

## Item 3: Guidelines for Remuneration of Senior Management

The requirements of the Norwegian Public Limited Liability Companies Act make it appropriate to divide this point into three sub-points:

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

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

In connection with the listing of Borregaard in 2012, the company's guidelines for remuneration of persons in senior positions were established. The guidelines have since been revised and further developed, and are divided into guidelines for base salaries, pensions, annual bonuses and long term incentives (LTIs)/options. Comparable data from an external company are used in the assessment of remuneration levels. In connection with the listing, share options were issued with separate regulations. Subsequent allocations, in 2014, 2015 and 2017, were based on these regulations with some adjustments, which the board was authorised to implement by the general meetings of those years.

The board and its compensation committee have used the approved guidelines as the basis for remuneration of employees in senior positions.

The board has also ensured that the exercise of options and bonus allocations are in line with the guidelines and intentions of the schemes.

The board declares that the company's remuneration policy has been adhered to during 2017.

#### The board's proposal

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

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

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

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

#### The main elements of the remuneration schemes

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

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

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

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

*Long-term incentive scheme* - Option- or cash-based scheme linked to movements in the share price. (For more detailed guidelines, see point 3.3)

#### The board's proposal

*The general meeting recommends the presented guidelines for determining remuneration of senior personnel for the 2018 financial year.*

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

The general meeting must approve the guidelines for share-related remuneration, including the right of senior management to participate in the "Shares for Employees" scheme, which provides an opportunity to buy a limited number of shares at a discount.

## **Guidelines for Borregaard's share-related option scheme**

### General information about the scheme

Borregaard's long-term incentive (LTI) scheme is a share option scheme related to the share price and forms part of an overall remuneration programme for employees in senior positions.

The option scheme implies that employees in the scheme can obtain share options that entitle them to purchase a defined number of shares at a given value after a fixed period of time.

When the options are exercised, the sale of these shares will realise a gain. In order to adapt the scheme to its objectives, opportunities for gain are subject to a number of restrictions.

The board will consider on an annual basis whether to allocate options, and can provide recommendations for such allocation in accordance with the framework of these guidelines. The board can decide whether the options will be physical or synthetic. The board and its compensation committee will ensure that the allocation of options and the administration of the scheme comply with the intentions. For the allocations in 2014, 2015 and 2017, the strike price was set at 10% above the price on the date of allocation.

At the general meeting in 2017, the rules were tightened in terms of the maximum number of options that can be awarded annually and be outstanding in total.

### The purpose of the scheme

The scheme is based on two main factors:

- Strengthening of the ownership perspective, in that the development of shareholder value (share price) and investment in shares are the criteria for this remuneration.
- Providing senior managers and key employees with an incentive for a long-term commitment to the company.
- Members of the group executive management team are expected, including through the share option scheme, to build up and retain a holding of Borregaard shares corresponding to two annual base salaries for the CEO and one annual base salary for the other members of the group executive management.

### Allocation criteria

Options can be allocated to senior employees at certain job levels where there is a particular need for a long-term commitment to the company:

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

### Item 3 - Guidelines for Remuneration of Senior Management

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

#### Restrictions on allocations

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

#### Restrictions on gain

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

#### Time limits

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

#### Requirement to purchase shares

Employees must use at least half of the gain (after tax) to purchase Borregaard shares, with a lock-in period of three years.

This requirement will remain in place for the group executive management team until a shareholding equivalent to two annual base salaries for the CEO and one annual base salary for the other members is acquired.

### **Discounted shares for employees**

In 2013, Borregaard established a scheme that allowed employees to buy a limited number of shares at a discount in relation to the market price. The scheme has largely been carried out annually, most recently in February 2018, when employees could purchase a maximum of NOK 56,000 of shares after a discount of 25%. The scheme is available to all Borregaard employees – including senior management – with the exception of a few countries where practical/legal circumstances make this difficult. Between 400 and 500 employees have participated in the scheme in recent years.

The board decides each year whether the scheme will be implemented. The scheme is also planned for the upcoming general meeting period.

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

*The Annual General Meeting approves the guidelines for share-related remuneration.*