries Limited (BIL) to Borregaard AS on 30 March 2012. Historical figures from the transferred business from BIL (continuity) are the basis for the historical figures of Borregaard AS and the Borregaard Group. The Borregaard Group includes subsidiaries and joint venture directly and indirectly owned by Borregaard ASA. The consolidated financial statements are primarily based on the historical cost principle.

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.

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

¹ Non-GAAP measure, see page 103 for definition.

dividend does not become a liability until it has been formally approved by the General Meeting. The amortisation of intangible assets and Other income and expenses¹ are presented on separate lines, broken down by segment.

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

CONSOLIDATION PRINCIPLES

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

Interests in companies in which the Group alone has controlling influence (subsidiaries) have been fully consolidated, line by line, in the consolidated financial statements from the date the Group has control and are consolidated until the date that 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).

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, subject to EU approval before the consolidated financial statements are issued.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. In order to expedite the replacement of IAS 39, the IASB divided the project into phases: classification and measurement, hedge accounting and impairment. New principles for impairment were published in July 2014 and the standard is now completed. The parts of IAS 39 which have not been amended as part of this project, have been transferred into IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. No material changes are expected.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The IASB and the FASB have issued their joint revenue recognition standard, IFRS 15. The standard replaces existing

IFRS and US GAAP 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, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. Borregaard is currently evaluating the potential consequences of the standard. So far, no material changes are expected.

IFRS 16 LEASES

The standard requires recognition of the discounted value of the right to use assets and the related lease liability in the balance sheet. Based on the reported lease obligations (see Note 32), it indicates a recognition of right to use assets of approximately NOK 248 million. It will reduce the equity share from 58.1% in 2016 to approximately 55%. Under the current regulations the lease costs are recognised as operating costs. The new standard requires the right to use assets to be depreciated over the leasing period and to be presented as part of depreciations of property, plant and equipment. The interest expense will be presented as part of financial items. The standard is effective from 1 January 2019.

¹ Non-GAAP measure, see page 103 for definition.

NOTE 04 Key accounting principles

INCOME STATEMENT

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”.

Contracts. The Group at all times has 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.

ASSETS

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 write-downs. 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. Property, plant and equipment is depreciated on a straight line basis over the useful life. Residual value and useful lives are reviewed annually. 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.

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.

Intangible assets and goodwill. 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 are 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 (see Note 17).

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. 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 third quarter. If there are indications of impairments, the assets are tested immediately. A new impairment test is carried out in the fourth quarter when necessary, for instance if the underlying assumptions have changed. Impairment tests are described in Note 16.

Emission rights. Government granted and purchased CO₂ 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. Actual CO₂ emissions which exceed the level covered by emission rights are recognised as a liability. Sale of government granted CO₂ emission rights are recognised at the time of sale at the transaction price. CO₂ emission allowances purchased for trading are measured and classified as inventory.

¹ Non-GAAP measure, see page 103 for definition.

Inventories are valued at the lower of cost and net realisable value. Purchased goods are valued at purchase cost according to the FIFO principle, while internally manufactured finished goods and work in progress are valued at production cost. Deductions are made for obsolescence. Net realisable value is the estimated selling price minus selling costs.

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.

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. As far as possible, excess liquidity in wholly-owned subsidiaries is channelled to Borregaard's cash pools or placed as deposits with Borregaard AS, see Note 23. In some countries there are legal or technical impediments on participating in Borregaard's cash pools or making deposits with Borregaard AS.

DEBT AND LIABILITIES

Pensions. Borregaard mainly has defined contribution pension plans, but also has some defined benefit pension plans, primarily in the USA and Norway.

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. 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).

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

Provisions. 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. Provisions as of 31 December 2016 are described in Note 20.

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.

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 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.

FINANCIAL MATTERS

Foreign currency. 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.

Derivatives. 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 valued separately.

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

Loans/receivables. 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.

Hedging. 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.

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.

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 part of the hedging instrument are recognised through profit and loss.

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.

Fair value measurement of financial instruments: The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments, by valuation technique (see Note 21):

- 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.

SEGMENTS

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's main product groups are lignin-based products and speciality cellulose in addition to vanillin, bioethanol, fine chemicals and cellulose fibrils, serving a wide range of global growth industries such as construction, agriculture, food and beverages, transportation and pharmaceuticals.

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 divided into Performance Chemicals, Speciality Cellulose and Other Businesses.

Borregaard's Performance Chemicals business develops, produces, markets and sells lignin-based products as a niche supplier and solutions provider. Borregaard's Speciality Cellulose business 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 utilities (water works, incineration facilities and purification plants) and services at the Sarpsborg site and corporate functions. Borregaard is a supplier of fine chemicals for the global pharmaceutical industry. Borregaard also produces certain of the chemicals used in its production processes in Sarpsborg and sells excess chemicals from such production to customers. See Note 7.

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 capital employed¹, investments in property, plant and equipment, sales revenues and the number of man-years are also presented. See Note 8.

OTHER MATTERS

Acquisitions. 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 valued at fair value at the time of acquisition. If there are non-controlling interests in the acquired company, these will be valued 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.

Cash flow. 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.

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.

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. The amounts of government grants are specified in Note 35.

¹ Non-GAAP measure, see page 103 for definition.

NOTE 05 Use of estimates in preparing the financial statements

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 2016	CARRYING VALUE 31 DECEMBER 2015
Property, plant and equipment	18	Recoverable amount and estimation of correct remaining useful life	2,471	2,122
Goodwill and other intangible assets	17	Net present value future cash flows/NSV*	67	73
Research & development	17	Assumptions of what is considered as research and development respectively. Some development is capitalised	38	41
Pension liabilities (net)	10	Economic and demographic assumptions	96	104
Environmental provisions	12/36	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	68	23
Insurance compensation silo fire incident	12/36	Expected insurance compensation for business interruption losses and property damage coverage	62	46
EU grant project Horizon 2020	35	Received not booked as income EU grant project Horizon 2020	57	-

* NSV: net sales value

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 36 "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 principles 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 expenses¹ 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 103 for definition.

NOTE 06 Joint Ventures

The Group has a 50% interest in Umkomaas Lignin Ltd (LignoTech South Africa), a joint venture within Performance Chemicals. 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 33.

Amounts in NOK million	2016	2015
Operating revenues	363	391
Operating expenses	-191	-202
Net financial items	11	8
Profit before taxes	183	197
Taxes	-51	-55
Profit/loss for the year before dividend	132	142
Borregaard's share of profit for the year	66	71
Non-current assets	147	90
Current assets	118	142
Cash and cash equivalents	96	39
Total assets	361	271
Equity	243	212
Non-current liabilities	75	8
Current liabilities	43	51
Equity and liabilities	361	271
Borregaard's carrying amount of the investment	121	106

The consolidated financial statements include the entire Borregaard Group, where joint venture is accounted for using the equity method. The consolidated figures in the Sustainability and Corporate Responsibility Report does not include the joint venture as Borregaard does not control the operation of LignoTech South Africa (see GRI's Sustainability Reporting Guidelines, Chapter 1.3 Reporting Guidelines for Boundary Setting). 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.

	2016	2015
Share in joint venture 1 January	106	106
Share of profit after tax	66	71
Dividend	-65	-57
Currency translation effect	14	-14
Share in joint venture 31 December	121	106

NOTE 07 Segments

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 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 write downs of intangible assets, Other income and expenses¹ 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 the Performance Chemicals segment, the Speciality Cellulose segment and Other Businesses.

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

¹ Non-GAAP measure, see page 103 for definition.

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 write downs 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 (Note 8)	-	-	-	-	3,362
Return on capital employed ¹	-	-	-	-	21.7%

SEGMENTS 2015

Amounts in NOK million	PERFORMANCE CHEMICALS	SPECIALITY CELLULOSE	OTHER BUSINESSES	ELIMINATIONS	BORREGAARD GROUP
INCOME STATEMENT					
Total operating revenue	2,008	1,436	755	-35	4,164
Operating expenses and depreciation	-1,561	-1,332	-809	35	-3,667
EBITA adj. ¹	447	104	-54	-	497
Amortisation and write downs intangible assets	-1	-	-	-	-1
Other income and expenses ¹	-9	46	-	-	37
Operating profit	437	150	-54	-	533
Net financial items	-	-	-	-	-27
Profit before tax	-	-	-	-	506
CASH FLOW					
Cash flow from operations ¹	392	227	77	-	696
Replacement investments	-75	-81	-90	-	-246
Expansion investments ¹	-48	-34	-102	-	-184
CAPITAL STRUCTURE					
Working capital at year end	478	372	25	-	875
Capital employed ¹ at year end (Note 8)	-	-	-	-	3,135
Return on capital employed ¹	-	-	-	-	15.6%

¹ Non-GAAP measure, see page 103 for definition.

RECONCILIATION CAPITAL EMPLOYED¹

Amounts in NOK million	2016	2015
CAPITAL EMPLOYED¹	3,362	3,135
Other non-current assets	94	71
Cash and cash equivalents	265	169
Net deferred tax	-32	49
Interest bearing liabilities	-586	-811
Income tax	-136	-47
Other (derivatives, accruals etc.)	-254	-505
EQUITY	2,713	2,061

RECONCILIATION CASH FLOW FROM OPERATIONS¹

Amounts in NOK million	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES	1,081	563
Financial items, net	32	27
Taxes paid	90	92
Share of JV dividend/profit after tax	1	14
CASH FLOW FROM OPERATIONS¹	1,204	696

RECONCILIATION WORKING CAPITAL

Amounts in NOK million	2016	2015
Receivables	948	838
Inventories	626	676
Other liabilities	-937	-842
Derivatives etc included in above items	104	203
WORKING CAPITAL	741	875

NOTE 08 Geographical breakdown of capital employed¹, investments, number of man-years and sales revenues

Amounts in NOK million	CAPITAL EMPLOYED ¹		INVESTMENTS		NUMBER OF MAN-YEARS ²		SALES REVENUES	
	2016	2015	2016	2015	2016	2015	2016	2015
Norway	2,778	2,600	526	357	733	749	188	203
Rest of Europe	177	163	4	9	118	122	1,825	1,773
Asia	20	24	-	1	50	50	1,137	962
America	267	242	91	63	106	106	1,156	1,029
Rest of the world	121	106	-	-	-	-	85	108
TOTAL	3,362	3,135	622	430	1,008	1,027	4,391	4,075

SALES REVENUES PER PRODUCT GROUP

Amounts in NOK million	2016	2015
Performance Chemicals	2,094	1,952
Cellulose	1,472	1,339
Bioethanol	110	90
Fine Chemicals	253	217
Ingredients	335	351
Other	127	126
TOTAL REVENUES	4,391	4,075

¹ Non-GAAP measure, see page 103 for definition.

² Excluding employees in joint venture in LignoTech South Africa.

NOTE 09 Payroll expenses and remuneration

Amounts in NOK million	2016	2015
Wages	-723	-677
Sharebased payments (options and discounted shares)	-4	-5
Employer's national insurance contribution	-94	-88
Pension costs (Note 10)	-59	-52
Remuneration to Board Members	-3	-3
PAYROLL EXPENSES	-884	-825
Average number of man-years	1,011	1,030

REMUNERATION OF THE EXECUTIVE MANAGEMENT

2016

Amounts in NOK thousand	BASE SALARY	BONUS	PENSION COST	BENEFITS IN KIND	TOTAL
Per A. Sørli	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 Jacobsen	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

2015

Amounts in NOK thousand	BASE SALARY	BONUS	PENSION COST	BENEFITS IN KIND	TOTAL
Per A. Sørli	2,993	798	565	231	4,587
Morten Harlem	1,962	757	254	210	3,183
Tom Erik Foss-Jacobsen	1,569	419	172	200	2,359
Gisle Løhre Johansen	1,572	420	183	203	2,378
Ole Gunnar Jacobsen	1,472	393	153	186	2,204
Tuva Barnholt	1,453	387	183	202	2,226
Per Bjarne Lyngstad	1,654	441	197	189	2,481
Dag Arthur Aasbø	1,450	387	157	190	2,184
Sveinung Heggen	1,940	186	262	174	2,562
TOTAL REMUNERATION	16,065	4,189	2,127	1,784	24,164

Remuneration is actual paid remuneration in the respective years and includes vacation pay on salary and bonuses earned the previous year. Bonuses however is accrued bonuses the respective years to be paid the next year.

REMUNERATION GUIDELINES

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 7.1 G and 20% of salary over 7.1 G. 1 G is Norwegian

National Insurance Scheme's basic amount and was NOK 92.576 as of 31 December 2016.

Annual bonuses

Annual bonuses are based on performance within financial results (ROCE¹ and EVA-improvement³) and EHS (lost time 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.

General information about the LTI scheme (established in 2014)

The Borregaard long-term incentive (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 of Directors 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 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 1% of the company's shares. The total number of outstanding options can maximum be 2.5% of the company's shares. The maximum annual allocation of stock options on an individual basis is the number of options multiplied by the share price on the allocation date that corresponds to two annual salaries for the President and CEO and one annual salary for other employees.

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. buy-backs, write-downs 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 staff.

In 2014, The Board of Directors, within these guidelines, issued 500,000 share options (Programme 3), 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 of Directors, within these guidelines, issued 500,000 share options (Programme 4), 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 is 10% above the share price at the time of allocation. After the allocation, total number of outstanding share options corresponds to 1.3% of the total number of shares.

¹ Non-GAAP measure, see page 103 for definition.

³ Economic value added.

SHARE OPTION PROGRAMMES RELATED TO THE IPO IN 2012

Being part of Orkla ASA up to October 2012, Borregaard was included in Orkla's share option programmes. In connection with the IPO of Borregaard ASA in 2012, the Board of Directors resolved to offer Borregaard employees who held share options in Orkla ASA to exchange these for an equal number of share options in Borregaard ASA at a strike price of NOK 20.03 (average share price first day after announcement of 3rd quarter 2012 results). Total number of share options exchanged was 1,590,000 (Programme 1). The life of the options changed from 6 to 4 years and the vesting period changed from 3 to 1 year. The incremental fair value granted as a result of the modifications was NOK 3.6 million measured by the Black-Scholes model.

In addition, members of the Group Executive Management were offered 950,000 new share options at a strike price of NOK 22.50 (Programme 2).

Share based related costs for 2016 for the Group Executive Management was NOK 3.3 million in total for all programmes.

Both option programmes 1 and 2 had a maturity of 4 years, and were vested on 18 October 2013. Both programme 1 and 2 expired in October 2016. The maximum total profit resulting from exercise of the share options is limited to the equivalent of twice the base salary for the President and CEO and equivalent to the annual base salary for the other members of the Group Executive Management in the period of exercise (i.e. 6 and 3 years base salaries respectively). At least 50% of proceeds after tax must be used to purchase shares in the Company until the shareholdings equal twice, or are equal to, the annual base salary for the President and CEO and the rest of the Group Executive Management respectively. 187,855 and 125,000 share options have been exercised in 2016 according to Programme 1 and 2, respectively.

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

NUMBER OF SHARE OPTIONS	2016		2015	
	NO.	WAEP*	NO.	WAEP*
Outstanding at the beginning of the year	1,313,800	41.61	958,800	34.91
Exercised during the year	-312,855	-	-125,000	-
Granted during the year	-	-	500,000	51.49
Forfeited during the year	-20,945	-	-20,000	-
Outstanding at year-end	980,000	48.28	1,313,800	41.61
Exercisable options at year-end**	980,000	-	1,313,800	-

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

** Expire dates are 25 October 2019 for 480,000 options and 27 October 2020 for 500,000 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 2015 assumptions in the following table. No new share options were issued in 2016. See Note 36 for share options issued in 2017.

ASSUMPTIONS	2016	2015
Expected dividend-yield (%)	-	-
Expected volatility (%)	-	28
Historical volatility (%)	-	28
Risk-free return (%)	-	1.5
Expected life of option (years)	-	5.0
Weighted average share price (NOK)	-	45.09

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

	PROGRAMME 1 STRIKE NOK 15.18		PROGRAMME 2 STRIKE NOK 17.65		PROGRAMME 3 STRIKE NOK 46.50		PROGRAMME 4 STRIKE NOK 49.99		SHARES	
	No. of share options*		No. of share options*		No. of share options		No. of share options		No. of shares	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Per A. Sørli	-	-	-	125,000	60,000	60,000	60,000	60,000	145,990	135,990
Morten Harlem	-	-	-	-	40,000	40,000	45,000	45,000	45,959	45,959
Tom Erik Foss-Jacobsen	-	-	-	-	30,000	30,000	30,000	30,000	35,615	35,615
Gisle Løhre Johansen	-	-	-	-	25,000	25,000	25,000	25,000	20,059	30,059
Ole Gunnar Jacobsen	-	6,300	-	-	25,000	25,000	25,000	25,000	28,363	28,363
Tuva Barnholt	-	-	-	-	25,000	25,000	25,000	25,000	29,168	29,168
Per Bjarne Lyngstad	-	10,000	-	-	30,000	30,000	30,000	30,000	53,596	53,596
Dag Arthur Aasbø	-	12,500	-	-	25,000	25,000	25,000	25,000	44,096	43,596
Sveinung Heggen	-	-	-	-	25,000	25,000	25,000	25,000	8,084	8,084
TOTAL	-	28,800	-	125,000	285,000	285,000	290,000	290,000	410,930	410,430

* The reduction in share options from 2015 to 2016 in Programme 1 and 2 are related to exercised and expired options in 2016.

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 of 30% in relation to the market price with a maximum amount of NOK 28,000 (after discount). There were not provided any discounted shares for employees in 2016. Cost in 2015, including administration costs, related to the share purchase programme amounted to approximately NOK 4 million. See Note 36 for shares to employees in 2017.

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

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

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 2016 it was determined that The Board of Directors is remunerated at annual rates for the period up to the next General Meeting in 2017:

BOARD OF DIRECTORS			
Board Chair	NOK	433,000	per year
Board member	NOK	259,800	per year
Observer	NOK	86,600	per year
Deputy for observer	NOK	6,600	per meeting
AUDIT COMMITTEE			
Committee Chair	NOK	81,300	per year
Member	NOK	54,300	per year
COMPENSATION COMMITTEE			
Committee Chair	NOK	48,600	per year
Member	NOK	37,900	per year

REMUNERATION OF EMPLOYEE-ELECTED BOARD MEMBERS

2016

Amounts in NOK thousand	BASE SALARY	BOARD ALLOW-ANCE	BENEFITS IN KIND/ BONUS	PENSION
Åsmund Dybedal	611	258	25	31
Ragnhild Anker Eide	761	258	30	70

REMUNERATION OF THE NOMINATION COMMITTEE

The Chair of the Nomination Committee receives NOK 53,800 per year and an additional NOK 8,700 per meeting exceeding 4 meetings. Other members receive NOK 37,900 per year and an additional NOK 7,000 per meeting exceeding 4 meetings.

FEES TO GROUP EXTERNAL AUDITOR

Amounts in NOK million	2016	2015
Statutory audit	4	4
Other attestation services	1	-
Tax consultancy services	1	1
Other non-audit services	1	1
TOTAL FEES TO EY	7	6
STATUTORY AUDIT FEE TO OTHER AUDITORS	-	-

NOTE 10 Pensions

DEFINED CONTRIBUTION PLANS

Defined contribution plans comprise arrangements whereby the company makes annual contributions to the employees' pension plans, and where the future pension is determined by the amount of the contributions and the return on the pension plan assets. 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). Employees in Borregaard are mainly covered by pension plans classified as contribution plans.

DEFINED BENEFIT PLANS

Borregaard has pension plans that are classified as funded benefit plans and unfunded benefit plans. Expected contributions for the next year, 2017, to the defined benefit plan obligation is NOK 13 million. The largest part of the benefit plans are in the USA and Norway.

USA

The pension plans in the USA contains three different plans; two defined benefit plans for salaried and hourly employees and one supplemental postretirement 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 new early retirement scheme (new 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. The premium for the new early retirement scheme is 2,5% of total payments of wages between 1 and 7.1 times the average basic amount. All employees in Norway younger than 61 years are included, in average 759 employees in 2016, and the cost in 2016 is NOK 9 million.

ASSUMPTIONS RELATING TO DEFINED 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.

PENSION PLAN ASSETS

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

ASSUMPTIONS DEFINED BENEFIT PLANS

	NORWAY		USA	
	2016	2015	2016	2015
Discount rate	2.6%	2.6%	4.0%	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%	4.5%
Turnover	2.0%	2.0%	2.5%	2.5%
Expected average remaining vesting period	12.8	14.5	2.45	2.73

* 1G is NOK 92,576 as of 31 December 2016.

BREAKDOWN OF NET PENSION COSTS

Amounts in NOK million	2016	2015
Contribution plans	-46	-38
Current service cost	-13	-14
NET PENSION COSTS (incl. national insurance contributions)	-59	-52

BREAKDOWN OF NET PENSION LIABILITIES AS OF 31 DECEMBER

Amounts in NOK million	2016	2015
Present value of funded pension obligations	-388	-380
Pension plan assets (fair value)	388	380
Net funded pension assets	-	-
Present value of unfunded pension obligations	-96	-104
CAPITALISED NET PENSION LIABILITIES	-96	-104

CHANGES IN THE PRESENT VALUE OF PENSION OBLIGATIONS DURING THE YEAR

Amounts in NOK million	2016	2015
Pension obligations 1 January	-484	-387
Current service cost (incl. national insurance contributions)	-13	-14
Interest on pension obligations	-19	-17
Actuarial gains and losses	10	-12
Benefits paid during the year	14	13
Currency translations	8	-67
PENSION OBLIGATIONS 31 DECEMBER	-484	-484

CHANGES IN PENSION PLAN ASSETS DURING THE YEAR

Amounts in NOK million	2016	2015
Pension plan assets (fair value) 1 January	380	323
Expected return on pension plan assets	15	14
Contributions and benefits paid during the year	0	-1
Actuarial gains and losses	1	-18
Currency translations	-8	61
PENSION PLAN ASSETS (FAIR VALUE) 31 DECEMBER	388	380

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

	2016	2015
Cash and cash equivalents and money market investments	0%	1%
Bonds	33%	33%
Shares	67%	66%
Total pension plan assets	100%	100%

SUMMARY OF NET PENSION LIABILITIES AND ADJUSTMENTS IN PAST FIVE YEARS

Amounts in NOK million	2016	2015	2014	2013	2012
Pension obligations	-484	-484	-387	-305	-262
Pension plan assets	388	380	323	261	209
Net pension liabilities	-96	-104	-64	-44	-53

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 4% increase in pension liability and 7% increase in pension cost (defined benefit schemes).

A 1% increase in discount rate would imply a 9% decrease in pension liability and 3% decrease in pension cost while a 1% reduction in discount rate would imply a 12% increase in pension liability and 6% increase in pension cost. The calculation is based on the weighted average of the defined benefit schemes.

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	2016	2015
External distribution costs	-346	-350
Repair and maintenance costs	-155	-150
Consultants, legal advisors, temporary staff, etc.	-95	-82
Rental/leasing (Note 32)	-71	-62
Other	-234	-266
TOTAL OTHER OPERATING EXPENSES	-901	-910

NOTE 12 Other income and expenses¹

Other income and expenses¹ 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.

Other income and expenses¹ were NOK 13 million in 2016, of which NOK 73 million reflects additional insurance compensation for property damage caused by the fire at the production site in Sarpsborg in October 2015, and NOK -60 million has been recognised as a provision for measures to strengthen ground water barriers and for handling polluted soil around the chlor-alkali plant in Sarpsborg.

Amounts in NOK million	2016	2015
Insurance compensation for property damage, net of deductibles and write-down of assets (fire at the production site in Sarpsborg in October 2015) (Note 36)	73	46
Provision for measures to strengthen ground water barriers and for handling polluted soil around the chlor-alkali plant in Sarpsborg (Note 36)	-60	-
Costs for the establishment of the new lignin operation in Florida	-	-9
TOTAL OTHER INCOME AND EXPENSES¹	13	37

NOTE 13 Net financial items

Amounts in NOK million	2016	2015
Interest income	4	5
Foreign exchange gain	127	247
TOTAL FINANCE INCOME	131	252
Interest costs	-22	-27
Foreign exchange loss	-134	-249
Other finance costs	-7	-3
TOTAL FINANCE COSTS	-163	-279
NET FINANCIAL ITEMS	-32	-27

¹ Non-GAAP measure, see page 103 for definition.

NOTE 14 Taxes

TAX EXPENSE

Amounts in NOK million	2016	2015
Profit before tax	724	506
Current tax expense	-173	-110
Deferred tax expense	2	-12
TOTAL TAX EXPENSE	-171	-122
Tax as % of Profit/loss before taxes	23.6%	24.1%

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 25% (27%). The main tax components are specified.

Amounts in NOK million	2016	2015
25% (27%) of profit before taxes (tax rate in Norway)	-181	-137
Foreign operations with other tax rates than 25% (27%)	-7	-6
Changes in tax rate	3	7
Joint venture	17	19
Permanent differences	1	1
Other current taxes	-2	-3
Correction previous years	-1	-2
Other deferred taxes	-1	-1
THE GROUP'S TOTAL TAX EXPENSE	-171	-122

Amounts in NOK million	2016	2015
DEFERRED TAX ON TAX INCREASING/(REDUCING) DIFFERENCES		
Hedging taken to comprehensive income	-37	-116
Intangible assets and Property, plant and equipment	108	89
Net pension liabilities	-28	-32
Gain and loss tax deferral	4	5
Other non-current items	-21	-10
Total non-current items	26	-64
Current receivables	-2	-2
Inventories	19	18
Provisions	-5	-4
Other current items	-3	3
Total current items	9	15
Losses carried forward	-8	-4
Net deferred tax	27	-53
Deferred tax assets, not recognised	5	4
NET DEFERRED TAX, RECOGNISED	32	-49
Change in deferred tax	-81	47
Change in deferred tax taken to comprehensive income	84	-63
Acquisitions/sale of companies, translation effects etc.	-1	4
CHANGE IN DEFERRED TAX INCOME STATEMENT	2	-12

NET DEFERRED TAX PRESENTED
IN STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	2016	2015
Deferred tax	53	1
Deferred tax assets	21	50
NET DEFERRED TAX	32	-49

The ordinary tax rate in Norway was 25% in 2016. The tax rate in Norway was reduced to 24% from 1 January 2017. This is considered in the calculation of deferred taxes as of 31 December 2016.

Entities in countries with tax rates other than 25 % have the net effect of increasing the tax expense. The business in the US, subject to a nominal tax rate of 38% (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 below lists deferred tax assets and liabilities relating to the timing differences between tax accounting and financial accounting.

The table shows the composition of the Group's deferred tax.

LOSSES CARRIED FORWARD BY EXPIRY DATE

Amounts in NOK million	2016	2015
2023 or later	18	14
Without expiry date	8	-
TOTAL TAX LOSSES CARRIED FORWARD	26	14

TAX REDUCING TIMING DIFFERENCES WITH CORRESPONDING DEFERRED TAX ASSETS

2016

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	18	-	5	5
USA	8	3		3
TOTAL	26	3	5	8
Other tax reducing timing differences	360	96	-	96
TOTAL TAX REDUCING TIMING DIFFERENCES	386	99	5	104
Netted deferred tax	-303	-78	-	-78
NET TAX REDUCING TIMING DIFFERENCES	83	21	5	26

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 15 Earnings per share (EPS)

The share capital consists of 100 million shares as of 31 December 2016. As of 31 December 2016 there are 100,076,679 diluted shares. There were 99,735,212 diluted shares as of 31 December 2015.

Amounts in NOK million	2016	2015
Profit/loss for the year after non-controlling interests for continuing operations	555	386
Profit/loss/gains discontinued operations	-	-
Profit/loss for the year after non-controlling interests	555	386
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	2016	2015
Earnings per share	5.55	3.86
Earnings per diluted share	5.55	3.87

NOTE 16 Impairment assessments

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.

Tangible assets (property, plant and equipment) are basically capitalised at acquisition cost and, if they have a limited useful life, will be systematically depreciated over that period. Useful

life and residual value are based on estimates of future growth. The value of intangible assets is primarily derived from the Group's own valuations and has generally been capitalised in connection with the Group's acquisition of a new business. Goodwill is to be regarded as a residual in the same acquisition.

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).

Goodwill is tested at least annually for impairment. At Borregaard, impairment testing is carried out in the third quarter. If there are special indications of a reduction in value, impairment testing is carried out more frequently.

Cash flows relating to the assets are identified (see 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 GmbH:

Amounts in NOK million	GOODWILL	
	2016	2015
Borregaard Austria GmbH	30	31
TOTAL GOODWILL	30	31

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's CGU justify the capitalised value of goodwill at 31 December 2016 and the fair value exceeds the book value 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.

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 raw material prices and thereby other purchase 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 17 Intangible assets

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 2016	83	23	31	137
Additions	3	2	-	5
Depreciation/Amortisation	-10	-5	-	-15
Write-downs	-	-	-	-
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 write-downs	-89	-119	-25	-233
Book value 31 December 2016	75	20	30	125
Book value 1 January 2015	34	14	29	77
Additions	53	13	-	66
Depreciation/Amortisation	-7	-4	-	-11
Write-downs	-	-	-	-
Currency translations	3	-	2	5
Book value 31 December 2015	83	23	31	137
Initial cost 31 December 2015	162	137	55	354
Accumulated amortisation and write-downs	-79	-114	-24	-217
Book value 31 December 2015	83	23	31	137

In addition, Borregaard expensed NOK 107 million in 2016 in research and development costs (NOK 110 million). The amounts includes grants and other cost deductions. See Note 35.

NOTE 18 Property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis 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.

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 82 million which is not recorded in the statement of financial position as of December 31, 2016 (NOK 62 million as of 31 December 2015).

Amounts in NOK million	LAND, BUILDINGS AND OTHER PROPERTY	MACHINERY AND PLANTS	ASSETS UNDER CONSTRUCTIONS	FIXTURES, FITTINGS, VEHICLES, IT ETC.	TOTAL
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	-
Write-downs	-	-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 write-downs	-825	-3,689	0	-140	-4,654
Book value 31 December 2016	896	1,215	334	26	2,471
Book value 1 January 2015	825	1,057	103	19	2,004
Additions	27	138	191	8	364
Disposals	-3	-2	-	-	-5
Reclassification	-14	-	14	-	-
Transferred assets under construction	20	71	-92	1	-
Write-downs	-3	-4	-	-	-7
Depreciation	-48	-198	-	-5	-251
Currency translation	9	6	2	-	17
Book value 31 December 2015	813	1,068	218	23	2,122
Initial cost 31 December 2015	1,630	4,635	218	162	6,645
Accumulated depreciation and write-downs	-817	-3,567	-	-139	-4 523
Book value 31 December 2015	813	1,068	218	23	2,122

NOTE 19 Inventories

Inventories are valued at the lower of acquisition cost and net realisable value after deducting selling costs. This has resulted in a total write-down of inventories as of 31 December 2016 of NOK 5 million (NOK 5 million). There are no reversed write-downs from earlier years. Inventories valued at net realisable value total NOK 8 million (NOK 10 million).

Amounts in NOK million	2016	2015
Raw materials	95	91
Work in progress	41	50
Finished goods and merchandise	490	535
TOTAL INVENTORIES	626	676

Amounts in NOK million	2016	2015
Wood costs	-341	-347
Energy costs	-367	-390
Other materials	-924	-996
Change in work in progress and finished goods	-54	62
COST OF MATERIALS	-1,686	-1,671

NOTE 20 Provisions and other non-current liabilities

Amounts in NOK million	2016	2015
Pension liabilities (Note 10)	96	104
Derivatives (Note 21)	72	258
Other non-current liabilities	9	20
Other provisions (Note 36)	69	25
TOTAL	246	407

NOTE 21 Overview of financial instruments

The following measurement levels are used for determining the fair value of financial instruments:

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or 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 directly or indirectly unobservable)

There were no transfers from one level to another in the measurement hierarchy in 2015 and 2016. 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 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	24	2	-	-	-	65	65	21	65
Non-current derivatives	24, 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	20, 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

OVERVIEW OF FINANCIAL INSTRUMENTS 2015

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	24	2	-	-	-	71	71	18	71
Non-current derivatives	24, 29	2	-	-	-	-	-	-	-
TOTAL			-	-	-	71	71	18	71
CURRENT ASSETS									
Accounts receivable	22		-	-	-	656	656	-	656
Other current receivables	22		-	-	-	13	13	-	13
Current derivatives	22, 29	2	2	6	-	-	8	-	8
Cash and cash equivalents	23		-	-	-	169	169	169	169
TOTAL			2	6	-	838	846	169	846
NON-CURRENT LIABILITIES									
Non-current financial liabilities	27	2, 3	-	-	821	-	821	802	821
Non-current derivatives	20, 29	2	-	258	-	-	258	-	258
TOTAL			-	258	821	-	1,079	802	1,079
CURRENT LIABILITIES									
Current financial liabilities	27	2	-	-	9	-	9	9	9
Accounts payable	25		-	-	353	-	353	-	353
Other current liabilities	25		-	-	2	-	2	-	2
Current derivatives	25, 29	2	1	211	-	-	212	-	212
TOTAL			1	211	364	-	576	9	576
TOTAL FINANCIAL INSTRUMENTS			1	-463	-1,185	909	-738	-624	-738
Total measurement level 1			-	-	-	-	-	-	-
Total measurement level 2, assets			2	6	-	71	79	18	79
Total measurement level 2, liabilities			-1	-469	-430	-	-900	-411	-900
Total measurement level 3			-	-	-400	-	-400	-400	-400

For other short-term items, fair value is estimated close or equal to booked value. The bond is determined as measurement level 3. The fair value of the bond is deemed to equal to 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 22 Receivables (current)

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	2016	2015
Accounts receivable (Note 21)	718	656
Non interest-bearing derivatives (Note 21)	9	8
Other current receivables (Note 21)	70	13
Total financial receivables	797	677
Advance payment to suppliers/earned income	147	161
Tax receivables	4	-
TOTAL CURRENT RECEIVABLES	948	838

CHANGE IN PROVISIONS FOR BAD DEBT:

Amounts in NOK million	2016	2015
Provisions for bad debts 1 January	7	7
Bad debts recognised as expense (- income)	6	-
Realised losses	-2	-
Translation effects	-	-
PROVISIONS FOR BAD DEBTS 31 DECEMBER	11	7

ACCOUNTS RECEIVABLES HAVE THE FOLLOWING DUE DATES:

Amounts in NOK million	2016	2015
Accounts receivable not due	651	606
Overdue receivables 1-30 days	64	47
Overdue receivables 31-60 days	6	4
Overdue receivables 61-90 days	4	1
Overdue receivables over 90 days	4	5
ACCOUNTS RECEIVABLE CARRYING AMOUNT 31 DECEMBER	729	663

NOTE 23 Cash and cash equivalents

Amounts in NOK million	2016	2015
TOTAL CASH AND CASH EQUIVALENTS	265	169

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 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.

NOTE 24 Other assets (non-current)

Amounts in NOK million	2016	2015
Non interest-bearing derivatives (Note 21)	29	-
Receivables interest-bearing (Note 21)	21	18
Receivables non interest-bearing (Note 21)	44	53
TOTAL OTHER ASSETS	94	71

NOTE 25 Other liabilities (current)

Amounts in NOK million	2016	2015
Accounts payable (Note 21)	457	353
Non interest-bearing derivatives (Note 21)	118	212
Non interest-bearing liabilities (Note 21)	2	2
Total financial liabilities non interest-bearing	577	567
Value added tax, employee taxes etc.	58	59
Accruals	302	216
TOTAL OTHER LIABILITIES	937	842

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. Dividends do not become liabilities until they have been approved by the General Meeting.

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. 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 made available to the company by its previous owner Orkla in September 2012 in preparation for the IPO in October 2012. 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. For each revolving loan, Borregaard may select an interest period of one, two, three or six months. All outstanding loans and all other sums due and outstanding must be repaid in full on the termination date specified for each tranche under the Bank Facilities Agreements.

The Bank Facilities Agreements include the following financial covenants:

1. Leverage ratio¹: the ratio of Net Interest Bearing Debt¹ to EBITDA adj.¹ shall not exceed 3,25:1 during the life of the Agreements.
2. Equity ratio¹: the ratio of Total Consolidated Equity to Total Assets shall not be lower than 25%.
3. Interest Cover 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 2016.

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 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.

As an industrial group, Borregaard is not subject to any external capital requirements.

LIQUIDITY AND CASH MANAGEMENT

At 31 December 2016, 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. Group liquidity shall be managed in cash pools, with Borregaard AS as owner of top accounts and legal counterpart to relevant banks. Group companies shall participate in cash pools to the extent possible, with allocated internal credit lines. Group companies which are prevented from participating in cash pools, shall enter into deposit and/or loan agreements with Borregaard AS and shall aim at keeping locally held cash balances at a near-zero level. Excess liquidity shall primarily be used to repay debt. Alternatively, excess liquidity can be placed with relationship banks or other well-rated banks.

Partially owned companies including 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.

¹ Non-GAAP measure, see page 103 for definition.

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

Amounts in NOK million	2016	2015
Total interest-bearing liabilities other	586	811
Total interest-bearing receivables	-21	-18
Cash and cash equivalents	-265	-169
NET INTEREST-BEARING LIABILITIES	300	624
Group's equity	2,713	2,061
Equity ratio ¹	58.1%	49.4%
Leverage ratio ¹	0.29	0.82

NOTE 27 Funding and interest-bearing liabilities

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 refinanced 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 ratio¹, equity ratio¹ and interest cover ratio) and some limitations on new indebtedness beside change of control and cross-default provisions. In addition, multi-currency overdraft facilities of NOK 225 million from two banks providing cash management services are in place.

Amounts in NOK million	BOOK VALUE		FAIR VALUE	
	2016	2015	2016	2015
NON-CURRENT INTEREST-BEARING LIABILITIES				
Bank loans/bond	514	785	514	785
Other interest-bearing liabilities	11	17	11	17
Total non-current interest-bearing liabilities	525	802	525	802
CURRENT INTEREST-BEARING LIABILITIES				
Bank loans, overdraft	49	-	49	-
Other interest-bearing liabilities	12	9	12	9
Total current interest-bearing liabilities	61	9	61	9
Total interest-bearing liabilities	586	811	586	811
INTEREST-BEARING RECEIVABLES				
Non-current interest-bearing receivables	21	18	21	18
Cash and cash equivalents	265	169	265	169
Total interest-bearing receivables	286	187	286	187
NET INTEREST-BEARING LIABILITIES	300	624	300	624

There were no drawings under the Bank Facilities Agreements as of 31 December 2016. Drawings originating from the bond issue and the term loan with Nordic Investment Bank amounted to NOK 563 million as of 31 December 2016.

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

Amounts in NOK million	GROSS INTEREST-BEARING LIABILITIES		UNUTILISED CREDIT FACILITIES	
	2016	2015	2016	2015
Maturity <1 year	61	9	225	255
Maturity 1-3 years	307	120	-	-
Maturity 3-5 years	97	503	1,500	1,500
Maturity 5-7 years	97	102	-	-
Maturity >7 year	24	77	-	-
TOTAL	586	811	1,725	1,755

¹ Non-GAAP measure, see page 103 for definition.

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 Group HQ, 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.

(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 EUR and USD.

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 28.

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

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

2015

Amounts in million

PURCHASE CURRENCY	AMOUNT	SALE CURRENCY	AMOUNT	MATURITY
USD	2	NOK	18	2016
NOK	1,155	USD	145	2016
NOK	1,171	USD	146	2017
NOK	806	USD	100	2018
EUR	7	USD	7	2016
NOK	612	EUR	72	2016
NOK	619	EUR	70	2017
NOK	468	EUR	50	2018
EUR	3	NOK	30	2016
SEK	16	NOK	15	2016

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 operations¹, 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 above-mentioned measures, the Group has limited liquidity risk.

The table 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.

MATURITY PROFILE FINANCIAL LIABILITIES

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	-	27	9	12	4	2	-
Accounts payable	457	457	457	-	-	-	-
Gross settled derivatives*	152	-	-	-	-	-	-
Inflow	-	-5,842	-2,746	-3,096	-	-	-
Outflow	-	5,978	2,852	3,126	-	-	-
TOTAL	1,195	1,206	633	349	101	99	24

2015

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	811	811	9	120	503	102	77
Interest payable	-	53	14	27	7	4	1
Accounts payable	353	353	353	-	-	-	-
Gross settled derivatives*	462	-	-	-	-	-	-
Inflow	-	-5,851	-2,787	-3,064	-	-	-
Outflow	-	6,303	2,985	3,318	-	-	-
TOTAL	1,626	1,669	574	401	510	106	78

* Including derivatives recognised as assets.

The financial liabilities are serviced by cash flow from operations, liquid and interest-bearing assets, and, when necessary, drawings on unutilised credit facilities.

CREDIT RISK

The management of credit risk related to accounts receivable and other operating receivables is handled as part of the business risk, but based on guidelines set by Borregaard AS and continuously monitored by the operating entities. There is no significant concentration of credit risk in respect of single

counterparts. A credit management policy is in place. The credit management policy and guidelines (including standard payment terms) were slightly revised and updated in 2015. 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 counterparties for financial hedge transactions. Secondly, bank accounts are mainly held with relationship banks. For deposits of liquidity with other counterparties 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	2016	2015
Cash and cash equivalents	265	169
Accounts receivable	718	656
Other current receivables	70	13
Non-current receivables	65	71
Derivatives	38	8
TOTAL	1,156	917

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.

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

SENSITIVITY FINANCIAL INSTRUMENTS

2016

Amounts in NOK million	ACCOUNTING EFFECTS ON			
	INCOME STATEMENT OF		EQUITY OF	
	INCREASE	DECREASE	INCREASE	DECREASE
FINANCIAL INSTRUMENTS IN HEDGING RELATIONSHIPS				
Interest rate risk: 100 bp parallel shift in interest curves all currencies	-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

2015

Amounts in NOK million	ACCOUNTING EFFECTS ON			
	INCOME STATEMENT OF		EQUITY OF	
	INCREASE	DECREASE	INCREASE	DECREASE
FINANCIAL INSTRUMENTS IN HEDGING RELATIONSHIPS				
Interest rate risk: 100 bp parallel shift in interest curves all currencies	-6	6	-	-
Currency risk: 10% change in FX-rate USD/NOK	-	-	-255	255
Currency risk: 10% change in FX-rate EUR/NOK	-	-	-138	138
Currency risk: 10% change in FX-rate SEK/NOK	-	-	1	-1

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

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.

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.

recognised in the income statement will also affect equity beyond the figures presented in the table.

NOTE 29 Derivatives and hedging

The Group applies the IFRS rules for hedge accounting. The table below shows the fair value of all outstanding derivative

financial instruments grouped according to treatment in the financial statements:

Amounts in NOK million	2016		2015	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
CASH FLOW HEDGES				
Currency forwards, currency swaps	34	189	6	465
HEDGES OF NET INVESTMENTS				
Currency forwards, currency swaps	2	-	-	4
OTHER DERIVATIVES - FAIR VALUE CHANGES RECOGNISED IN INCOME STATEMENT				
Currency forwards, currency swaps, options	2	1	2	1
TOTAL DERIVATIVES	38	190	8	470

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

All derivatives designated as hedging instruments in cash flow hedges are carried at fair value in the balance sheet. Changes in fair value are provisionally recognised in the equity hedging reserve, and recycled to the income statement as the cash flows being hedged are recognised in the income statement.

In 2016 a loss of NOK 0.1 million (2015: loss of NOK 1.8 million) was recorded in the income statement as a result of hedging inefficiency. All expected cash flows which have been hedged during 2016 still qualify for hedge accounting.

HEDGES OF NET INVESTMENTS IN FOREIGN CURRENCIES

Currency risk on foreign net investments is hedged with currency forward contracts. Changes in fair value and realised effects of the hedging instruments are both recognised in the equity hedging reserve.

DEVELOPMENT IN THE EQUITY HEDGING RESERVE

Amounts in NOK million	2016	2015
OPENING BALANCE HEDGING RESERVE BEFORE TAX	-612	-333
Reclassified to P/L - operating revenues	203	162
Reclassified to P/L - operating costs	-2	-3
Reclassified to P/L - net financial income	1	1
Reclassified to Balance sheet	-3	-2
Fair value change cash flow hedges	105	-358
Change in gain/(loss) on hedges of net investments in subsidiaries	19	-79
CLOSING BALANCE HEDGING RESERVE BEFORE TAX	-289	-612
Deferred tax and tax payable hedging reserve	74	156
CLOSING BALANCE HEDGING RESERVE AFTER TAX	-215	-456

A negative hedging reserve means a negative recognition in the income statement in the future. In 2016, the operating profit in Borregaard decreased with NOK 115 million (NOK 241 million) related to hedging activities. Accumulated hedging losses from cash flow hedges recognised in the equity hedging reserve as of 31 December 2016 are expected to be recycled to the income statement as follows (before tax):

2017: NOK 111 million (NOK 201 million)
After 2017: NOK 44 million (NOK 258 million)

FAIR VALUE HEDGES

There have not been any significant fair value hedges in the period 2016-2017.

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.

Share capital, share premium fund, other paid-in equity and retained earnings are presented from the establishment of the Borregaard Group in 2012.

DATE/YEAR	NUMBER OF SHARES	NOMINAL VALUE (NOK)	SHARE CAPITAL (NOK MILLION)
31 December 2016	100,000,000	1	100
31 December 2015	100,000,000	1	100

THE 20 LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2016*

SHAREHOLDER	NUMBER OF SHARES	% OF CAPITAL
1 NN INVESTMENT PARTNERS	5,080,068	5.08%
2 ODIN FUND MANAGEMENT	5,028,030	5.03%
3 TAIGA FUND MANAGEMENT	4,668,345	4.67%
4 NORDEA BANK	4,239,861	4.24%
5 ALFRED BERG	3,775,614	3.78%
6 MUST INVEST	3,709,054	3.71%
7 ARTEMIS INVESTMENT MANAGEMENT	3,548,823	3.55%
8 FOLKETRYGDFONDET	3,302,804	3.30%
9 STOREBRAND ASSET MANAGEMENT	2,835,819	2.84%
10 ACADIAN ASSET MANAGEMENT	2,279,789	2.28%
11 DNB	2,240,858	2.24%
12 PARETO FORVALTNING	1,749,429	1.75%
13 BANQUE DEGROOF PETERCAM	1,596,718	1.60%
14 STANDARD LIFE	1,572,716	1.57%
15 SR-FORVALTNING	1,454,148	1.45%
16 MORGAN STANLEY	1,398,789	1.40%
17 BLACKROCK	1,249,420	1.25%
18 ALLIANZ GLOBAL INVESTORS	1,221,447	1.22%
19 CARNEGIE ASSET MANAGEMENT	1,204,009	1.20%
20 PARETO NORDIC INVESTMENTS	1,168,000	1.17%
Total shares	53,323,741	53.32%

* 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 2015	777,883	777,883	43
Exercise of share options in 2015	-125,000	-125,000	-
Shares to employees	-267,375	-267,375	-
Purchase/Buy-back of treasury shares	108,372	108,372	-
31 December 2015	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 (Note 36)	343,380	343,380	29

NOTE 31 Non-controlling interests

Amounts in NOK million	2016	2015
CHANGES IN NON-CONTROLLING INTERESTS:		
Non-controlling interests 1 January	5	8
Non-controlling interests' share of profit/loss	-2	-2
Additions of non-controlling interests	31	-
Translation differences etc.	-	-1
NON-CONTROLLING INTERESTS 31 DECEMBER	34	5

There are no material partly-owned subsidiaries in the Borregaard Group. As of 31 December 2016 non-controlling interests consist of LignoTech Ibérica SA and LignoTech Florida LLC. Borregaard owns 60% of LignoTech Ibérica, which is located in Spain, and 55% of the newly established company LignoTech Florida, which is located in the US. Operations in these entities have not been material for the Group. For LignoTech Florida, see Note 36.

NOTE 32 Leases and leasing

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

RENTED/LEASED PROPERTY, PLANT AND EQUIPMENT	LESSEE – OPERATING LEASES									
	MACHINERY/ PLANT		LAND, BUILDING, PROPERTY		FIXTURES, VEHICLES ETC.		OTHER ASSETS		TOTAL	
Amounts in NOK million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
COST CURRENT YEAR	-14	-14	-17	-15	-12	-11	-28	-22	-71	-62
Cost next year	-14	-16	-18	-16	-13	-11	-23	-23	-68	-66
Total costs 2–5 years	-35	-41	-33	-35	-19	-16	-23	-23	-110	-115
Total costs after 5 years	0	-	-61	-66	-1	-	-8	-8	-70	-74
TOTAL FUTURE LEASING COSTS	-49	-57	-112	-117	-33	-27	-54	-54	-248	-255

Borregaard does not have any financial leases.

NOTE 33 Pledges and guarantees

By virtue of the Joint Venture agreement with Sappi Saiccor, Borregaard AS is liable for export accounts receivable (67 million NOK 31.12.2016) in Umkomaas Lignin (Pty) Ltd (LignoTech South Africa).

LignoTech Florida (55% owned by Borregaard) entered into a construction contract to build its lignin manufacturing facility.

The company is guarantor under the contract and is jointly and severally liable for payment of costs incurred to construct the facility. In the event of default, the company expects it would only be liable for its proportional share as a result of an agreement with its venture partner. See Note 36 for more information.

NOTE 34 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 575,000 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 35 Government grants

Borregaard recognised NOK 112 million in government grants in 2016 (NOK 63 million). Of this amount, NOK 89 million was recognised as reduced costs (NOK 49 million), while NOK 23 million was recognised as a reduction of the acquisition cost of the asset concerned (NOK 14 million). The grants are provided by Norwegian authorities and the European Union mainly on research and development projects, environmental investments and CO₂ compensation.

A consortium of European companies and research institutions, with Borregaard as lead member, has been

granted financial support for the development and commercialisation of Borregaard's Exilva microfibrillar cellulose under the Horizon 2020 Flagship programme, 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 will be reduced if the project makes a profit during this period.

NOTE 36 Other matters and subsequent events

Silo fire incident and insurance: The property damage coverage related to the silo fire incident is recognised as Other income and expenses¹. See Note 12. Actual losses related to business interruption are covered by insurance and have been recognised in EBITA adj.¹ on an on-going basis. An estimate of the total business interruption losses is difficult to make due to uncertainty. Therefore, no future insurance compensation has been recognised, but will be recognised in the periods when business interruption losses occur.

Environment, Health and Safety issues (EHS). Sulphur dioxide (SO₂) is one of the most important chemicals used in the production processes at Borregaard. There are several EHS regulations to secure safe operations, safe working environment and low emissions to environment. The use of SO₂ has been regulated for many years, but the authorities both in the EU and in Norway have enhanced the regulations during the last years and new demands are coming. Borregaard is continually working on measures to reduce the frequency of extraordinary emissions of SO₂ and the inherent risk associated with SO₂ in parts of the production processes. Estimates for future investments related to reduced SO₂ emissions and reduced SO₂ risk in the production processes are uncertain and may depend on among other things technological developments and future regulatory requirements. However, such investments are expected to be handled within the ordinary level for annual replacement investments.

Chlor-alkali plant: In the period 1949-1997 Borregaard operated a chlor-alkali plant at the site in Sarpsborg. The process led to pollution of the soil in the area close to the plant. In 1994, a groundwater barrier was built, the water in the area close to the plant was cleaned and a water monitoring programme for mercury was established. In the winter of 2015, a higher level of mercury was discovered by the monitoring. Borregaard has undertaken measures to strengthen the ground water barriers and the infrastructure for emission pipeline, in order to prevent mercury leakage from discontinued operations. In 2016, Borregaard reached a normal emission rate of mercury, and ground water wells showed decreasing levels of mercury. In 2017, Borregaard will finish the project activities to strengthen the ground water barriers and start a programme for cleaning or depositing the area downstream the ground water barrier.

A total provision of NOK 60 million has been recognised in Other income and expenses¹ in 2016, see Note 12.

Opsund landfill: The permanent closure of the Opsund landfill continues according to the plan. Remaining provision as of 31 December 2016 is NOK 19 million.

Florida lignin investment approved: The board of directors of Borregaard and Rayonier Advanced Materials decided in December 2016 to go ahead with the investment project in Florida after securing necessary permits as well as incentives from local authorities. The new company, LignoTech Florida will be 55% owned by Borregaard and 45% owned by Rayonier Advanced Materials. The entity will be fully consolidated into the Borregaard Group's financial statements. Spending on the project started late 2016, and a minority interest is recognised in Borregaard's group accounts as of 31 December 2016.

Supply of lignin raw materials from Sniace to LignoTech Ibérica resumed: The Sniace Group re-started its pulp production mid-October 2016, and lignin raw material supply to LignoTech Ibérica resumed.

Shares to employees: As part of the employee share programme, Borregaard has sold a total of 159,315 shares to employees in February 2017. The share price was NOK 65.07 per share including a 30% discount. For more details, see notifications to the Oslo Stock Exchange on 13 and 20 February and 1 March 2017.

Share options issued: In February 2017, 364,000 share options at a strike price of NOK 104.11 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. Cost in 2017, including administration costs, related to the share purchase programme amounts to approximately NOK 5 million. For more details, see notification to the Oslo Stock Exchange on 17 February 2017.

Treasury shares: During February and March 2017, 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 484,065. See notifications to the Oslo Stock Exchange from 27 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.

¹ Non-GAAP measure, see page 103 for definition.

BORREGAARD ASA

FINANCIAL STATEMENTS 2016



INCOME STATEMENT	90
STATEMENT OF FINANCIAL POSITION	90
CASH FLOW	91
STATEMENT OF CHANGES IN EQUITY	91
NOTES	92
STATEMENT FROM THE BOARD OF DIRECTORS	97
AUDITOR'S REPORT	98

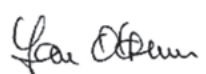
INCOME STATEMENT

Amounts in NOK thousand	NOTE	2016	2015
Other operating expenses	5, 9	-5,787	-5,369
OPERATING PROFIT		-5,787	-5,369
Finance income	6, 9	523,648	176,088
Finance costs	6	-10,754	-9,946
Financial items, net	6, 9	512,894	166,142
PROFIT/LOSS BEFORE TAXES		507,107	160,773
Taxes	8	-126,841	-43,450
PROFIT/LOSS FOR THE YEAR		380,266	117,323
Proposed dividend		-348,798	-149,259

STATEMENT OF FINANCIAL POSITION

Amounts in NOK thousand	NOTE	2016	2015
ASSETS			
Deferred tax assets	8	43	53
Shares in subsidiaries	7	1,158,347	1,158,347
Loans to Group companies	9	917,553	1,144,930
Non interest-bearing receivables		271	793
NON-CURRENT ASSETS		2,076,214	2,304,123
Receivables	9	500,257	150,108
Cash, cash equivalents and deposits in Group cash pool		2,353	367
CURRENT ASSETS		502,610	150,475
TOTAL ASSETS		2,578,824	2,454,598
EQUITY AND LIABILITIES			
Share capital	11	100,000	100,000
Treasury shares		-343	-494
Share premium		1,758,347	1,758,347
Other paid in equity		8,447	2,734
Retained earnings		35,327	-
EQUITY		1,901,778	1,860,587
Interest-bearing liabilities	10	200,000	400,000
NON-CURRENT LIABILITIES		200,000	400,000
Dividends		348,798	149,259
Income tax payable	8	126,831	43,459
Accounts payable	9	729	125
Other liabilities		688	1,168
CURRENT LIABILITIES		477,046	194,011
EQUITY AND LIABILITIES		2,578,824	2,454,598

Sarpsborg, 21 March 2017
The Board of Directors of Borregaard ASA



JAN ANDERS OKSUM

(Chair)



TERJE ANDERSEN



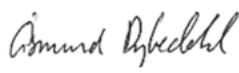
KRISTINE RYSSDAL



RAGNHILD WIBORG



JON ERIK REINHARDSEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLIE

(President and CEO)

CASH FLOW

Amounts in NOK thousand	2016	2015
Profit/loss before taxes	507,107	160,773
Changes in net working capital, etc.	-349,503	-99,945
Taxes paid	-43,459	-18,187
CASH FLOW FROM OPERATING ACTIVITIES	114,145	42,641
CASH FLOW FROM INVESTING ACTIVITIES	-	-
Dividends	-149,275	-124,028
Proceeds from sales of treasury shares	19,584	18,340
Buy-back of treasury shares	-9,845	-5,300
Net paid to/from shareholders	-139,536	-110,988
Change in interest-bearing liabilities	-200,000	-
Change in interest-bearing receivables	227,377	66,815
Change in net interest-bearing liabilities	27,377	66,815
CASH FLOW FROM FINANCING ACTIVITIES	-112,159	-44,173
CHANGE IN CASH AND CASH EQUIVALENTS	1,986	-1,532
Cash and cash equivalents as of 1 January	367	1,899
Change in cash and cash equivalents	1,986	-1,532
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	2,353	367

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 2014	100,000	-778	1,758,347	21,914	-	1,879,483
Profit/loss for the year	-	-	-	-	117,323	117,323
Proposed dividend 2014	-	-	-	124,028	-	124,028
Actual paid-out dividend in 2015	-	-	-	-124,028	-	-124,028
Proposed dividend for 2015	-	-	-	-31,936	-117,323	-149,259
Buy-back/sales of treasury shares	-	284	-	12,756	-	13,040
EQUITY 31 DECEMBER 2015	100,000	-494	1,758,347	2,734	0	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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 01 General information

Borregaard ASA ("The Company") was incorporated as a public limited liability company on 22 August 2012. On

17 September, The Company was inserted as a holding company of Borregaard AS.

NOTE 02 Accounting principles

The financial statements for Borregaard ASA have been prepared and presented in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP). The annual accounts give a true and fair view of assets and liabilities, financial status and result.

All amounts are in NOK thousand unless otherwise stated. The functional currency of Borregaard ASA is NOK.

CLASSIFICATION OF ITEMS IN THE FINANCIAL STATEMENTS

An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it falls due within 12 months and when it consists of cash or cash equivalents on the statement of financial position date. Other items are non-current.

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.

TAX

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.

CASH FLOW

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.

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

Amounts in NOK thousand	2016	2015
Guarantees to subsidiaries	1,500,000	1,530,000
TOTAL GUARANTEE COMMITMENTS	1,500,000	1,530,000

Borregaard ASA is jointly and severally liable as guarantor and as borrower for the long-term credit facilities entered into by Borregaard AS (NOK 1,500 million).

In addition, Borregaard ASA is jointly and severally liable borrower with Borregaard AS for the EUR 40 million term loan contracted with Nordic Investment Bank.

NOTE 05 Remuneration and contractual arrangements

REMUNERATION OF THE BOARD OF DIRECTORS

In the General Meeting of the Company's shareholders in April 2016 it was determined that The Board of Directors is remunerated at annual rates for the period up to the next General Meeting in 2017:

REMUNERATION OF THE NOMINATION COMMITTEE

The Chair of the Nomination Committee receives NOK 53,800 per year and an additional NOK 8,700 per meeting exceeding 4 meetings. Other members receive NOK 37,900 per year and an additional NOK 7,000 per meeting exceeding 4 meetings.

Board Chair	NOK	433,000	per year
Board member	NOK	259,800	per year
Observer	NOK	86,600	per year
Deputy for observer	NOK	6,600	per meeting

AUDIT COMMITTEE

Committee Chair	NOK	81,300	per year
Member	NOK	54,300	per year

COMPENSATION COMMITTEE

Committee Chair	NOK	48,600	per year
Member	NOK	37,900	per year

SHAREHOLDINGS OF CEO AND MEMBERS OF THE BOARD OF DIRECTORS

	NUMBER OF SHARES*
PRESIDENT & CEO	
Per A. Sørli	145,990
SHAREHOLDER-ELECTED BOARD MEMBERS	
Jan A. Oksum	10,000
Terje Andersen	3,571
EMPLOYEE-ELECTED BOARD MEMBERS	
Ragnhild Anker Eide	2,012
Åsmund Dybedahl	6,192
EMPLOYEE-ELECTED BOARD OBSERVERS	
Bente Seljebakken Klausen	650
TOTAL	168,415

* Total share ownership including related parties

FEES TO EXTERNAL AUDITOR

Amounts in NOK thousand	2016	2015
Statutory audit	348	321
Tax consultancy services	19	-
TOTAL	367	321

NOTE 06 Finance income and finance costs

Amounts in NOK thousand	2016	2015
Group contribution	500,000	150,000
Interest income from Borregaard AS	23,623	26,052
Interest income	25	36
TOTAL FINANCE INCOME	523,648	176,088
Interest costs	-8,550	-9,946
Foreign exchange loss	-4	-
Other finance costs	-2,200	-
TOTAL FINANCE COSTS	-10,754	-9,946
FINANCIAL ITEMS, NET	512,894	166,142

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

NOTE 07 Shares in subsidiaries

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%
Nutrancell AS	100%
Borregaard Austria GmbH	100%
Borregaard Czech s.r.o.	100%
Borregaard UK Ltd.	100%
Borregaard Deutschland GmbH	100%
Borregaard S.E.A. Pte. Ltd	100%
Borregaard Poland sp. z.o.o.	100%
Borregaard France SarL	100%
Borregaard Ibérica, S.L.	100%
LignoTech Ibérica SA	60%
Borregaard Middle East FZE	100%
Borregaard Synthesis Inc.	100%
LignoTech USA, Inc.	100%
Borregaard North America, Inc.	100%
LignoTech Brasil 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

TAX EXPENSE

Amounts in NOK thousand	2016	2015
Profit before tax	507,107	160,773
Current tax expense	-126,831	-43,459
Change in deferred tax	-10	9
TOTAL TAX EXPENSE	-126,841	-43,450
Tax as % of Profit/loss before taxes	25%	27%

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	2016	2015
DEFERRED TAX ON TAX INCREASING/REDUCING DIFFERENCES		
Provisions	-43	-53
DEFERRED TAX LIABILITIES/ASSETS	-43	-53
This years change in deferred tax	-10	9
CHANGE IN DEFERRED TAX INCOME STATEMENT	-10	9

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.

RECONCILIATION OF TOTAL TAX EXPENSE

Amounts in NOK thousand	2016	2015
25% (27%) of profit before tax	-126,777	-43,409
Change in tax rate	-2	-4
Other non-deductible expenses	-62	-37
TOTAL TAX EXPENSE	-126,841	-43,450

The tax rate in Norway was reduced from 25% to 24% from 1 January 2017. This is considered in the calculation of deferred taxes as of 31 December 2016.

NOTE 09 Related parties

INTERCOMPANY RELATIONS WITH BORREGAARD AS

Amounts in NOK thousand	2016	2015
Other operating expenses (Note 5)	3,020	2,797
Group contribution	500,000	150,000
Interest income from Group companies	23,623	26,052
Loans to Group companies*	917,553	1,144,930
Current receivable Group contribution	500,000	150,000
Accounts payable	729	124

* 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.

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 to the Financial Statements for Borregaard Group.



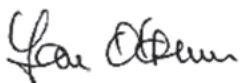
STATEMENT FROM THE BOARD OF DIRECTORS

We confirm that the financial statements for the period 1 January to up to and including 31 December 2016, 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, 21 March 2017

THE BOARD OF DIRECTORS OF BORREGAARD ASA



JAN ANDERS OKSUM
Chair



TERJE ANDERSEN



KRISTINE RYSSDAL



RAGNHILD WIBORG



JON ERIK REINHARDSEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLIE
President and CEO

AUDITOR'S REPORT



Statsautoriserte revisorer
Ernst & Young AS

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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 2016, 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 2016, 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 2016, 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 2016 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 has operating sites worldwide and environmental issues are inherent in the chemicals industry. Future estimated cash flows to clean-up affected areas are uncertain. 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 the Group's external advisors on the current situation and risks regarding environmental provisions and correspondence with environmental authorities to assess the recognition criteria.

We assessed the estimated cash flows used as basis for the environmental provisions by comparing the most recent actual cash flows for similar clean-ups, and updated estimates with the prior years' actual expenses. Further, we assessed the key input factors to the calculations. 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 5 for use of estimates, note 12 for other income and expenses, note 20 for provisions and other liabilities and note 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 numbers of trade terms. Consequently, there is a risk that significant transactions near yearend are recognized in the incorrect period. Hence, we consider cut-off of revenue 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. We tested controls performed by Group management. We assessed transactions recorded close to yearend and tested timing of revenues. We compared the trade terms and status of shipments to underlying contractual information and other supporting documentation. We analyzed the level of accruals compared to previous periods and as percentage of sales.

We refer to disclosures in note 4 for revenue recognition principles.

Hedging of cash flows related to sales

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

We assessed the Group's requirements for use of hedge accounting. We have tested, on a sample basis, whether the documentation of cash flow hedging meets the requirements of IFRS as adopted by EU and that the hedging instruments therefor are eligible for hedge accounting. We examined the assessments of cash flows forecasts from sales and the relationship between hedging instruments and hedging objects. Furthermore, we have considered the prospective and retrospective effectiveness testing to assess whether the hedge relationships are effective and that the hedge effectiveness has been calculated accurately. We have reconciled the outcome of the retrospective effectiveness testing resulting in the hedge adjustment to the financial statements.

We tested the existence, completeness and valuation of the unrealized forward contracts. We assessed the changes in fair value of forward contracts and changes in foreign exchange for hedging objects. Further, we assessed the impact for profit and loss, comprehensive income and the balance sheet.

We refer to note 4 regarding key accounting principles and note 21 financial instruments.

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 concerning the financial statements and in the statements on corporate governance and corporate social responsibility, 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, 23 March 2017
ERNST & YOUNG AS

Kjetil Rimstad
State Authorised Public Accountant (Norway)

HISTORICAL KEY FIGURES

	DEFINITIONS	2016	2015	2014	2013	2012
PROFIT & LOSS						
Operating revenues	(mill.NOK)	4,492	4,164	3,939	3,886	3,838
EBITA adj. ¹	(mill.NOK)	747	497	486	489	539
Amortisation intangible assets	(mill.NOK)	-4	-1	-	-2	-3
Other income and expenses ¹	(mill.NOK)	13	37	-30	14	-71
Operating profit	(mill.NOK)	756	533	456	501	465
EBITA adj. margin ¹	(%)	16.6	11.9	12.3	12.6	14.0
Ordinary profit before taxes	(mill.NOK)	724	506	430	460	410
Profit for the year	(mill.NOK)	553	384	332	331	278
CASH FLOW						
Cash flow from operating activities	(mill.NOK)	1,081	563	600	526	531
RETURN						
Return on capital employed ¹	(%)	21.7 %	15.6%	16.5%	16.9%	19.5%
CAPITAL AS OF 31 DECEMBER						
Booked value of total assets	(mill.NOK)	4,671	4,169	3,748	3,427	3,466
Market capitalisation	1 (mill.NOK)	8,469	4,901	5,429	2,984	2,079
Equity ratio ¹	(%)	58.1	49.4	52.0	54.2	49.1
Net interest-bearing debt ¹	(mill.NOK)	300	624	608	728	852
Leverage ratio ¹		0.29	0.82	0.83	1.03	1.14
Interest coverage ratio	2	41.2	24.0	16.4	14.5	7.8
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)	100,077	99,735	99,578	99,592	100,059
Number of shares outstanding	(x 1,000)	100,000	100,000	100,000	100,000	100,000
SHARES-RELATED KEY FIGURES						
Share price at 31 December	(NOK)	84.50	49.40	55.50	30.20	20.80
Earnings per share diluted	4 (NOK)	5.55	3.87	3.35	3.36	2.76
Ordinary dividend per share (proposed for 2016)	(NOK)	1.75	1.50	1.25	1.10	1.00
Extraordinary dividend (proposed for 2016)	(NOK)	1.75	-	-	-	-
Payout ratio	5 (%)	63.06	38.76	37.31	32.74	36.23
Price/earnings ratio	6	15.23	12.76	16.57	8.99	7.53
PERSONELL						
Number of man-years at 31 December (excluding JV) ²		1,008	1,027	1,028	1,002	978

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 103 for definition.

² Excluding employees in joint venture in 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)
+	Tax 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 venture 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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