



SUSTAINABILITY AND CORPORATE RESPONSIBILITY 2014 Report



Sustainability and corporate responsibility in Borregaard

Borregaard's main 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 corporate responsibility and its sustainable development.

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

Main areas

Corporate responsibility is a broad concept that covers many areas. With a view to specifying and prioritising the Group's corporate responsibility activities, Borregaard has defined the following main areas:



Stakeholder dialogue

Maintaining good contact with the Group's various stakeholders is important in terms of creating trust in Borregaard and an understanding of what the company does within 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 assess the need to implement improvement projects in areas where specific challenges exist.

Organisation and responsibilities

Corporate responsibility is a line management responsibility in Borregaard. This means that corporate responsibility must form an integral part of what the Group's management team, various units and departments do. The management team also has the overall responsibility to monitor the company's aspirations, initiatives and results in this area as well. Borregaard has a number of guideline documents and reporting procedures as part of its corporate responsibility policy. These documents and reporting on corporate responsibility are the responsibility of the HR & Communications department. The documents are also approved by Borregaard's Board of Directors.

References

- Guidelines on corporate responsibility
- Ethical guidelines
- Competition law manual
- Guidelines on responsible procurement
- Guidelines on human rights
- Guidelines on whistleblowing
- Guidelines on Environment, Health and Safety (EHS)
- Anti-corruption manual

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." This chapter responds to these requirements.

A

Sustainable
business model

Borregaard's fundamental understanding of sustainability and corporate responsibility is that the business model itself and the company's products are sustainable and meet global needs.

In the years ahead, the world will face numerous challenges associated with population growth and urbanisation. Borregaard's bio-based products are alternatives to petrochemical-based products, thereby contributing towards resolving some of the long-term global challenges associated with access to resources and the impact on the environment and climate.

Borregaard has engaged an independent third party, Ostfold Research, to conduct a life cycle analysis (LCA) in accordance with the ISO 14044/48 standard. This involves analysing all environmental and resource-related impact of the products throughout their entire life cycle. This analysis confirms that Borregaard's bio-based products do well from a climate perspective when compared with petrochemical alternatives. Borregaard has also made efforts to reduce greenhouse gas emissions in its own processes, including elimination of heavy oil consumption and increasing the amount of energy derived from more eco-friendly energy sources.

Key initiatives and results in 2014

Energy investments replacing heavy oil during the last few years have resulted in significantly reduced local emissions (NO_x, SO₂ and dust) to air and greenhouse gas emissions (CO₂) in 2014. See pages 6 and 7.

Borregaard's biological purification plant for treatment of waste water and production of biogas had its first full year of operation in 2014. This led to a reduction in the emissions of organic materials (COD) to water to a historically low level, as well as to a reduction in phosphorous emissions. The investment also

led to increased production of biogas that substituted fossil fuels as an energy source and thereby further improved the environmental footprint of the biorefinery concept.

In 2014 Borregaard decided to invest in a facility for the production of microfibrillar cellulose at the Group's site in Sarpsborg. The facility is now under construction and is expected to produce sustainable biomaterials that substitute non-renewable materials for industrial applications from 2016. The Group also acquired technology and built a large-scale pilot plant for SenseFi advanced texture systems at its site in Wisconsin, USA. The BALI project (short for Borregaard Advanced Lignin) has run its course through 2014 further developing the technology and testing raw materials. These projects both entail a continuation and a further specialisation of the biorefinery concept.

Innovation plays an important role in maintaining sustainability. In 2014, 12% (13%) of Borregaard's revenues came from products launched during the previous five years.

Key targets 2014

Achieved

Continue developing the BALI technology



Achieve further reduction in the company's emissions



Increase the level of innovation measured in terms of new product sales

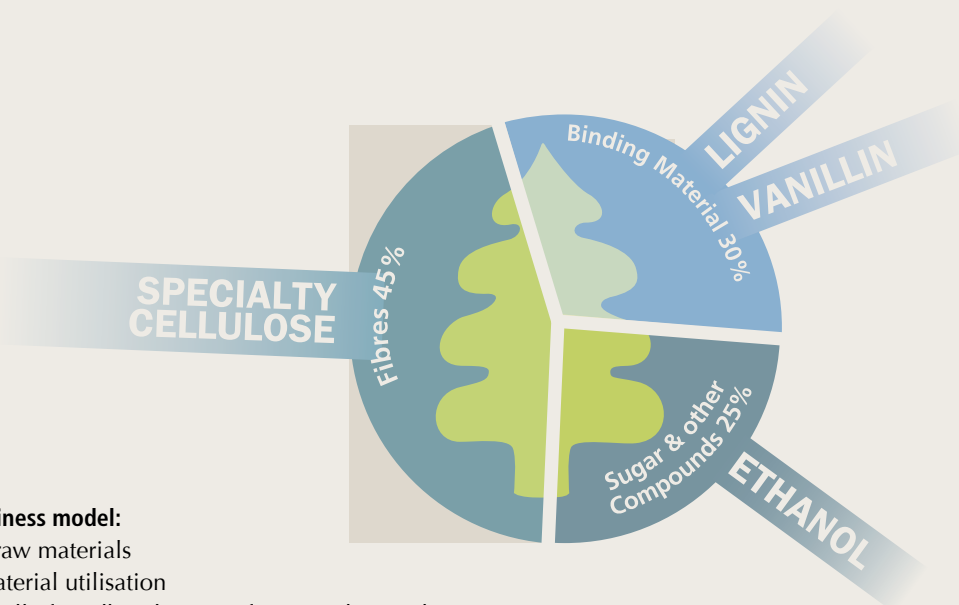


Key targets 2015

Update life cycle analysis (LCA) for Borregaard products

Increase the level of innovation measured in terms of new product sales

Strengthen Borregaard's business model by developing Exilva into a new business



Borregaard's business model:

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

B

Environment,
health and safety

Environment, health and safety are an integral part of Borregaard's business plan. The Group makes active efforts by adopting measures that can contribute to proper environmental and resource management. Borregaard's aspiration is to make a positive contribution to its employees' health through a zero-tolerance policy in terms of injuries to employees or other persons as a result of company activities.

Borregaard's aspirations and recommendations concerning EHS are set out in a separate guideline document (see list on page 2).

Borregaard has established a risk assessment and management system, which is a part of the Group's business 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, but self-assessments are carried out on environment, health and safety matters.

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

Health and the working environment

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

There is an emphasis on closely following up 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. A number of preventive initiatives related to exercise, diet and smoking have been continued at the plant in Sarpsborg during 2014.

Results in 2014

The sick leave rate in the Borregaard Group was 3.4% in 2014, representing a decrease of more than 10% compared to the 2013 rate of 3.8%. The sick leave rate at the Borregaard plant in Sarpsborg was historically low in 2014 and fell by almost 9% from 2013 to 2014 (from 4.6% to 4.2%). The sick leave rate at Borregaard's plants outside Norway has historically been low and declined even further in 2014. A health programme which was introduced at the plant in Germany in 2013 showed further improvement by reducing the sick leave rate by 35% (from 5.7% in 2013 to 3.7% in 2014), which is well below the average for the industry. The programme mainly comprises physical exercise, lectures about healthy nutrition and ergo-

nomics in the workplace. Although sickness rates are low in LignoTech South Africa (0.24%) the company initiated a health club reimbursement for all employees who wanted to join a fitness club in 2014.

Workplace safety

Safety is integrated in every aspect of Borregaard's operations. Borregaard also has a worldwide safety programme called Zero Harm. Important measures aimed at achieving fewer injuries include: basic EHS training, focusing on personal responsibility for 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 2014

In recent years Borregaard has worked hard to reduce the number of injuries and the seriousness of these incidents. In 2014 there were no lost time injuries at Borregaard's plants outside Norway. The plants in the UK and Germany marked eleven and seven years respectively since the last recorded lost time injury.

The Group's lost time injuries rate, measured as H1 value (number of injuries resulting in sick leave per million hours worked), rose from 2.2 in 2013 to 2.7 in 2014. The total number of injuries, measured as H2 value (number of injuries per million hours worked), was reduced from 15.1 in 2013 to 10.6 in 2014.

The Sarpsborg plant had a total of 19 injuries in 2014, five of which resulted in sick leave. The H1 value in Borregaard Sarpsborg rose from 3.2 in 2013 to 3.9 in 2014. However, the H2 value was reduced from 21.3 in 2013 to 14.6 in 2014. Most injuries occur during the performance of daily tasks such as handling sharp and heavy equipment causing cuts and strain injuries. The main cause of injuries has historically been exposure to chemicals. In 2014 only one injury was caused by chemical exposure. Years of systematic work on reducing chemical exposure through training and safety management are now showing positive results.

In 2014 LignoTech South Africa maintained its OHSAS 18001:2007 certification – an international occupational health and safety management system specification. The company organised a "Safety Day" raising awareness about safety risks in the workplace. In addition all new Performance Chemicals employees undergo hazard awareness training and testing, and sign a safety pledge when joining the company.

A new EHS manual for Borregaard Sarpsborg was published in 2014. In 2015 Borregaard will install a new and improved deviation system which will provide even better monitoring of EHS incidents.

Initiatives in 2015

Continuous follow-up, communication and focus on behaviour are needed to create a good safety culture. In 2015 we will focus on training to enhance employees' risk awareness in their daily work environment as well as monitoring, visible presence of and follow-up by management. 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 2015.

EHS training will continue to be a key area of focus in 2015, both within and outside the organisation, starting with a safety training programme for external workers at the site in Sarpsborg.

Borregaard will also continue its initiative to reduce exposure to gas emissions. This will involve various technical measures and information campaigns about potential hazards.

Public safety

Safety work includes not only issues related to personal safety and security during work activities. Borregaard also continuously assesses the safety conditions in relation to the wider community outside the company. This applies in particular to Borregaard's large plant in Sarpsborg, which is regulated by the Norwegian Major Accident Regulations (Storulykkeforskriften).

Large amounts of sulphur dioxide (SO₂) are handled at Borregaard's plant in Sarpsborg. A hypothetical large emission of this gas includes a high inherent risk for third party and the environment and can lead to permanent damage and in worst case death. Borregaard is continuously working on risk competence and reduction. Sometimes risk can be removed by technical, organisational or business-like measures. Borregaard's elimination of chlor-alkali risk through the conversion of the chlor-alkali plant in 2012 is an example of this. However, it is not possible to remove SO₂ from Borregaard's production processes today. This means that there will be an inherent risk associated with SO₂ in parts of our processes also in the future.

Borregaard has, in collaboration with independent expertise, conducted extensive risk assessments in accordance with guidelines from the Norwegian Directorate for Civil Protection (DSB). Based on this, DSB has proposed specific zones requiring special considerations around Borregaard's site in Sarpsborg. These zones will be used as a basis for a revision of the municipal land use plan. Borregaard expects that the long-term development of the surrounding area will be harmonised in line with the Seveso Directive expectations.

Initiatives in 2015

In 2015 Borregaard will invest in technical measures that further enhance safety concerning SO₂. In parallel we will decide long-term solutions for use and storage of SO₂. The company will have an active dialogue with the local authorities to develop guidelines and plans for the zones close to the plant.

Environment

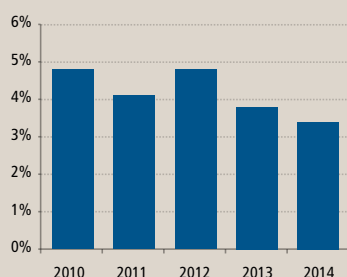
Borregaard is making efforts to reduce its environmental impact in a number of areas. The most significant environmental challenges are associated with the Sarpsborg plant. Its greenhouse gas emissions are primarily due to thermal energy production, which is also relevant to other emissions to air. There was also a particular focus on reducing emissions to water in 2014 through efforts to devise measures aimed at meeting new permit requirements.

A. Energy consumption and production

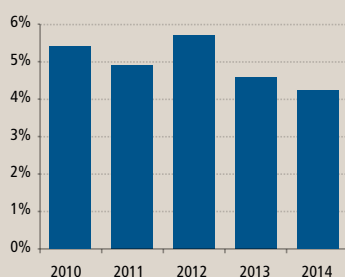
The total amount of energy consumed by all Borregaard units amounted to 1.88 TWh in 2014 (1.30 TWh of thermal power and 0.58 TWh of electricity-specific consumption). The majority of the energy was consumed by Borregaard's plant in Sarpsborg, where total consumption amounted to 1.64 TWh in 2014; 1.14 TWh of thermal power and 0.5 TWh electricity-specific consumption.

Steam consumption at Borregaard's plant in Sarpsborg was slightly higher compared with 2013 due to an increased number of plant start-ups requiring more energy.

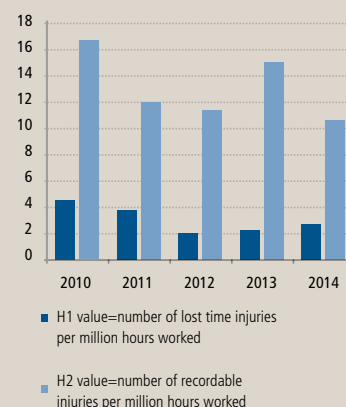
**Sick leave
Borregaard Group**



**Sick leave
Sarpsborg site**



**Lost time injuries
Borregaard Group**



During the past decade, Borregaard has implemented an energy strategy to replace the use of heavy oil with more climate- and eco-friendly energy sources. At present, Borregaard meets its baseload energy needs in the form of steam through recovery of thermal energy from production, bioenergy and energy recovered from waste. There are some periods when more energy is required (peak load). During these periods, Borregaard has historically produced steam using heavy oil and electrical power. Autumn 2013 Borregaard commissioned a new plant based on liquefied natural gas (LNG) which, together with use of electrical power, is the energy source for peak loads. This means that Borregaard has phased out the use of heavy oil as an energy source. After the LNG plant's first full year of operation, we are experiencing environmental improvements in terms of reduced emissions to air. Using natural gas instead of heavy oil has reduced NO_x emissions by 90% and CO₂ emissions by 50%. Total emissions of NO_x and CO₂ depend on the use of LNG versus electrical power for peak load. The sulphur dioxide (SO₂) and dust emissions from peak load steam production are almost eliminated.

In 2014 Borregaard initiated a new energy conservation programme at the plant in Sarpsborg, which will mainly reduce thermal energy consumption and, in turn, emissions to air. The project involves making better use of the surplus thermal energy and waste energy to be able to reduce the amount of natural gas and electricity used.

The programme receives financial support from Enova, which provides 42% of the total investment of NOK 107 million. Borregaard has the goal, within three years, of reducing annual energy consumption at the Sarpsborg site by around 60 GWh, as well as reducing CO₂ emissions by up to 16,000 tonnes. Borregaard will carry out an additional pre-project in 2015 to investigate new energy efficiency activities. In 2014 the Sarpsborg site installed a new control system in the spray driers. This system enables the use of more green energy in the form of biogas at this plant.

B. Greenhouse gases

Borregaard's direct emissions of the greenhouse gas CO₂ primarily derive from fossil fuels used in thermal energy production.

In 2014 Borregaard completed an Enova-supported biological purification plant, the Eco-friendly plant, which significantly reduces emissions to water and produces green energy in the form of biogas, replacing fossil fuel for spraydrying of lignin.

The total emissions generated by all of the Group's plants amounted to 163,922 tonnes in 2014, a reduction of 3,600 tonnes from 2013. CO₂ emissions at Sarpsborg accounted for 129,371 tonnes. The Sarpsborg site reported a decrease in CO₂ emissions in 2014 of about 8,500 tonnes. This was mainly due to a change in the peak load energy source from heavy oil to LNG as well as a switch in energy source from propane to biogas to operate the spray driers in Sarpsborg. The plant in Germany increased its CO₂ emissions due to higher production in 2014.

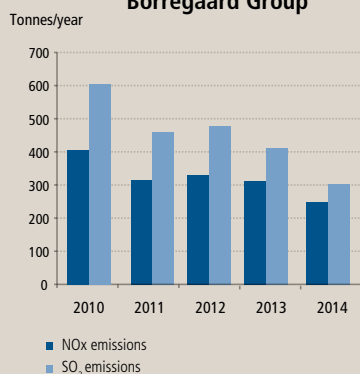
Replacing fossil fuel for spraydrying of lignin with biogas from the Eco-friendly plant will yield a yearly reduction of CO₂ emissions of more than 8,000 tonnes from 2015.

C. Reduction in emissions to air

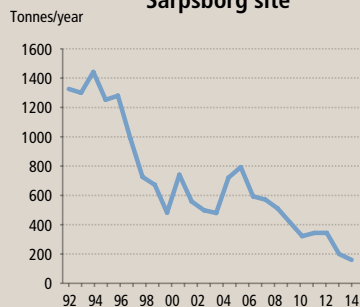
In 2014, SO₂ emissions were discharged from both the cellulose processes and bioethanol and biogas production.

Total SO₂ emissions amounted to 301 tonnes in 2014, 166 tonnes of which were produced in Sarpsborg. Borregaard has invested in a number of initiatives that have reduced SO₂ emissions in Sarpsborg over the last 17 years from 1,200 tonnes annually to less than 200 tonnes annually. During 2014 the SO₂ emissions were reduced by over 100 tonnes (40% compared with 2013). The introduction of new energy sources such as natural gas and biogas as well as investments in purification technology have resulted in considerable environmental improvements in 2014.

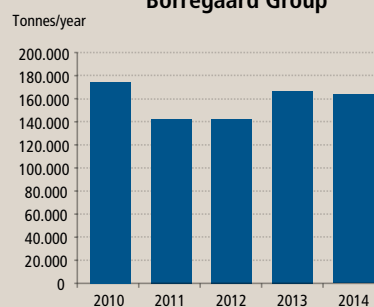
**NO_x and SO₂ emissions
Borregaard Group**



**SO₂ emissions
Sarpsborg site**



**CO₂ emissions
Borregaard Group**



Sarpsborg municipality measures local air quality in terms of SO₂-content. The results of these measures show a reduction in the concentrations of SO₂ in the local environment, but isolated incidents at Borregaard can lead to short-term elevation of values. In 2014, Sarpsborg municipality registered 16 exceedances of the SO₂ level in the air around Borregaard's 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. An ongoing programme aimed at replacing the pipework system by 2017 is also helping to cut SO₂ emissions. The overall result of these measures will be better local air quality in Sarpsborg.

Local air quality shall be taken into account in the municipality's land use planning. There are special regulatory requirements related to the localisation of activities which may involve exposure of vulnerable groups such as health institutions and nurseries. These requirements were made stricter in 2014. In 2015, in cooperation with local authorities, Borregaard will prepare a dispersion map showing potential exposure of SO₂ and taking new requirements into consideration.

The total amount of NO_x emissions from Borregaard was 246 tonnes in 2014, representing a 13% reduction over 2013. The reduction in emissions is mainly due to no consumption of heavy oil at the Sarpsborg site, where 179 tonnes of NO_x emissions were discharged in 2014, compared with 223 tonnes in 2013.

D. Emissions to water

In 2014 Borregaard inaugurated a new biological purification plant. After its first full year of operation, Borregaard's emissions of organic materials (COD) dropped to 69 tonnes per day in 2014. This marks a historically low level and a 9% reduction compared with 2013 and is within Borregaard's permitted maximum for COD emissions.

The figures only reflect COD emissions in Sarpsborg since the Group's other operations do not have any significant emissions to water.

The investments in a new biological purification plant also led to a 36% reduction in phosphorus emissions, a positive contribution to the aquatic environment in the Glomma river.

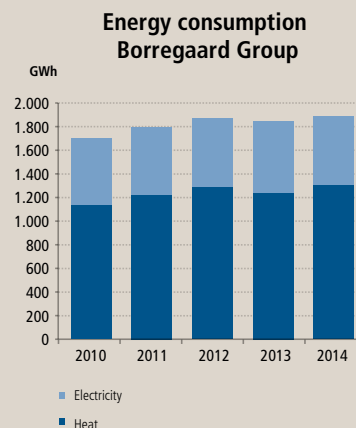
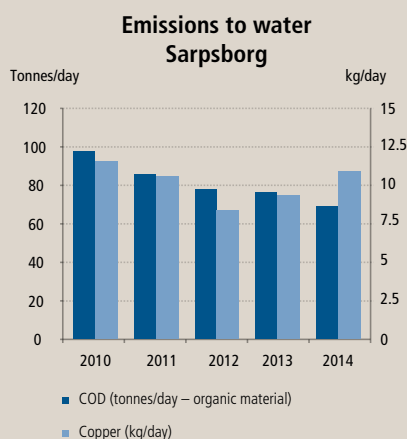
In 2014 Borregaard discharged 11 kg of copper emissions per day, as a consequence of its activities in Sarpsborg. This is equivalent to an increase of 1.5 kg/day compared with 2013. Reorganisation of production flows in 2015 will reduce the copper emissions and return them to the 2013 level.

E. Salmon cultivation facility

Emissions from industrial operations and water level control can have negative consequences for spawning and growth conditions of the wild salmon stock in River Glomma, the river that runs past 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 is to achieve the salmon stock target for River Glomma in the period of four to five years. The electronic fish measurements taken by NIVA (Norwegian Institute for Water Research) show that there was a substantial rise in the number of salmon fry in the Glomma during 2013 and 2014, as well as natural self-cultivation in the river.

F. Waste

Plants in the Borregaard Group practise source separation and the material recovery rate is high. The waste is processed by certified waste operators. The Sarpsborg plant has developed waste plans for both the industrial plant and the company's harbour. Total waste was 8,924 tonnes in 2014, compared with 5,786 tonnes in 2013. The rise in waste volume is due to clearance and tidying projects in several warehouses. The waste incineration plants are not included in the reported figures.



In addition, bark is included in Borregaard's reported waste to the authorities, although most of this bark is sold as a soil improvement additive or as fuel. The amount of bark in 2014 was 43,494 tonnes of dry matter.

The Opsund landfill, a waste disposal site on Borregaard's premises in Sarpsborg, was taken out of use in 2009. Late 2014, a plan for permanent closure of the landfill by end of 2019 was submitted to The Environment Agency ("Miljødirektoratet"). The plan was approved in March 2015.

G. Water consumption

Borregaard Sarpsborg is self-sufficient in terms of water, thanks to its own water purification facility. Water is used in processes such as cooling, thermal energy and hot water production, transporting biomass through production and washing. The Sarpsborg plant consumed a total of 22.7 million m³ of water in 2014, while the consumption in 2013 was 23.2 million m³.

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

H. Transport

Borregaard strives for effective and eco-friendly road, rail and maritime transport solutions. This applies to both the transportation of raw materials into the plants and the transportation of products out to the customers around the world.

The large number of decentralised 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 probability of increased use of these forms of transport.

In 2012 Borregaard received a grant of approximately NOK 6.5 million in funding from the EU project "Marco Polo". The aim of the project is to reduce CO₂ emissions through increased sea transport while also relieving the growing levels of traffic on European roads. The funding is subject to Borregaard moving 50,000 tonnes of its outgoing transport from road to sea per year until 2016.

In 2014 Borregaard switched transportation of 13,000 tonnes of goods from road to sea. This equals a CO₂ reduction of 1051 tonnes. In total Borregaard moved around 45% of its goods by sea, 40% by road and 15% by rail.

Key EHS targets 2014	Achieved
Lower the sick leave rate	✓
Zero lost time injury rate	—
Reduce greenhouse gas emissions	✓
Ensure proper commissioning of the new biological purification plant so that emissions of organic material into River Glomma will be below the new permit level	✓

Key EHS targets 2015
Lower the sick leave rate
Zero lost time injury rate
Reduce greenhouse gas emissions
Improve SO ₂ safety and emission level

C Competence and employees

The number of man-years in Borregaard rose by 27 during 2014, reaching 1,076 by the end of the year (including 50% of employees at the joint venture Ligno Tech South Africa). This rise was attributable to an increase in staff relating to innovation projects and the overlap required to be able to replace employees with special functions who are expected to retire in the near future.

Strong corporate culture

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

Borregaard produced a description of the company's corporate culture and core values after it was listed on the stock exchange at the end of 2012. This work has continued throughout 2013 and 2014 by involving a number of different groups of staff followed by a roll-out of "The Borregaard Way" throughout the organisation. Borregaard's corporate culture and core values are subsequently incorporated into various introduction 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 guideline documents for corporate responsibility and ethical guidelines, as well as manuals and more specific guidelines for different areas such as anti-corruption, competition legislation, responsible procurement, environment, health and safety and human rights (see list on page 2).



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. Almost 10% of its employees work in sales and marketing. This means that 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. This means that Borregaard arranges extensive training programmes for its operators and apprentices (Norway and Germany). The Group has its own "Competence Centre" for training its employees and it runs its own production academy in collaboration with Orkla.

Every second year, Borregaard arranges a special research conference involving both internal and external contributors. In 2014, the conference was held in May under the theme "New possibilities in the biorefinery".

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 overrepresented in these programmes. Among the 19 participants involved in the Borregaard Management Programme in 2014, five were women and 12 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.

Research and development (R&D)

Innovation, research and development are important for renewing and strengthening operations and are also necessary to improve the company's financial and environmental sustainability. Borregaard's research and innovation efforts increased in 2014 with expenditures amounting to some NOK 186 million, close to 5% of the company's revenues. Borregaard has an R&D team of 95, including 34 employees with doctorates. Research is primarily carried out at the Group's joint research centre in Norway, which at year-end 2014 had 80 employees from 7 countries. R&D activities are also conducted in Spain, South Africa, India and USA. Part of the research work is car-

ried out via an extensive partnership with customers, universities and research institutions in a number of countries.

In 2014 Borregaard received NOK 26.5 million in funding for ongoing research projects and obtained new research grants totalling NOK 37 million from Innovation Norway, the Research Council of Norway and Vinnova for projects which will be running from 2014 to 2016. The funds will be used for innovation projects based on products from biomass.

Borregaard measures the results of its innovation activities by registering the share of its sales generated by new products that the company did not have five years ago. The innovation rate in 2014 was 12% (13%).

Restructuring and organisational development

Borregaard strives specifically to maintain its global competitiveness through innovation, technology, productivity and cost-efficiency. The plant in Sarpsborg has achieved improvements through better and higher production and quality, as well as through improved EHS conditions, thanks to continuous improvements, based on greater expertise and interaction at a joint operations centre. An extensive training programme and the introduction of new technology remain key to this. The restructuring processes are demanding, partly because of the need to reduce employee numbers. However, Borregaard believes it is important to involve and maintain a dialogue with the employees and trade unions during restructuring processes.

The improvement programme for Borregaard's operations in Sarpsborg has continued throughout 2014 to focus fully on a project aimed at reducing the number of control consoles at the Control Centre in Sarpsborg from six to four. This is to be achieved by reducing the operators' workload and stabilising operations through training, alarm optimisation and technical improvements. During 2014, all necessary technical equipment was installed with comprehensive involvement throughout the organisation. The aim is to achieve staff reductions without entailing redundancies, using such means as attrition through normal retirement and internal job rotation.

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 and presentation centre, the "Knowledge Factory", available for this purpose. In 2014, 1338 students visited the centre, coming from schools that took part in educational programmes that combined technical training, career advice and a company presentation.

Based on today's age composition of the workforce as well as planned up-scaling 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 middle school students choosing upper secondary school programme

options that provide relevant qualifications. In the next few years, Borregaard will increase the number of apprentices practising at the site in Sarpsborg.

Diversity

Borregaard wants to contribute towards positive diversity among the company's employees and will combat discrimination based on gender, ethnicity, religion and functional ability. 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. Around 23% of Borregaard's employees were women in 2014. 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 28% of the managers at Borregaard are women, while the executive management team included one woman (ratio of women: 11%).

Borregaard's South African production plant is consciously striving to ensure that the profile of its labour force reflects the country's demographics, with a particular focus on representation in management. The company is B-BBEE (Broad-Based Black Economic Empowerment) certified with the common goal to distribute wealth across as broad a spectrum of previously disadvantaged South African society as possible.

The challenges mainly lie within the public education system, although the company is trying to compensate for this through extensive employee training and study programmes.

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 2014

Achieved

Present and implement the company's corporate culture and core values



Increase the proportion of female employees



Key competence and employee targets 2015

Increase the proportion of female employees

Increase the access to qualified apprentices in Norway



D

Suppliers and business partners

Borregaard has several thousand business partners such as customers, suppliers and other partners. This often involves well-established, long-term relationships that go back many years. Borregaard endeavours to ensure that this contact and cooperation are characterised by trust, integrity and mutual respect, and for transactions and business practices to 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 more specific guidelines on competition law, anti-corruption and human rights.

Borregaard basically imposes the same ethical requirements on its suppliers as it does on 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.

The company's key suppliers undergo regular audits in accordance with ISO 9001/14001/18000 accreditations.

Anti-corruption measures

Borregaard has its own guidelines for anti-corruption. In 2014 the Group completed new training programmes on anti-corruption for all relevant employees, approximately 350 people.

Purchase of certified wood

Borregaard's biorefinery relies on the raw materials also meeting environmental and sustainability criteria. Borregaard purchases more than 1 million solid cubic metres of wood for its Sarpsborg plant. The Group attaches great importance to purchasing wood from forests that are managed in a properly sustainable and eco-friendly manner. The wood mainly comes from Norway and Sweden. In 2014, 86% of the wood came from Norwegian forests while the remaining 14% came from Swedish forests.

All the wood that is purchased is cut according to the country of origin's laws on felling. The Norwegian suppliers supply wood in accordance with the PEFC standard for silviculture and biodiversity.

Key suppliers and business partner targets 2014	Achieved
Develop further guidelines and standards for responsible procurement	✓
Run new training programmes on anti-corruption	✓

Key competence and employee targets 2015

Roll out guidelines and standards for responsible procurement throughout the Group

E Contribution to society

Profitable and sustainable jobs are a prerequisite for welfare and social security. This manifests itself through income and meaningful activity for individuals, as well as through financial contributions such as taxes and duties that companies and their employees provide to the countries and local community in which they operate. Those countries where

Borregaard has production operations see significant ripple effects from suppliers and other activities around the plants.

As of 31 December 2014, Borregaard employed 1,076 man-years in 16 countries. Its production plants are located in Norway, UK, Germany, Spain, the Czech Republic, South Africa and USA.

NOK 164 million in tax payments

Borregaard paid taxes totalling NOK 164 million in 2014. The taxes paid for operations in Norway amounted to NOK 87 million, while the tax payment for the other locations was split into NOK 14 million for the rest of Europe, NOK 34 million in the Americas, NOK 1 million in Asia and NOK 28 million in Africa.

Borregaard uses OECD's 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. Borregaard's plants are relatively small outside Norway, but the Group has been a cornerstone company in Sarpsborg for generations. Borregaard still plays an important role in the city and region as an employer, a customer of many suppliers, and a 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 5,028 man-years in the company itself, as well as for suppliers and public-sector.

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

Support for social development

Borregaard has a broad network of contacts 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.

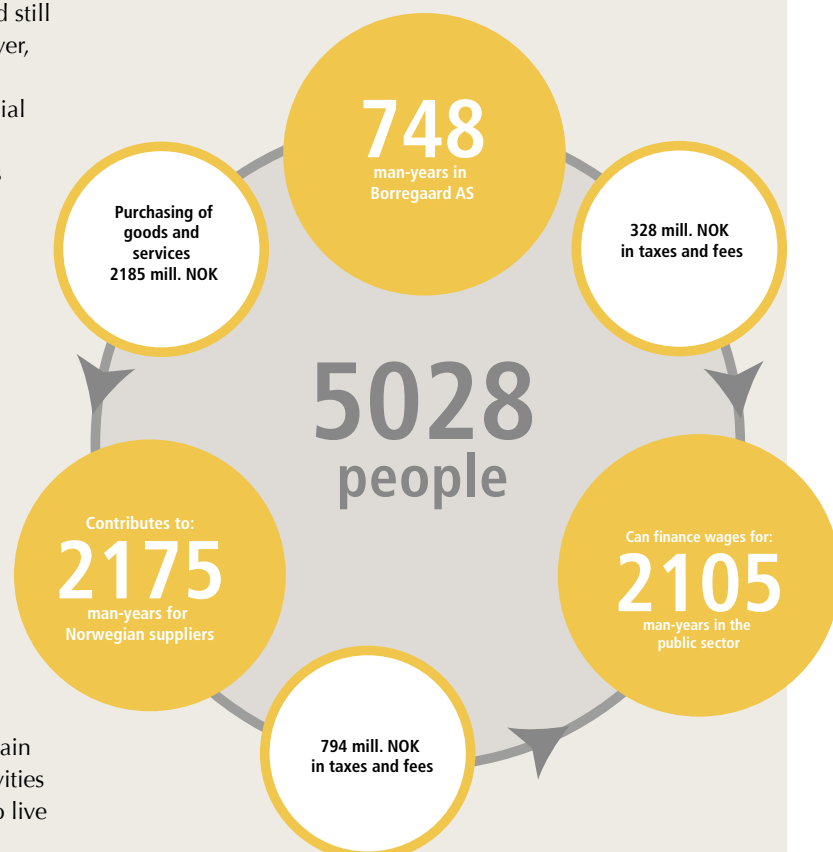
The company also contributes around NOK 3 million to support measures that mutually benefit both the company and the region. Borregaard's sponsorship strategy has two main pillars. One covers cultural and sports experiences and activities that help make the city and region a more attractive place to live

and work. This is important to Borregaard in terms of creating a long-term source of recruitment. The other area supports 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 and cooperation with the Inspiria Science Centre, the Young Entrepreneurship scheme and Borregaard's Knowledge Factory.

Social and ethical work in South Africa

LignoTech South Africa has its own social and ethics committee tasked with monitoring social and ethical issues. The committee is composed of members of the company's management team and employees. One measure taken during 2014 involved conducting internal and external audits of the entity and its suppliers regarding the principles set out in the United Global Compact Principles and OECD's recommendations regarding corruption. In 2015, all senior employees will take part in anti-corruption training programmes initiated by Borregaard.

The company in South Africa has also become involved in the social and financial consequences of the HIV/AIDS issue. One important area has been to combat 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.





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 Competence Centre, 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. Borregaard also contributes to a University Educated Teacher II scheme for the teaching of chemistry in upper secondary schools in Østfold County, whereby 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. Borregaard has also taken on a major responsibility by establishing a scheme for vocational education training (the so-called YSK scheme) whereby students attend a four-year course leading to both a certificate of technical training and university and college admissions certification. In 2014, Borregaard had a total of 41 apprentices and 4 YSK students at the biorefinery in Sarpsborg.

Awards and recognitions

Over the years Borregaard has received several awards and recognitions from external bodies. In 2014 the Group received the following awards:

"Norway's smartest industrial company", an award given out by the Federation of Norwegian Industries and Siemens for implementing smart technology in a smart way.

"The Stockman Award", an award given out by the Norwegian Society of Financial Analysts for the best external market communication in the small and mid-cap category.

Certification and affiliation

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

The company has committed itself to the Responsible Care guidelines and objectives, which are the European chemical industry's environmental responsibility initiative. Borregaard also reports greenhouse gas emissions to the local authorities. These figures are published in this report and are available to the public.

Borregaard is ISO certified in accordance with several standards:

- ISO 9001 (Quality Management)
- ISO 14001 (Environmental Management)
- ISO 50001 (Energy Management)

In 2014 Borregaard became a participant of the UN's Global Compact initiative, thereby providing its support to universal principles on human rights, labour relations, the environment and anti-corruption. Borregaard also reported on progress according to Global Compact's scheme.



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