

## ***Guidelines for determining pay and other remuneration to senior management***

### **Background for change**

The current guidelines were adopted at the Annual General Meeting in 2021. There are essentially two topics that lead the board to present a proposal for modified guidelines.

#### Calculation of the number of options that can be allocated

The intention that the option allocation shall be dimensioned to provide approximately 30% of the maximum allowed gain is retained. It is proposed that the calculation of this to be changed from assuming 10% annual growth in the share price for four years to calculating the value of the options based on the Black Scholes model so that the number of options corresponding to 30% of the maximum gain can be allocated. The Black Scholes model is a common method for determining the value of an option that is used by several companies.

The change may result in a slightly higher number of options being allocated. This is in line with the intention for the LTI scheme (Long-Term Incentives) to be at the level of the benchmark median. The current arrangement is somewhat below this. However, performance-based award criteria are being introduced which may limit the number of options allocated (see below).

This change only applies to the number of options allocated. The maximum gain from the options (two annual base salaries for the CEO and one annual base salary for the other members per year), does not change.

#### Introduction of result/performance-based award criteria for the executive management team

For the CEO and the rest of the executive management team, the LTI scheme is essentially part of an overall remuneration package with the aim that the LTI scheme will contribute to safeguarding the ownership perspective and long-term value creation. This consideration will continue, but it is proposed that parts of the option awards are also qualified by management contributing to the achievement of important goals and strategies for the company. It is proposed that half of the potential option allocation is dependent on the company exceeding threshold values for profitability, sustainability and innovation. The result/performance criteria are placed on the executive management team as a collective as Borregaard is a complex company with extensive integration within production and product portfolio. The executive management team's task is to optimise Borregaard's overall value creation across all business areas.

The result/performance criteria are made complementary to the result-based bonus/STI scheme to a certain extent by adding sustainability and innovation criteria in addition to ROCE. All the factors may vary somewhat from year to year, especially the rate of innovation, and therefore minimum/threshold values have been set which, in aggregate, will be challenging to reach each year.

In addition to the aforementioned criteria, the previous requirement that the strike price for the options be set 10% above the market price at the time of allocation will continue. This in itself constitutes a performance requirement, in that the options do not gain any value until the value of the company has increased by at least 10%.

For employees outside the executive management team, the existing performance requirements at the individual level remain (At least two out of five defined target areas must be met).

#### Minor adjustments

When new proposals for guidelines are presented to the Annual General Meeting, less extensive adjustments are also made to the guidelines that clarify or simplify the application of the guidelines, without affecting overall remuneration to a significant extent.

## **Proposal to the Annual General Meeting:**

### **Guidelines for determining pay and other remuneration to senior management**

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

- Overall, the conditions shall be competitive and suitable for the company's need to attract and retain employees
- Remuneration schemes shall contribute to consistency between the company's and the owners' goals and results and the various elements of the individual terms and conditions. The criteria for the various elements of the remuneration schemes must be complementary.
- The schemes must be simple, long-term and sufficiently flexible

In the guidelines for annual bonuses and the option scheme, criteria that correspond to the communicated financial and long-term objectives and strategies for the company have been selected. There are also limitations in the schemes to ensure that payments are at a reasonable level, also when taking into consideration the financial sustainability of the company.

The schemes shall also be designed to motivate and attract the expertise required by the company. The remuneration schemes include balanced criteria to ensure that employees contribute to delivery of good results at company level, while also focusing on matters within their individual areas of responsibility.

#### Follow-up and changes to the guidelines

It is the Annual General Meeting (AGM) that adopts the remuneration policy, following a recommendation from the board. The board has a separate compensation committee that follows up the individual schemes and guidelines. The compensation committee presents its recommendations to the board for consideration. In specific cases, such as when recruiting new senior managers, it may be appropriate to deviate from the guidelines. In such cases, the compensation committee and the board must justify the changes and they must be documented and mentioned in the report presented to the AGM.

#### The main elements of the remuneration schemes

**Base salary** - The level should be close to the median for comparable companies and positions. Base salary is determined based on the responsibility, complexity, expertise requirements and scope associated with the role.

**Pension** - Based on the established defined contribution pension schemes, with the intention that the relative pension contributions, including the Norwegian National Insurance Scheme, are independent of income level. The defined contribution pension schemes specify a contribution of 5% of fixed salary up to 7.1G and 20% of salary above 7.1G.

**Annual bonus scheme** - Based on pre-defined criteria that are based on positive results and progress. The criteria include return on capital employed (ROCE) for the Group, economic value added (EBITDA) for the area in question, safety and sick leave for the Group, as well as personal targets, including criteria related to sustainability and growth/improvement. The target bonus level for delivery of "good performance" is approximately 30%. The maximum annual bonus is 50% of annual base salary. The criteria and calculation basis are reviewed annually by the board of directors' compensation committee and adopted by the board. If errors have occurred 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. The scheme primarily has complementary objectives and criteria to the annual bonus scheme.

**Other benefits** – The company's management employees also have access to a car scheme (company car/mileage), a free mobile phone and newspapers, as well as access to insurance schemes available to all employees in Borregaard's Norwegian operations.

**Other matters** - Management employees are subject to the same retirement age as other employees in line with Norwegian laws and regulations (flexible between 62 and 70 years of age). There is a mutual notice period of six months for executive management employees, without severance pay. A separate agreement with somewhat deviating terms applies to the CEO; the maximum retirement age is two years lower (68 years of age) with associated pension compensation, a mutual notice period of nine months and six months' severance pay. (See note 9 of the Annual Report for details).

## Further information about the guidelines for Borregaard's share-related option scheme

### General information about the scheme

Borregaard's long-term incentive (LTI) scheme is an option scheme related to the share price and forms part of an overall remuneration package for senior management. 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 for a fixed period of time. When options are exercised, the sale of shares will realise a gain. In order to adapt the scheme to its objectives, the allocations and potential maximum gains 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 within 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. The strike price has been set at 10% above the share price on the date of allocation.

### The purpose of the scheme

There are two main reasons behind the scheme:

- Strengthening the ownership perspective and supporting the company's long-term objectives 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 to make a long-term commitment to the company.

The allocation criteria for options (long-term incentives, LTI) are to a considerable extent complementary to the criteria for the annual bonus scheme (short-term incentives, STI).

Members of the 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.

### Restrictions on allocations

- The total annual allocation of new 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.
- The number of options allocated shall be dimensioned so that the value of the options at the time of allocation, calculated according to the Black Scholes model, may amount to no more than 30% of the maximum gain.

### Allocation criteria

Options can be allocated to *two groups of* senior personnel at certain job levels who have achieved good results and where the company sees a particular need to ensure that they make a long-term commitment to the company:

#### *1. The CEO and other members of the executive management team*

Members of the executive management team have options with the intention that the executive management team shall jointly deliver on the company's and the owners' long-term goals and strategy.

- Up to half of the frame (option value of 15% of maximum annual gain) is a fixed part of the LTI and part of the overall remuneration package.
- Up to half of the frame (option value of 15% of maximum annual gain) is given on the condition that minimum results have been achieved related to factors that are important for the company's results, strategy and development.
  - Financial targets: minimum 10% ROCE
  - Sustainability/ESG: Results among the top 10% in at least two recognized third party assessments (e.g. CDP and Ecovadis)
  - Innovation rate (proportion of sales from new products) of at least 10% on average over the last two years
  - If any of the performance-based criteria are not met, the award is reduced by 1/3 for each of the areas ROCE, sustainability/ESG and innovation.
- The scheme/rights are only valid as long as the option holder is employed (not given notice/resigned) in the Group. Exceptions apply when the person concerned is retired and does not move to another permanent position.

## *2. Management and key personnel/specialists in the business areas and corporate staff*

Candidates from this group may be awarded options based on the following criteria:

- The employee has, in line with the company's culture and values, over time, delivered positive results within at least two of the following areas, anchored in the company's long-term objectives and strategy:
  - Organic growth/specialisation
  - Continuous improvement
  - Innovation
  - Sustainability/ESG
  - Development of talent/managers
- The employee/position is particularly important/critical for achievement of the company's goals. The employee is considered difficult to replace, and there may be a risk that he/she will leave the company.
- The scheme does not automatically follow a particular position, and one or more allocations do not entitle the holder to subsequent allocations.
- The scheme/rights are only valid as long as the option holder is employed (not given notice/resigned) in the Group.

### Restrictions on gains

- The options have a strike price 10% above the market price of the shares on the allocation date, which in itself constitutes a result criterion and requires a (substantial) increase in the share price before the options gain value. 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 pre-tax gain per calendar year from exercise of options 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 25% of the gain before tax to purchase Borregaard shares, with a lock-in period of three years.

This requirement will remain in place for senior management until a shareholding equivalent to two annual base salaries for the CEO and one annual base salary for the other members has been achieved.

### **Discounted shares for employees**

Borregaard has a scheme allowing employees to buy a limited number of shares at a discount in relation to the market price. The scheme is implemented annually. The maximum number of shares is set at 3/5 G including a discount of 25%. The shares purchased via the scheme are subject to a lock-in period of one year.

The scheme is available to all Borregaard employees – including executive personnel – with the exception of countries where practical/legal circumstances make this difficult.

The board decides each year whether the scheme shall be implemented. This assumes that the Annual General Meeting has given the company the opportunity to purchase shares for the incentive scheme.

### **Remuneration for board members and observers elected by employees**

Remuneration for board members and observers elected by employees is proposed by the nomination committee and adopted by the Annual General Meeting through a separate resolution.

The nomination committee's assessments are based on available statistics for remuneration and practices in comparable listed companies in Norway. Wage inflation for Borregaard's employees is also a relevant basis for comparison for determining remuneration.