## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing.** The following applies to the attached prospectus (the "document"), and you are advised to read this carefully before reading, accessing or making any other use of the document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time that you receive any information from ABG Sundal Collier Norge ASA or UBS Limited (together, the "**Joint Global Coordinators**" and "**Joint Bookrunners**"), the other Managers or the Company or the Selling Shareholder (each as defined in the document) as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached document is confidential and is intended for you only and you agree you will not forward this electronic transmission or the attached document (electronically or otherwise) to any other person.

The document and the offer when made are directed only at persons in Member States of the European Economic Area ("**EEA**"), other than Norway, who are "**Qualified Investors**" within the meaning of Article 2(1)(e) of Directive 2003/71/EC (together with any amendments thereto and any applicable implementing measures in any EEA Member State, the "**EU Prospectus Directive**"). In addition, the document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i), (ii) and (iii) together being referred to as "**Relevant Persons**"). The securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the securities will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on the document or any of its contents.

THE SECURITIES MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND IN ACCORDANCE WITH, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR WITHIN THE UNITIED STATES TO QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") AS DEFINED IN AND IN ACCORDANCE WITH RULE 144A UNDER THE U.S. SECURITIES ACT ("**RULE 144A**").

ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, OR IN ANY JURISDICTION OTHER THAN NORWAY. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

**Confirmation of your Representation:** In order to be eligible to view the document or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) outside the United States transacting in an offshore transaction (in accordance with Regulation S under the U.S. Securities Act). By accepting electronic delivery or electronically accessing the document, you shall be deemed to have represented to the Joint Global Coordinators, the other Managers and the Company and the Selling Shareholder that (i) you are acting on behalf of, or you are, either (a) an investor outside the United States (as defined in Regulation S under the U.S. Securities Act), or (b) in the United States and a QIB; (ii) if you are in the UK, you are a Relevant Person; (iii) if you are in any member state of the EEA, other than Norway, you are a Qualified Investor; (iv) the securities acquired by you in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than in Norway or other than their offer or resale in any EEA Member State which has implemented the EU Prospectus Directive to Qualified Investors (as defined in the EU Prospectus Directive); (v) if you are outside the US, UK and EEA, other than Norway, you are a person into whose possession this document may lawfully be delivered in accordance with the laws of the jurisdictions in which you are located; and (6) you consent to receiving the document in electronic form.

You are reminded that the document has been delivered to you on the basis that you are a person into whose possession the document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the document, electronically or otherwise, to any other person.

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This document has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of the Joint Bookrunners, the other Managers, the Company, the Selling Shareholder, any person who controls any of them or any of their respective affiliates, directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and any hard copy version. Please ensure your copy is complete.

A hard copy of the document will be made available to you on request.

None of the Joint Bookrunners, the other Managers, or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever as to the accuracy, completeness or verification of the information in this document. The Joint Bookrunners, the other Managers and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document. Any decision to purchase the relevant securities in the offer should be made solely on the basis of information contained in the document. No representation or warranty express or implied, is made by any of the Joint Bookrunners, the other Managers or any of their respective affiliates as to the accuracy, completeness or verification of the information set out in this document.

The Joint Bookrunners and the other Managers are acting exclusively for Orkla ASA and BRG Holding AS (as the Selling Shareholder) and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to any other person for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

**You are responsible for protecting against viruses and other destructive items.** Your receipt of this document via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**BORREGAARD ASA**

(A public limited liability company incorporated under the laws of Norway)

**Initial public offering of up to 81 million Shares with an indicative price range of NOK 20 to NOK 25 per Share**

**Listing of the Company's shares on the Oslo Stock Exchange**

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This prospectus (the "**Prospectus**") has been prepared in connection with the initial public offering (the "**Offering**") of up to 81 million ordinary shares (the "**Sale Shares**") of Borregaard ASA (the "**Company**"), a public limited liability company incorporated under the laws of Norway (together with its consolidated subsidiaries and joint venture company, "**Borregaard**" or the "**Group**"), and the related listing (the "**Listing**") on Oslo Børs, a stock exchange operated by Oslo Børs ASA (the "**Oslo Stock Exchange**") of the Company's shares, each with a par value of NOK 1 (the "**Shares**"). The Offer Shares (as defined below) offered hereby are offered by BRG Holding AS (the "**Selling Shareholder**"), a wholly-owned subsidiary of Orkla ASA ("**Orkla**"). The Company will not receive any of the proceeds of the Offering.

The Offering consists of: (i) a private placement (a) to institutional and professional investors in Norway, (b) investors outside Norway and the United States of America (the "**U.S.**" or the "**United States**"), subject to applicable exemptions from local prospectus requirements, and (c) in the United States to "qualified institutional buyers" ("**QIBs**") as defined in, and in reliance on, Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") (the "**Institutional Offering**") and (ii) a retail offering to the public in Norway (the "**Retail Offering**"). All offers and sales outside the United States will be made in compliance with Regulation S under the U.S. Securities Act ("**Regulation S**"). In addition, the Selling Shareholder has granted UBS Limited, on behalf of the Managers (as defined below), an option to purchase a number of additional Shares (the "**Additional Shares**" and, together with the Sale Shares, the "**Offer Shares**") equal to up to 15% of the number of Sale Shares sold in the Offering, exercisable, in whole or in part, within a 30-day period commencing at the date of announcement of the final offer price expected to be made on 18 October 2012, to cover any over-allotments made in connection with the Offering on the terms and subject to the conditions described in this Prospectus (the "**Over-Allotment Option**"). Assuming the Over-Allotment Option is exercised in full, the Offering will amount to 93,150,000 Shares. A stock exchange notice will be made on the first day of "if delivered" trading in the Shares if the Managers will over-allot shares in connection with the Offering, which statement will also state that stabilisation activities may occur.

The price (the "**Offer Price**") at which the Offer Shares are expected to be sold will be between NOK 20 and NOK 25 per Offer Share. This Offer Price range is indicative only. The Offer Price will be determined through a bookbuilding process and will be set by the Selling Shareholder in consultation with the Joint Bookrunners. The Offer Price, and the number of Offer Shares sold in the Offering, is expected to be announced through a stock exchange notice on or before 18 October 2012 at 09:00 hours (Central European Time, "**CET**"). The offer period for the Institutional Offering (the "**Bookbuilding Period**") will commence at 09:00 hours (CET) on 3 October 2012 and close no later than 15:00 hours (CET) on 17 October 2012. The application period for the Retail Offering (the "**Application Period**") will commence at 09:00 hours (CET) on 3 October 2012 and close no later than 12:00 hours (CET) on 17 October 2012. The Bookbuilding Period and the Application Period may, at the Selling Shareholder's sole discretion and for any reason, be extended beyond the set times, but will in no event be extended beyond 16:30 hours (CET) on 26 October 2012.

All of the Shares (including the Offer Shares) are registered in the Norwegian Central Securities Depository ("**Verdipapirsentralen**" or the "**VPS**") and will be in book-entry form. All of the Shares rank *pari passu* with one another and will each carry one vote. Except where the context otherwise requires, references in this Prospectus to the Shares will be deemed to include the Offer Shares.

**Investing in the Offer Shares involves a high degree of risk. See Section 2 "Risk Factors" beginning on page 14.**

**The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and are being offered and sold: (i) in the United States only to persons who are QIBs in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act; and (ii) outside the United States in compliance with Regulation S. The distribution of this Prospectus and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions. See Section 20 "Selling and Transfer Restrictions".**

Prior to the Offering, the Shares have not been publicly traded. The Company applied for the Shares to be admitted for trading and listing on the Oslo Stock Exchange on 28 August 2012, and its listing application was approved by the board of directors of the Oslo Stock Exchange on 25 September 2012.

The due date for the payment of the Offer Shares is expected to be on or about 22 October 2012 and 23 October 2012 in the Retail Offering and the Institutional Offering, respectively. Delivery of the Offer Shares is expected to take place on or about 22 October 2012 and 23 October 2012 in the Retail Offering and the Institutional Offering, respectively, through the facilities of the VPS, Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Trading in the Shares on the Oslo Stock Exchange is expected to commence on or about 18 October 2012, on an "if delivered basis", under the ticker code "BRG". If closing of the Offering does not take place on such dates or at all, the Offering will be withdrawn, all subscriptions for Offer Shares will be disregarded, any allocations made will be deemed not to have been made and any payments made will be annulled. All dealings in Shares prior to settlement and delivery are at the sole risk of the parties concerned.

**Joint Global Coordinators**
**and Joint Bookrunners**

ABG Sundal Collier | UBS Investment Bank

**Co-Lead Managers**

DNB Markets | Handelsbanken Capital Markets | SEB Enskilda

**The date of this Prospectus is 2 October 2012**

# IMPORTANT INFORMATION

This Prospectus has been prepared in connection with the Offering of the Offer Shares and the Listing of the Company's Shares on the Oslo Stock Exchange.

As used in this Prospectus, unless the context otherwise requires, "Borregaard," the "Group" and the "Borregaard Group" each refer to Borregaard ASA, together with its subsidiaries and joint venture company, and, for periods prior to the completion of the restructuring transactions that transferred the biorefinery business currently conducted by it (the "**Biorefinery Business**"), first, to Borregaard AS, the Group's main operating company and the holding company for the Group's other subsidiaries and joint venture company, and then, to the Company, the group of entities through which the Biorefinery Business was then carried out (see Section 11.2 "Presentation of financial information" and Section 15 "Establishment of the current Borregaard Group"). For definitions of certain other terms used throughout this Prospectus, see Section 23 "Definitions and Glossary".

This Prospectus has been prepared to comply with the Norwegian Securities Trading Act of 29 June 2007 no. 75 (the "**Norwegian Securities Trading Act**") and related secondary legislation, including the Commission Regulation (EC) no. 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 regarding information contained in prospectuses, as amended, and as implemented in Norway (the "**EU Prospectus Directive**"). This Prospectus has been prepared solely in the English language. However, a summary in Norwegian has been prepared in Section 22 "Norwegian Summary (Norsk Sammendrag)". The Financial Supervisory Authority of Norway (*Nw.: Finanstilsynet*) (the "**Norwegian FSA**") has reviewed and approved this Prospectus in accordance with Sections 7-7 and 7-8 of the Norwegian Securities Trading Act.

The Selling Shareholder has engaged ABG Sundal Collier Norge ASA ("**ABG Sundal Collier**") and UBS Limited ("**UBS Limited**") as "**Joint Global Coordinators**" and "**Joint Bookrunners**", and DNB Markets, a part of DNB Bank ASA ("**DNB Markets**"), Handelsbanken Capital Markets, a part of Svenska Handelsbanken AB (Publ) ("**Handelsbanken Capital Markets**") and Skandinaviska Enskilda Banken AB (Publ) ("**SEB Enskilda**") as "**Co-Lead Managers**". The Joint Global Coordinators, the Joint Bookrunners and the Co-Lead Manager are together referred to herein as the "**Managers**".

**The distribution of this Prospectus and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or sale would be unlawful. Neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with applicable laws and regulations. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions. In addition, the Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. Any failure to comply with these restrictions may constitute a violation of applicable securities laws. See Section 20 "Selling and Transfer Restrictions".**

This Prospectus and the terms and conditions of the Offering as set out herein and any sale and purchase of Offer Shares hereunder shall be governed by and construed in accordance with Norwegian law. The courts of Norway, with Oslo as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Offering or this Prospectus.

**In making an investment decision, prospective investors must rely on their own examination, and analysis of, and enquiry into Borregaard and the terms of the Offering, including the merits and risks involved.** None of the Company, the Selling Shareholder or the Managers, or any of their respective representatives or advisers, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares.

All Sections of the Prospectus should be read in context with the information included in Section 4 "General Information".

**NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

**NOTICE TO INVESTORS IN THE UNITED STATES**

Because of the following restrictions, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Shares. The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable state securities laws. Accordingly, the Offer Shares will not be offered or sold within the United States, except in reliance on the exemption from the registration requirements of the U.S. Securities Act under Rule 144A. The Offer Shares will be offered outside the United States in compliance with Regulation S. **Prospective purchasers are hereby notified that sellers of Offer Shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A under the U.S. Securities Act.** See Section 20.2.1 "United States".

Any Shares offered or sold in the United States will be subject to certain transfer restrictions as set forth under Section 20.3.1 "United States".

The securities offered hereby have not been recommended by any United States federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not passed upon the merits of the Offering or confirmed the accuracy or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offense under the laws of the United States.

In the United States, this Prospectus is being furnished on a confidential basis solely for the purposes of enabling a prospective investor to consider purchasing the particular securities described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. Distribution of this Prospectus to any person other than the offeree specified by the Managers or their representatives, and those persons, if any, retained to advise such offeree with respect thereto, is unauthorised and any disclosure of its contents, without prior written consent of the Company, is prohibited. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to purchase Offer Shares or subscribe for or otherwise acquire any Shares.

**NOTICE TO UNITED KINGDOM INVESTORS**

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Offer Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

**NOTICE TO INVESTORS IN THE EEA**

In any EEA Member State that has implemented the EU Prospectus Directive, other than Norway (each, a "Relevant Member State"), this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the EU Prospectus Directive. The Prospectus has been prepared on the basis that all offers of Offer Shares outside Norway will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus for offer of shares. Accordingly, any person making or intending to make any offer within the EEA of Offer Shares which is the subject of the Offering contemplated in this Prospectus within any EEA member state (other than Norway) should only do so in circumstances in which no obligation arises for the Company or any of the Managers to publish a prospectus or a supplement to a prospectus under the EU Prospectus Directive for such offer. Neither the Company nor the Managers have authorised, nor do they authorise, the making of any offer of Shares through any financial intermediary, other than offers made by Managers which constitute the final placement of Offer Shares contemplated in this Prospectus.

Each person in a Relevant Member State other than, in the case of paragraph (a), persons receiving offers contemplated in this Prospectus in Norway, who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with the Managers and the Company that:

a) it is a qualified investor as defined in the EU Prospectus Directive, and

b) in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) such Offer Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the EU Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where such Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the EU Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer to the public" in relation to any of the Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any of the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the EU Prospectus Directive in that Relevant Member State, and the expression "EU Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression " 2010 PD Amending Directive" means Directive 2010/73/EU.

**STABILISATION**

In connection with the Offering, UBS Limited as the Stabilisation Manager, or its agents, on behalf of the Managers, may engage in transactions that stabilise, maintain or otherwise affect the price of the Shares for up to 30 days from the commencement of trading and Listing of the Offer Shares on the Oslo Stock Exchange. Specifically, the Stabilisation Manager may over-allot Offer Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail. The Stabilisation Manager and its agents are not required to engage in any of these activities and, as such, there is no assurance that these activities will be undertaken; if undertaken, the Stabilisation Manager or its agents may end any of these activities at any time and they must be brought to an end at the end of the 30-day period mentioned above. Save as required by law or regulation, the Stabilisation Manager does not intend to disclose the extent of any stabilisation transactions under the Offering.

**ENFORCEMENT OF CIVIL LIABILITIES**

The Company is a public limited liability company incorporated under the laws of Norway. As a result, the rights of holders of the Company's Shares will be governed by Norwegian law and its Articles of Association. The rights of shareholders under Norwegian law may differ from the rights of shareholders of companies incorporated in other jurisdictions. The Company's directors and the Group's executive officers are not residents of the United States, and a substantial portion of the Company's assets are located outside the United States. As a result, it may be difficult for investors in the United States to effect service of process on the Company or its directors or the Group's executive officers in the United States or to enforce in the United States judgments obtained in U.S. courts against the Company or those persons based on the civil liability provisions of the federal securities laws of the United States or other laws of the United States or any state thereof. Uncertainty exists as to whether courts in Norway will enforce judgments obtained in other jurisdictions, including the United States, against the Company or its directors or the Group's officers under the securities laws of those jurisdictions or entertain actions in Norway against the Company or its directors or officers under the securities laws of other jurisdictions. The United States and Norway do not currently have a treaty providing for reciprocal recognition and enforcement of judgements (other than arbitral awards) in civil and commercial matters.

**AVAILABLE INFORMATION**

The Company has agreed that, for so long as any of the Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, it will during any period in which it is neither subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, provide to any holder or beneficial owners of Shares, or to any prospective purchaser designated by any such registered holder, upon the request of such holder, beneficial owner or prospective owner, the information required to be delivered pursuant to Rule 144A(d)(4) of the U.S. Securities Act.

**ADDITIONAL IMPORTANT INFORMATION**

For additional important information, including on the presentation of financial information in this Prospectus, forward-looking statements and the sourcing of industry data included herein, and exchange rate data, see Section 4 "General Information".

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# APPENDICES

# 1 SUMMARY

*The following summary must be read as an introduction to the full text of this Prospectus. This summary highlights, and is qualified in its entirety by, information presented in greater detail elsewhere in this Prospectus and the appendices hereto. This summary is not complete and does not contain all the information that should be considered before investing in the Shares. Any investment decision relating to the Offering and an investment in the Shares should be based on the consideration of this Prospectus as a whole, including, but not limited to Section 2 "Risk Factors", Section 8 "Business of the Group", Section 11 "Operating and Financial Review" and the Financial Information (as defined herein) included in Appendix B and Appendix C. Where a claim relating to the information contained in this Prospectus is brought before a court, a plaintiff investor might, under the national legislation of a member state of the EEA, have to bear the costs of translating this Prospectus before legal proceedings are initiated. No civil liability attaches to those persons who have prepared this summary, including any translations thereof, unless it is misleading, inaccurate or inconsistent when read together with other sections of this Prospectus. For definitions of certain terms as used herein, see Section 23 "Definitions and Glossary".*

## 1.1 Business overview

Borregaard is a supplier of specialised biochemicals for a global customer base consisting mainly of specialty chemical companies. Borregaard's main product offerings are lignin-based products and specialty cellulose, but its product portfolio also extends to vanillin, fine chemicals and bioethanol. Borregaard's products serve niche end-market applications in a wide range of global end-markets including construction, agriculture, food and beverages, transportation and pharmaceuticals. Borregaard's business model is closely linked to the integrated nature of its biorefinery in Sarpsborg, which utilises the three key components of wood (cellulose fibres, lignin and sugar), to produce a diversified portfolio of products. The biorefinery utilises approximately 85% of the feedstock by volume to make Borregaard's products, with most of the residuals from the biomass used to produce energy for its production processes.

In addition to its biorefinery in Sarpsborg, Borregaard has seven plants outside of Norway dedicated to producing lignin-based products, and sales offices in 17 countries in Europe, Asia, Africa and the Americas serving its global customer base. For the year ended 31 December 2011 and the six months ended 30 June 2012, Borregaard had total operating revenues of NOK 3,854 million and NOK 2,017 million, respectively, and operating profit of NOK 530 million and NOK 236 million, respectively. As of 30 June 2012, the Group had approximately 1,100 employees.

Borregaard is currently organised in two main business areas:

- *Performance Chemicals* develops, produces and sells lignin-based products for use in a wide range of end-market applications, with a particular focus on products within the medium- and high-value categories. In addition, Performance Chemicals includes some trading activity of relatively limited scale in respect of chemicals that are either linked to lignin-based products (for example, through blending) or have been produced by Borregaard historically.
- *Specialty Cellulose* develops, produces and sells cellulose products, with a particular focus on specialty cellulose for use in the production of cellulose acetate and cellulose ethers (which Borregaard labels as "highly specialised" grades). The production and sale of second-generation bioethanol also forms part of the Specialty Cellulose business area.

In addition, as part of its Other Businesses, mainly consisting of Ingredients and Fine Chemicals, Borregaard supplies, within Ingredients, wood-based and petrochemical-based vanillin products to flavour and fragrance companies, as well as, increasingly, to companies in the food and beverage industry. Borregaard is the only producer of wood-based vanillin in the world. Within Fine Chemicals, Borregaard supplies fine chemicals to the pharmaceutical industry, and believes that it is the world's largest supplier of $C_3$ aminodiols for X-ray contrast media.

In 2011, 53% of Borregaard's total sales by revenues were to customers located in Europe, 26% in Asia, 20% in the Americas (14% in the United States and Canada and 6% in the rest of the Americas) and 1% to customers located in the rest of the world. Sales towards the construction (for example, for concrete additives, paint, gypsum board and tiles), agriculture (for example, for animal feed, agrochemicals and soil conditioner) and food and pharmaceutical industries accounted for approximately 30%, 15% and 20%, respectively of total operating revenues, with the remaining approximately 35% comprising sales towards the broader chemical industry and other industries.

For additional information on the products Borregaard produces and the industries in which it operates, see Section 7 "Industry and Market Overview".

## 1.2 Investment highlights

Borregaard believes that its financial performance is driven primarily by the following key competitive positions and competitive strengths which are described in more detail in Section 8.2 "Investment highlights":

- Sustainable biorefinery business model with strong value creation.
- Global niche player with market leading positions.
- Biochemicals portfolio helping meet global challenges.
- Projects in pipeline with potential to expand and strengthen the biorefinery business model.
- Highly experienced and proven management team.
- A successful strategy of specialisation and productivity improvement driven by an attractive set of competencies.

## 1.3 Recent developments and trends

During 2012, Borregaard has had a relatively stable production in the overall volumes for specialty cellulose, vanillin and bioethanol products. The reduced production of lignin-based products in Brazil due to the stop of lignin raw material supply from Cambará to its lignin plant in Brazil (see Section 8.7.2 "Sourcing of the lignin feedstock") has been compensated for by increased volumes of lignin-based products produced at Borregaard's other sites. Borregaard's sales of lignin-based products by volume have increased during the year, while sales volumes of cellulose have been stable and sales of vanillin products are in total reduced.

Borregaard has experienced generally good market conditions during the third quarter of 2012. However, it has observed some soft spots and increased competition in the markets for specialty cellulose that have resulted in a weaker product mix for its sales, with increased sales of viscose grades. Raw material and energy costs have decreased compared with the first half of the year.

In the near term, there is an increased uncertainty for the specialty cellulose markets. A generally weaker economic climate together with a weak EUR is expected to have a negative impact on profitability.

The medium to longer term outlook for Borregaard will be driven by, *inter alia*, general economic development, effects from Borregaard's continued specialisation strategy and productivity efforts, as well as demand/supply developments and competitive dynamics for specialty cellulose. As further described in Section 7.3.2 "Markets and applications", Borregaard's strong performance in 2011 was materially influenced by a sharp increase in the price of viscose grade cellulose, caused by significant imbalance between supply and demand in the textile market, high cotton prices, reduced volumes of cotton linters and high activity within several of the industries to which specialty cellulose is exposed, all of which resulted in a sharp price increase for specialty cellulose in 2011. While prices for viscose-grade cellulose subsequently have fallen back closer to long term averages driven by increased capacity in the supply of viscose grade cellulose and a return to more normal cotton markets, prices in the specialty cellulose market in the first half of 2012 remained close to the highs seen in 2011. However, the specialty cellulose industry is facing cyclical end-markets like the construction industry and, in addition, some of Borregaard's largest competitors have announced plans for major investments in specialty cellulose expansions, with increased capacity of approximately 270,000 mt in aggregate expected to come on stream in 2013 and 2014. While far from certain, these factors can be expected to have a negative impact on the results of the specialty cellulose segment in the medium to longer term, which while difficult to quantify, may be material.

Borregaard's objective is to deliver sustainable profitability that supports its strategy and dividend policy and a return on capital above the peer average in specialty chemicals. The peer group has had a return on capital employed through the business cycle in the range 12-15%.

Except for the refinancing of Borregaard and the transfer by the Selling Shareholder of Borregaard AS to Borregaard ASA as described in Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing", there have been no significant changes in the financial or trading position of Borregaard since the date of the Interim Condensed Financial Information, included in this Prospectus.

## 1.4 Reasons for the Offering

On 14 September 2011, Orkla announced a shift in strategic focus to seek future growth and allocate capital to the branded goods sector, where it expects to be able to best apply its core strengths and expertise. As part of this shift in focus, and to allow Orkla to focus more on its core business, Orkla decided to separate the Biorefinery Business from Orkla in a manner that would provide the Biorefinery Business with improved strategic and operational flexibility. Through the Listing, Orkla aims to increase the profile and market awareness of one of its attractive assets and provide the Company direct access to capital markets to further its own funding and growth needs in the future (see Section 15 "Establishment of the Current Borregaard Group").

As a result of Orkla's strategic focus as described above, Orkla considers its shareholding in Borregaard to be a financial investment. Following a lock-up period undertaken by Orkla and the Selling Shareholder of 180 days from the date of the Purchase Agreement (as defined in Section 19.1 "Overview of the Offering"), see Section 19.14 "Lock-up", all Shares owned by the Selling Shareholder after the Offering will be eligible for sale or other transfer in the public market, subject to applicable securities laws restrictions.

### 1.5 The Offering

| | |
|---|---|
| The Offering.............................. | The Offering consists of (i) an Institutional Offering, in which Offer Shares are being offered (a) to institutional and professional investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from local prospectus requirements, and (c) in the United States to QIBs as defined in, and in reliance on, Rule 144A under the U.S. Securities Act; and (ii) a Retail Offering, in which Offer Shares are offered to the public in Norway.<br><br>The Offering outside the United States will be made in compliance with Regulation S. |
| The Offer Shares ....................... | The Selling Shareholder is selling up to 81 million Sale Shares (together with the Additional Shares (see below), the Offer Shares) in the Offering. The Company will not receive any proceeds from the Offering. |
| The Over-allotment Option .......... | The Selling Shareholder has granted UBS Limited as the Stabilisation Manager, on behalf of the Managers, an option to purchase a number of Additional Shares (together with the Sale Shares, the Offer Shares) equalling up to 15% of the number of Sale Shares, exercisable within a 30-day period commencing at the date of announcement of the final offer price expected to be made on 18 October 2012, to cover over-allotments, if any, in connection with the Offering. See Section 19.1 "Overview of the Offering". |
| Price Range .............................. | From NOK 20 to NOK 25. The final price per Share in the Offering will be set by the Selling Shareholder based on orders placed in the Institutional Offering. |
| Bookbuilding Period ................... | The Bookbuilding Period for the Institutional Offering will take place from 09:00 hours (CET) on 3 October 2012 to 15:00 hours (CET) on 17 October 2012, unless extended. |
| Application Period ...................... | The Application Period for the Retail Offering will take place from 09:00 hours (CET) on 3 October 2012 to 12:00 hours (CET) on 17 October 2012, unless extended. |
| Selling Shareholder.................... | BRG Holding AS, a company 100% owned by Orkla ASA |
| Managers ................................. | ABG Sundal Collier Norge ASA, UBS Limited, DNB Bank ASA, Handelsbanken Capital Markets (a part of Svenska Handelsbanken AB (Publ)) and Skandinaviska Enskilda Banken AB (Publ). |
| Mechanism of allocation ............. | In the Institutional Offering, the Selling Shareholder together with the Managers will determine the allocation of Offer Shares.<br><br>In the Retail Offering, allocation will be determined on a *pro rata* basis using the VPS' automated simulation procedures. However, the Company will aim to, and reserves its right to, give a higher allocation percentage to applicants who were shareholders of Orkla and employees of Borregaard in Norway, in each case as of 2 October 2012. See Section 19.5 "Mechanism of allocation". No allocations will be made for a number of Offer Shares representing an aggregate Offer Price of less than NOK 10,500 per applicant. |

| | |
|---|---|
| Listing and Trading | Prior to the Offering, there has been no public market for the Shares. On 28 August 2012, the Company applied for admission to trading of its Shares on the Oslo Stock Exchange. On 25 September 2012, the board of directors of the Oslo Stock Exchange approved the listing application of the Company on certain conditions. See Section 19.12 "Conditions for completion of the Offering - Listing and trading of the Offer Shares".<br><br>Trading on an "if delivered" basis is expected to commence on 18 October 2012. |
| Payment and delivery | It is expected that payment for, and delivery of, the Offer Shares will be made on or about 23 October 2012 with respect to the Institutional Offering, and on or about 22 October 2012 with respect to the Retail Offering. The Shares will be eligible for clearance through VPS, Euroclear and Clearstream. |
| Conditions for completing of the Offering | The conditions for completion of the Offering include, among others:<br>• The satisfaction of the conditions set by the board of directors of the Oslo Stock Exchange.<br>• The Selling Shareholder, in consultation with the Managers having approved the Offer Price and the allocation of the Offer Shares to eligible investors following the bookbuilding process.<br>• The Company, Orkla and the Selling Shareholder and the Joint Bookrunners (on behalf of the Managers) having entered into the Purchase Agreement and satisfaction of the conditions for the closing of the Purchase Agreement.<br>• The Purchase Agreement not having been terminated by the Managers due to force majeure.<br>• The Purchase Agreement not having been terminated due to a default by a Manager or Managers to purchase the number of Offer Shares it is or they are obligated to purchase under the Purchase Agreement (see Section 19.1 "Overview of the Offering"). |
| Lock-up | Through the Purchase Agreement, the Selling Shareholder, Orkla and the Company will give an undertaking that will restrict their ability to issue, sell or transfer Shares for 180 days after the date of the Purchase Agreement. For more information about these restrictions, please see Section 19.14 "Lock-up". |
| International Securities Identification Number (ISIN) | ISIN NO 001 0657505. |
| Trading symbol | The Shares are expected to trade on the Oslo Stock Exchange under the trading symbol "BRG". |
| Expenses | The total costs and expenses of, and incidental to, the Listing and the Offering are estimated to amount to NOK 87 million (incl. VAT) if all Sale Shares and Additional Shares are sold by the Selling Shareholder and the Selling Shareholder decides to pay the incentive fee in full (based on a price of NOK 22.50 per Share – which is the mid-point of the indicative price range). See Section 19.13 "Expenses of the Offering and the Listing". |
| Transfer Restrictions | The Offer Shares will be subject to certain transfer restrictions. See Section 20.3 "Transfer restrictions". |
| Dividends / Dividend policy | Borregaard intends to pay regular and progressive dividends reflecting the expected long term earnings and cash flows of the Group, targeting an annual dividend between 30% and 50% of the Company's net profit for the preceding fiscal year. See Section 6.1 "Dividend policy". |
| Voting Rights | Each Share carries the right to cast a vote on all matters submitted to a vote of Borregaard's shareholders. See 16.9 "Shareholder rights". |

## 1.6 Summary of financial and other information

The following tables present a summary of selected financial information in respect of Borregaard. Unless otherwise stated herein, the selected interim condensed financial information as of, and for the six-month periods ended, 30 June 2012 and 2011 and the selected combined financial information as of, and for the years ended, 31 December 2011, 2010 and 2009 have been derived from, and are based on, the Interim Condensed Financial Information and the Combined Financial Statements, respectively. In addition, certain financial and operating data have been derived from the Company Books. The historical information in the Combined Financial Information has been derived from the consolidated financial statements of Orkla and combines the result of operations, assets and liabilities of the entities and operations that formed the Borregaard group prior to the Restructuring as described in Section 15.2 "Overview of the Restructuring". The Combined Financial Statements and the Interim Condensed Financial Information have and has been prepared in accordance with IFRS, as adopted by the EU.

The summary of selected combined financial information should be read in connection with, and is qualified in its entirety by reference to, the Combined Financial Statements and the Interim Condensed Financial Information included in Appendix B and Appendix C, respectively, of this Prospectus, and should be read together with Section 11 "Operating and Financial Review" and in particular Section 11.2 "Presentation of financial information" and note 2 to the Combined Financial Statements and note 1 to the Interim Condensed Financial Information for further details regarding the basis of preparation of the Financial Information, including Section 4.2.1 "Financial information".

### *1.6.1 Summary income statement*

| **Income statement** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| Sales revenues | 1,993 | 1,925 | 3,810 | 3,419 | 3,338 |
| Other operating revenues | 24 | 31 | 44 | 42 | 44 |
| **Operating revenues** | **2,017** | **1,956** | **3,854** | **3,461** | **3,382** |
| Cost of materials | -859 | -824 | -1,605 | -1,524 | -1,532 |
| Payroll expenses | -356 | -337 | -699 | -674 | -665 |
| Other operating expenses | -415 | -401 | -815 | -774 | -722 |
| Depreciation and write-down property, plant and equipment | -104 | -101 | -199 | -200 | -210 |
| Amortisation intangible assets | -3 | -3 | -6 | -6 | -6 |
| Other income and expenses | -44 | 0 | 0 | 22 | 0 |
| **Operating profit** | **236** | **290** | **530** | **305** | **247** |
| Finance income | 78 | 60 | 160 | 171 | 161 |
| Finance costs | -101 | -90 | -235 | -216 | -197 |
| **Profit / loss before taxes** | **213** | **260** | **455** | **260** | **211** |
| Taxes | -74 | -77 | -135 | -76 | -67 |
| **Profit / loss for the period** | **139** | **183** | **320** | **184** | **144** |

| **Comprehensive income statement** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| **Profit / loss for the period** | **139** | **183** | **320** | **184** | **144** |
| Change in hedging reserve after tax | 34 | -1 | -70 | 50 | 266 |
| Translation effects | -10 | -32 | -28 | 0 | -75 |
| **Comprehensive income** | **163** | **150** | **222** | **234** | **335** |
| Profit / loss attributable to non-controlling interests | 0 | 2 | 2 | 3 | 5 |
| Profit / loss attributable to owners of the parent | 163 | 148 | 220 | 231 | 330 |

### 1.6.2 Summary statement of financial position

| Statement of financial position | Consolidated as of 30 June | | Combined as of 31 December | |
|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| **Assets** | | | | |
| Property, plant and equipment | 1,942 | 1,822 | 1,791 | 1,776 |
| Intangible assets | 38 | 72 | 76 | 86 |
| Deferred tax assets | 0 | 0 | 10 | 23 |
| Other assets | 84 | 91 | 128 | 88 |
| **Non-current assets** | **2,064** | **1,985** | **2,005** | **1,973** |
| Inventories | 599 | 558 | 468 | 497 |
| Receivables | 749 | 665 | 661 | 624 |
| Cash and cash equivalents and deposits in Orkla group cash pool | 421 | 496 | 427 | 340 |
| **Current assets** | **1,769** | **1,719** | **1,556** | **1,461** |
| **Total assets** | **3,833** | **3,704** | **3,561** | **3,434** |
| **Equity and liabilities** | | | | |
| Group equity | 626 | 1,109 | 998 | 1,335 |
| Non-controlling interests | 13 | 14 | 16 | 20 |
| **Equity** | **639** | **1,123** | **1,014** | **1,355** |
| Deferred tax | 126 | 158 | 183 | 160 |
| Provisions and other liabilities | 43 | 42 | 38 | 67 |
| Interest-bearing liabilities | 2,425 | 1,788 | 1,862 | 1,403 |
| **Non-current liabilities** | **2,594** | **1,988** | **2,083** | **1,630** |
| Interest-bearing liabilities | 7 | 20 | 23 | 19 |
| Income tax payable | 55 | 62 | 23 | 8 |
| Other liabilities | 538 | 511 | 418 | 422 |
| **Current liabilities** | **600** | **593** | **464** | **449** |
| **Equity and liabilities** | **3,833** | **3,704** | **3,561** | **3,434** |

### 1.6.3 Summary statement of cash flow

| Condensed cash flow statement | Six months ended 30 June | | Year ended 31 December | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| Cash flow from operating activities | 258 | 147 | 536 | 452 | 504 |
| Cash flow from investing activities | -245 | -88 | -247 | -210 | -133 |
| Cash flow from financing activities | -81 | -59 | -214 | -148 | -465 |
| Change in cash and cash equivalents | -68 | 0 | 75 | 94 | -94 |
| Cash and equivalents as of end of period[1] | 421 | 414 | 496 | 427 | 340 |

1 Includes deposits in the Orkla group's cash pool.

### 1.6.4 Selected additional data and financial measures

| In NOK million unless otherwise stated | Consolidated six months ended 30 June | | Combined year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 (unaudited) | 2011 (unaudited) | 2011 (unaudited) | 2010 (unaudited) | 2009 (unaudited) |
| Adjusted EBITA[1] | 283 | 293 | 536 | 289 | 253 |
| Adjusted EBITDA[2] | 387 | 394 | 735 | 489 | 463 |
| Adjusted EBITA margin (*percentage*)[1] | 14.0% | 15.0% | 13.9% | 8.4% | 7.5% |
| Adjusted EBITDA margin (*percentage*)[2] | 19.2% | 20.1% | 19.1% | 14.1% | 13.7% |
| Capital employed (average)[3,4] | 2,781 | 2,649 | 2,625 | 2,569 | 2,673 |
| Return on capital employed (ROCE) (*percentage*)[5] | - | - | 20.4% | 11.3% | 9.5% |

1 Adjusted EBITA is defined as operating profit before amortisation and other income and expenses. Adjusted EBITA is not a measurement of performance under IFRS. See Section 4.2 "Presentation of Financial and Other Information". Adjusted EBITA margin is adjusted as a percentage of operating revenues in the respective periods.

2 Adjusted EBITDA is defined as operating profit before depreciation, amortisation and other income and expenses. Adjusted EBITDA is not a measurement of performance under IFRS. See Section 4.2 "Presentation of Financial and Other Information". Adjusted EBITDA margin is adjusted as a percentage of operating revenues in the respective periods. The reconciliation of Borregaard's Adjusted EBITA and Adjusted EBITDA is as follows:

| In NOK million | Consolidated six months ended 30 June | | Combined year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 (unaudited) | 2011 (unaudited) | 2011 (audited) | 2010 (audited) | 2009 (audited) |
| **Reconciliation against operating profit** | | | | | |
| Operating profit | 236 | 290 | 530 | 305 | 247 |
| Other income and expenses | 44 | 0 | 0 | -22 | 0 |
| Amortisation intangible assets | 3 | 3 | 6 | 6 | 6 |
| Adjusted EBITA | 283 | 293 | 536 | 289 | 253 |
| Depreciation and write-down property, plant and equipment | 104 | 101 | 199 | 200 | 210 |
| Adjusted EBITDA | 387 | 394 | 735 | 489 | 463 |

3 Derived from Company Books.

4 Average capital employed is defined as average net working capital + average tangible assets + average intangible assets at cost – average net pension liabilities – average deferred tax excess value.

5 Return on capital employed is a ratio defined as operating profit before other income and expenses and amortisation (EBITA) divided by average capital employed.

### 1.6.5 Capitalisation and indebtedness

See Section 9 "Capitalisation and indebtedness" for further information regarding the Company's capitalisation and indebtedness.

### 1.6.6 Working capital statement

Borregaard is of the opinion that the working capital available to the Group is sufficient for the Group's present requirements, that is for at least 12 months from the date of this Prospectus.

## 1.7 Summary of risk factors

An investment in the Offer Shares, involves inherent risk. Below is a brief summary of the risk factors described in Section 2 "Risk Factors".

If any of the following risks were to materialise, this could have a material adverse effect on the Group and/or its business, results of operations, cash flow, financial condition and/or prospects, which may cause a decline in the value and trading price of the Offer Shares, resulting in the loss of all or part of an investment in the same.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group. Any forward looking statements are made subject to the reservations set forth in Section 4.3 "Cautionary note regarding forward-looking statements".

*1.7.1 Risks relating to the Group and the industry in which the Group operates*

- Borregaard faces significant competition.
- The integrated nature of the biorefinery and high cost of production in Norway demands specialisation and successful implementation of productivity programmes to ensure Borregaard's long-term viability.
- Borregaard's business, financial conditions and results of operations are linked to general economic conditions and industry-specific factors in targeted end-market applications.
- Borregaard's investments in specialisation and longer-term research and development efforts may not be successful.
- The loss of large volume customers could impact Borregaard's sales and its profits.
- Changes in raw material costs, particularly of wood, and energy costs could impact Borregaard's operating results and financial condition.
- Borregaard does not enter into formal, written agreements with a portion of its customers, and this practice exposes Borregaard to litigation and ambiguity should a conflict or discrepancy arise.
- Borregaard operates in a high cost environment.
- Prices in the dissolving cellulose market are volatile.
- Borregaard's financial results and prospects could be significantly impacted by the inability to maintain or expand its existing sources of lignin.
- Accidents or failures or other causes could result in significant production stoppages and losses.
- Borregaard is dependent upon attracting and retaining highly skilled personnel.
- Hazards associated with chemical manufacturing could result in substantial claims, fines or significant damage to Borregaard's reputation.
- Policies, procedures and systems to safeguard employee health, safety and security may not be adequate.
- Borregaard is subject to the risk of substantial environmental liability and limitations on its operations brought about by the requirements of environmental laws and regulations.
- Borregaard is subject to the risk of substantial costs and liabilities relating to investigation and remediation of environmental contamination.
- Borregaard is subject to a number of laws and government regulations.
- The European sovereign debt crisis may have a substantial negative impact on Borregaard's business.
- Borregaard's quarterly results of operations are subject to fluctuation due to the seasonality of certain of Borregaard's key costs.
- Borregaard's joint venture partner and co-investors may have interests that differ from Borregaard's and may take actions that adversely affect Borregaard.
- Borregaard relies upon intellectual property, trade secret laws and contractual restrictions to protect important proprietary rights and, if these rights are not sufficiently protected, its ability to compete and generate revenue could suffer.
- Third parties may claim that Borregaard's products or processes infringe their intellectual property rights.
- Borregaard is subject to a variety of potential product liability risks.
- Future greenhouse gas / carbon legislation or regulations could increase Borregaard's costs of compliance with environmental laws and regulations.
- Borregaard may not have adequate insurance coverage for potential liabilities or other losses.
- There are risks relating to the countries in which Borregaard operates that could impact its earnings or affect an investment in Borregaard.
- Borregaard may be unable to comply with the restrictions and the financial covenants in the agreements governing its indebtedness.
- In order to execute its strategy, Borregaard may require additional capital in the future.

- Labour disputes could have a material adverse effect on Borregaard's business.
- Borregaard is exposed to exchange rate fluctuations.
- Borregaard is exposed to interest rate risk.
- Investment returns on pension assets may be lower than expected or interest rates may decline, requiring Borregaard to make significant additional cash contributions to our plans.
- Borregaard's operating profits may fluctuate over time and its current level of profitability may not be sustainable.

*1.7.2 Risks relating to the Group's separation from Orkla and its ongoing relationship with Orkla*

- Borregaard does not have an operating history outside of the Orkla group and investors may have difficulty assessing its historical performance and outlook for future revenues and other operating results.
- Certain of the Biorefinery Business' agreements and instruments are subject to change of control or similar provisions based on Orkla's or third parties' ownership interest in Borregaard.
- Orkla may have significant voting power and the ability to influence matters requiring shareholder approval.
- Borregaard may from time to time experience conflicts of interest in its relationship with Orkla; because Orkla may own a significant stake in the Company, the resolution of these conflicts may not be on the most favourable terms of Borregaard.
- Borregaard currently relies on Orkla for several transitional services and may incur additional costs after its separation from Orkla.

*1.7.3 Risks relating to the Shares*

- There is no prior market for the Shares, and an active trading market may not develop.
- The price of the Shares may fluctuate significantly, which could cause investors to lose a significant part of their investment.
- The Company's ability to pay dividends is dependent on the availability of distributable reserves.
- Future sales of Shares by the Selling Shareholder may depress the price of the Shares.
- Future issuances of Shares or other securities may dilute the holdings of shareholders and could materially affect the price of the Shares.
- Pre-emptive rights to secure and pay for Shares in any additional issuance may not be available to U.S or other shareholders.
- Investors may not be able to exercise their voting rights for Shares registered in a nominee account.
- Investors may be unable to recover losses in civil proceedings in jurisdictions other than Norway.
- Norwegian law may limit shareholders' ability to bring an action against the Company.
- The transfer of Shares is subject to restrictions under the securities laws of the United States and other jurisdictions.
- Shareholders outside Norway are subject to exchange rate risk.
- Market interest rates may influence the price of the Shares.

### 1.8 Information about the Company

Borregaard ASA is a Norwegian public limited liability company (*Nw.: allmennaksjeselskap*) with organisation number 998 753 562. The Company was incorporated on 22 August 2012.

The Company's business address is Hjalmar Wessels vei 10, 1721 Sarpsborg, Norway.

### 1.9 History

Borregaard was originally established in Sarpsborg in 1889 under the Kellner Partington Paper and Pulp Co. Ltd. Borregaard began its transition away from commodity pulp and paper production and towards the production of specialty cellulose in 1921 when it had made its first delivery of dissolving pulp for textiles production and commenced production of bioethanol made of wood in 1938.

Borregaard continued to grow its business through a combination of product, process and market development in subsequent years. In the 1960s, Borregaard began production of wood-based vanillin and lignin-based products. Over the last 30 years, Borregaard has focused on developing its core biorefinery concept, expanding its lignin capabilities and streamlining its operations while developing more specialised products to serve customer needs.

In 1986, Borregaard merged with Orkla Industrier. Thereafter, Borregaard gained significant scale in its lignin-based business by acquiring Holmen LignoTech and its plants in Sweden, Germany and Spain in 1990, creating Borregaard's Performance Chemicals business. The Performance Chemicals business was further strengthened by the acquisition of Daishowa's North American lignin operations in 1991. Through acquisitions and co-operation agreements, Borregaard gained access to new sources of lignin in South Africa, the Czech Republic and Brazil.

### 1.10 Restructuring and preparations for the Listing

Prior to 1 April 2012, Orkla operated the Biorefinery Business through Borregaard Industries Limited and subsidiaries of Borregaard Industries Limited, and through certain other direct or indirect subsidiaries of Orkla. A restructuring process whereby the Biorefinery business was transferred to Borregaard AS was completed through a transfer of all assets and liabilities of Borregaard Industries Limited related to the Biorefinery Business to Borregaard AS, and transfers of shares in wholly- and partly-owned subsidiaries and a joint venture company which form part of the Biorefinery Business to Borregaard AS and its subsidiaries by Borregaard Industries Limited and certain other companies within the Orkla group. See further information regarding the Restructuring in Section 15.2 "Overview of the Restructuring".

The Company was incorporated on 22 August 2012. By capital increases resolved on 11 September and 17 September 2012, the Company's equity was increased to NOK 1,000 million through cash contributions by the Selling Shareholder. Further, on 17 September 2012, the Selling Shareholder transferred its shares in Borregaard AS to the Company by way of contribution in kind which increased the share capital and share premium reserve with a total of NOK 1,158 million. See further information in Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing".

### 1.11 Share capital

As of the date of this Prospectus, the Company's share capital is NOK 100,000,000 divided into 100,000,000 Shares with each Share having a par value of NOK 1. All the Shares have been created under the Norwegian Public Limited Companies Acts, and are validly issued and fully paid. The Company has one class of shares.

### 1.12 Major shareholders

As of the date of this Prospectus, the Company has only one shareholder, BRG Holding AS, which owns 100% of the outstanding Shares in the Company. BRG Holding AS is a wholly owned subsidiary of Orkla ASA.

### 1.13 The Company's relationship with Orkla

Orkla and Borregaard have agreed that Borregaard, during a transitional period of one to two years after the Listing shall receive, and Orkla shall render, the same services as those that were provided prior to the Listing subject to substantially the same terms and conditions, with only such modifications that are necessary to reflect the fact that the service provider and the receiver of the services will be two separate listed entities.

See Section 15.5 "Insurance, IT services and other relationships with Orkla" and Section 14 "Related party transactions" for further information regarding Borregaard's relationship with Orkla.

### 1.14 Board of Directors

The Company's current Interim Board of Directors consists of Terje Andersen, Jan Anders Oksum and Veronica Skevik.

The Board of Directors as from the first day of Listing will consist of Terje Andersen, Jan Anders Oksum, Jan Erik Korssjøen, Kristine Ryssdal and Kimberly Lein-Mathiesen. In addition, the employees of Borregaard will, subject to the consent of the Norwegian Industrial Democracy Board, have the right to elect two board members and two observers to the Board of Directors.

### 1.15 Management

Borregaard's senior management team consists of:

| Name | Current position within the Group |
|---|---|
| Per Arthur Sørlie ............................ .............. | Chief Executive Officer |
| Per Bjarne Lyngstad ....................... .............. | Chief Financial Officer |
| Dag Arthur Aasbø .......................... .............. | Senior Vice President of HR and Public relations |
| Tuva Barnholt .............................. .............. | Senior Vice President of Purchasing and strategic sourcing |
| Morten Harlem .............................. .............. | Executive Vice President, Performance Chemicals (business area) |
| Tom Erik Foss-Jakobsen ................. .............. | Executive Vice President, Specialty Cellulose (business area) |
| Bjørn Erik Amundsen...................... .............. | Executive Vice President, Ingredients and Fine Chemicals |
| Gisle Løhre Johansen ..................... .............. | Senior Vice President of Business development and Research & Development |
| Ole Gunnar Jakobsen ..................... .............. | Plant Director of Borregaard Fabrikker (Sarpsborg site) |

### 1.16 Employees

As of the date of this Prospectus, Borregaard has approximately 1,100 employees.

### 1.17 Articles of association

The Company's Articles of Association as of the date of this Prospectus are attached to this Prospectus as Appendix A, and are further described in Section 16.10.1 "The Articles of Association".

### 1.18 Auditor and advisors

The Company's auditor is Ernst & Young AS with company registration number 976 389 387, and business address Dronning Eufemias gate 6, N-0191 Oslo, Norway.

ABG Sundal Collier and UBS Limited are acting as Joint Global Coordinators and Joint Bookrunners for the Offering. DNB Markets, Handelsbanken Capital Markets and SEB Enskilda are acting as Co-Lead Managers for the Offering. Certain legal matters in connection with the Offering will be passed upon by Advokatfirmaet Schjødt AS, Norwegian legal counsel to the Managers, and Cleary Gottlieb Steen Hamilton, international counsel to the Managers.

Certain legal matters in connection with the Offering will be passed upon by Advokatfirmaet Thommessen AS, Norwegian legal counsel to the Company and the Selling Shareholder, and Latham & Watkins (London) LLP, international counsel to the Company and the Selling Shareholder.

### 1.19 Documents on display

Copies of the following documents will be available for inspection at the Company's offices at Hjalmar Wessels vei 10, Sarpsborg, during normal business hours from Monday to Friday each week (except public holidays) for a period of twelve months from the date of this Prospectus:

- The Company's Articles of Association and Certificate of Incorporation
- The Group's combined financial statements and the Company's subsidiaries' financial statements as of, and for years ended, 31 December 2011, 2010 and 2009, the Group's interim condensed consolidated financial information as of, and for six months ended, 30 June 2012 and 2011; and Borregaard ASA's financial statements for the period from its incorporation on 22 August 2012 to 31 August 2012, and
- This Prospectus.

# 2 RISK FACTORS

*An investment in the Offer Shares, involves inherent risk. Before making an investment decision with respect to the Offer Shares, investors should carefully consider all of the information contained in this Prospectus, and in particular the risks and uncertainties described in this Section 2, which the Company believes are the principal known risks and uncertainties faced by Borregaard as of the date hereof. An investment in the Offer Shares is suitable only for investors who understand the risks associated with this type of investment and who can afford to lose all or part of their investment. The absence of negative past experience associated with a given risk factor does not mean that the risks and uncertainties described are not a genuine potential threat to an investment in the Offer Shares. If any of the following risks were to materialise, this could have a material adverse effect on the Group and / or its business, results of operations, cash flow, financial condition and / or prospects, which may cause a decline in the value and trading price of the Offer Shares, resulting in the loss of all or part of an investment in the same.*

*The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group. The information in this Section 2 is as of the date of this document, and any forward looking statements are made subject to the reservations set forth in Section 4.3 "Cautionary note regarding forward-looking statements".*

## 2.1 Risks relating to the Group and the industry in which the Group operates

### *2.1.1 Borregaard faces significant competition*

Borregaard faces competition within all of the markets in which it operates, both from major international producers and from smaller regional competitors. Competition tends to be based on a range of factors, including general supply and demand factors, product performance and quality, reliability of supply (or, at times, diversification of supply), prices of competing products, availability and pricing of potential substitutes, innovation and technological development, both in respect of the supplier's product offerings and potential substitutes, responsiveness to customer product development goals, customer service and relationships, the cost to customers of shifting to alternative suppliers, the cost of inputs and logistics, including customers' production footprints and supply chain economics and may change over time.

Borregaard's medium- and high-value lignin-based Performance Chemicals generally compete with similar products manufactured by other lignin-based product suppliers (among which Borregaard considers Domsjö (Sweden), Tembec (Canada / France) and Nippon Paper Group (Japan) as its main competitors), and with petrochemical and non-chemical products and solutions. In extending its lignin-based product portfolio into higher-value products, new end-market applications and new geographies, Borregaard must accordingly generally succeed at selling its products as alternatives to chemicals currently in use and produced by competitors with long-standing business relationships with prospective customers.

Borregaard's Specialty Cellulose business faces competition primarily from other global specialty cellulose producers. Within the supply of specialty cellulose for the cellulose acetate grade segment, Borregaard considers Rayonier to be the market leader and its strongest competitor. Within the supply of specialty cellulose for the cellulose ethers segment, Borregaard considers Tembec to be its main competitor. Several of Borregaard's key competitors are currently increasing their specialty cellulose production capacity, which may negatively affect the market price for such products if supply exceeds future demand.

Within Other Businesses, as part of Ingredients, Borregaard is the only supplier of wood-based vanillin, which primarily competes with vanillin products made from petrochemicals, including ethyl vanillin. In addition, within Fine Chemicals, Borregaard competes with several companies within the fine chemicals industry.

Across its business areas and targeted end-market applications, Borregaard cannot exclude the possibility that new technologies or novel production processes may emerge and that existing technologies may be further developed in the fields in which it operates. These technologies or processes could have an impact on customers' or competitors' production methods or on product quality in these fields. Unexpected rapid changes in employed technologies or the development of novel processes that affect Borregaard's operations and product range could render the technologies it utilises or the products it produces obsolete or less competitive in the future. For example, Borregaard produces $C_3$ aminodiols which are incorporated as intermediates in non-ionic X-ray contrast media to enhance solubility. A major change in imaging technology permitting diagnostic images to be produced without X-ray contrast media may significantly and adversely affect this part of Borregaard's business. Difficulties in assessing new technologies may impede Borregaard from implementing them and competitive pressures may force it to implement these new technologies at a substantial cost.

Borregaard's competitors may also improve their manufacturing processes or expand their manufacturing capacity, making it more difficult or less profitable for Borregaard to compete successfully. In addition, there may be new market entrants that increase the level of competition Borregaard faces. For example, although significant investments and industrial knowledge would be required, wood-based manufacturers of viscose grade cellulose may over time succeed in producing commercial alternatives to Borregaard's higher-value specialty cellulose products, based on lower-cost raw materials. New entrants in emerging and other markets may also benefit from lower production costs and production facilities that are closer to such markets, providing them with competitive advantages in terms of cost and proximity to customers.

Borregaard's existing and future competitors may also benefit from greater resources and financial strength and may, as a result, be better able to develop competing or superior technologies and processes, compete more aggressively on price as they seek to increase market share, and sustain that competition over a longer period of time. Competitors' pricing decisions may compel Borregaard to decrease its prices, which could have an adverse effect on its results of operations, financial condition and prospects. Some of Borregaard's competitors may also benefit from lower raw material, energy and labour costs (see Section 2.1.2 "The integrated nature of the biorefinery and high cost of production in Norway demands specialisation and successful implementation of productivity programmes to ensure Borregaard's long-term viability").

In general, if Borregaard is unable to compete on the basis of price, product performance and quality and the other factors discussed above, or to otherwise adapt to changes in its businesses and targeted end-market applications, its results of operations, financial condition and prospects could be adversely affected.

*2.1.2 The integrated nature of the biorefinery and high cost of production in Norway demands specialisation and successful implementation of productivity programmes to ensure Borregaard's long-term viability*

Due to the integrated nature of the Sarpsborg biorefinery, potential production levels at the biorefinery for Borregaard's lignin-based products are limited by the amount of cellulose produced. Further, absent unusual circumstances, it will generally prove less profitable to operate the Sarpsborg biorefinery at less than its full production capacity due to its high degree of integration (which both precludes increasing or decreasing production of lignin-based products or cellulose products in isolation in response to the particular market dynamics of either, and also contributes to relatively high fixed costs). As a result, the Sarpsborg biorefinery will generally produce cellulose and lignin-based products at their respective maximum capacities, and in an essentially unvarying proportion. See Section 8.8 "Production facilities and processes".

Borregaard's Sarpsborg production also takes place in a high- (and generally rising-) cost environment primarily due to the cost of the softwood sourced for the Sarpsborg plant and high labour costs in Norway. See Section 2.1.6 "Changes in raw material costs, particularly of wood, and energy costs could impact Borregaard's operating results and financial condition" and Section 2.1.8 "Borregaard operates in a high cost environment".

This combination of an inability to reduce production of either cellulose or lignin-based products in isolation at the Sarpsborg plant, the limited scope to produce at less than its full production capacity and the relatively high (and rising) cost of production in Norway, means that Borregaard's profitability and long-term viability depend to a significant extent on its ability to successfully implement its specialisation strategy (focusing on product differentiation into new industries and end-market applications, geographic diversification and longer-term innovation) and productivity programmes to minimise downtime and contain costs. In view of the intensely competitive nature of the markets in which Borregaard competes (see Section 2.1.1 "Borregaard faces significant competition"), a sustained failure to do so would likely force Borregaard to sell more products in lower-value applications, and result in decreasing gross average sales prices and diminishing profitability. Borregaard's arrangements for the supply of lignin to its production sites outside Norway, which generally require that it take up all the lignin produced by the adjacent pulp mill, further exacerbate the risk that a failure to specialise and diversify in respect of lignin-based products could force a greater proportion of sales to lower-value applications.

Although Borregaard has historically been successful in achieving these imperatives, including, for example, by reducing costs (see Section 8.2 "Investment highlights") and by shifting into higher-value specialty cellulose products as hardwood manufacturers increased their market presence within viscose grades (see Section 7.3 "Specialty cellulose products and markets"), there can be no assurance that such efforts will be similarly successful in the future. For example, there can be no assurances that the assumptions underlying Borregaard's cost and efficiency programmes with respect to which reductions and eliminations to make will prove to be correct. There can also be no assurances that prospective customers for new product offerings or in new end-market applications and geographies will be receptive to Borregaard products, or that product specialisation or longer-term research and development activities will be successful (see Section 2.1.4 "Borregaard's investments in specialisation and longer-term research and development efforts may not be successful")

If Borregaard is unable to develop new products meeting customers' requirements or diversify into new end-market applications and geographies, if the cost of developing new products or diversifying exceeds anticipated levels, or if the benefits of its productivity improvement initiatives are not achieved, any such failures, material delays or unexpected costs could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

### *2.1.3 Borregaard's business, financial conditions and results of operations are linked to general economic conditions and industry-specific factors in targeted end-market applications*

Borregaard sells its products globally to customers in multiple geographic markets who operate in several different industries, including construction, agriculture, textiles, food and beverage and pharmaceuticals. Economic downturns or otherwise uncertain economic outlooks in one or more of Borregaard's principal markets, in any other markets in which the Group operates or will operate, or on a global scale could adversely affect Borregaard's business, results of operations, financial condition and prospects.

Some of the industries in which Borregaard's products are used have been negatively impacted by the current economic downturn. For example, the European construction industry has been particularly affected due to the decline in housing starts, unemployment and the tightening of credit availability for real estate and construction related projects. Although the effects of the downturn on Borregaard's business have thus far been limited, and mitigated to a significant extent by successful efforts to shift sales from more affected end-market applications and geographies to less affected ones, there can be no assurances that this trend will continue. Significant downturns in general economic conditions, such as the Asian economic crisis that began in 1998, have previously resulted in diminished demand for Borregaard's products and lower average selling prices. A worsening of the current economic downturn or future downturns in general economic conditions may also have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

In addition, financial difficulties experienced by Borregaard's customers could disrupt prompt and full payment under the terms of trade credit that Borregaard extends to its customers, and could also disrupt Borregaard's ability to plan potential investments and strategy more generally for future periods. Such disruptions, depending on their severity, could also have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

### *2.1.4 Borregaard's investments in specialisation and longer-term research and development efforts may not be successful*

Borregaard invests significant amounts in product specialisation and longer-term research and development activities and this has, in the past, resulted in the development of a number of new, higher-value products which today represent a significant portion of its revenues. Borregaard's continued success depends, in significant part, upon its ability to maintain its technological capabilities and to continue to identify, develop and commercialise innovative products for the lignin-based and specialty cellulose markets. Research and development in the specialty chemicals industry is complex. Borregaard focuses its research and development efforts on technologies and applications that it believes will have commercial use. While it seeks to work closely with its customers to ensure that its products have the desired functionalities, there can be no assurances that its research and development efforts will be technically and / or commercially successful. For example, Borregaard's Performance Chemicals business is currently constructing a pilot plant for the production of lignin from fast-growing wood and other biomasses (annual plants). See Section 8.6.3 "The BALI project". This research and development project aims to extract lignin from fast-growing wood and other biomasses (annual plants) to expand Borregaard's access to commercially-viable lignin. In addition, Borregaard has constructed and operates a pilot plant for the production of advanced microfibrillar cellulose (MFC) which Borregaard believes may have an attractive market potential within a wide range of advanced technical applications. See Section 8.6.4 "The Exilva project". There can be no assurances that Borregaard will be able to commercialise the BALI project, the Exilva project or similar research and development initiatives and gain access to additional lignin supply, diversify its product range or otherwise timely develop new products meeting customers' requirements.

In addition, it is common for research and development projects to encounter delays due to unforeseen problems, resulting in, among other things, low initial production volume, difficulty in consistently delivering products with the required specifications, and higher production costs than initially budgeted, which may result in lost market opportunities. Delays in product development may prevent Borregaard from staying ahead of its competition, potentially depriving it of a key competitive advantage. Also, any new products or product enhancements that

Borregaard introduces may not be accepted by the market or may cannibalise sales of other Borregaard products. Although Borregaard aims to secure both its own intellectual property rights (IPR) and monitor and evaluate its freedom to operate for new products and processes, there is always a risk that Borregaard's competition may exploit its technology or hold or obtain approved patents that block its ability to manufacture or market new innovations (see Section 2.1.21 "Borregaard relies upon intellectual property, trade secret laws and contractual restrictions to protect important proprietary rights and, if these rights are not sufficiently protected, its ability to compete and generate revenue could suffer" and Section 2.1.22 "Third parties may claim that Borregaard's products or processes infringe their intellectual property rights"). In addition, once a product is in the marketplace, its selling price often decreases over the life of the product, especially after a new competitive product is introduced to the market. Any failures, material delays or unexpected costs related to implementation of Borregaard's specialisation and longer-term research and development efforts could potentially have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

### *2.1.5 The loss of large volume customers could impact Borregaard's sales and its profits*

As a result of Borregaard's strategy of concentrating on high-value niche products, its products have historically been sold to a relatively small number of large volume customers. This is particularly the case with respect to Borregaard's Specialty Cellulose business. In 2011, sales to Borregaard's top five customers by sales volume represented approximately 26% of Borregaard's total operating revenues. In the Specialty Cellulose segment, sales to Borregaard's top three customers within that segment by sales volume represented approximately 41% of segment operating revenues in 2011, while, within the Performance Chemicals segment, sales to Borregaard's top three customers within that segment by sales volume represented approximately 23% of segment operating revenues in 2011.

Although Borregaard has had and seeks to maintain long term business relations with many of its key customers, and works closely with its customers to customise the products to their individual requirements, sales are based primarily upon individual sales orders by customers who, subject to the availability of substitutes and other commercial factors, could cease buying Borregaard products on short notice, for any reason, and with little or no recourse. The loss of any major customer may have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

### *2.1.6 Changes in raw material costs, particularly of wood, and energy costs could impact Borregaard's operating results and financial condition*

The prices of the raw materials and the energy on which Borregaard's business depends can in certain cases be volatile and susceptible to rapid and substantial increases due to factors beyond Borregaard's control.

In 2011, Borregaard's wood cost (which includes transport costs) for the Sarpsborg plant represented 27% of its cost of materials. The price of spruce, sourced mainly from Norway and Sweden, has historically shown significant price volatility, largely determined by supply and demand dynamics. Important drivers for demand comprise, *inter alia*, production volumes and the profitability of the pulp and paper and the wood board industries, the use of wood as substitute for energy (i.e. oil, gas, electricity and coal), and transportation logistics (including ease of shipment by truck, train and boat). Key drivers for supply comprise net income from harvesting activity, production volumes and profit levels in the sawmill industry. From 2009 to 2011, Borregaard's total wood costs increased by 18%. The availability of harvested timber may be limited by factors such as the activity level within the cellulose and sawmill industry, fire, ice and wind storms, droughts, floods and other natural and man-made causes, thereby reducing supply and increasing prices. A significant component of the price of wood is transportation costs. Spruce is typically transported to the Sarpsborg plant by truck, rail or ship. Significant increases in the cost of fuel or transport taxes can accordingly result in material increases in wood costs.

In 2011, Borregaard's energy cost represented 30% of its cost of materials. The price of oil, natural gas and electricity to power Borregaard's production processes are influenced by a number of factors, including mechanical failures, weather, political factors and unanticipated or sudden increases in demand. While Borregaard has entered into long term contracts for the supply of electricity and thermal energy (steam) to its plant in Sarpsborg at a predicable cost, and supplies a share of its thermal energy needs through in-house production, Borregaard also relies on oil or other fossil fuel purchases and purchases some electricity, oil, natural gas and waste at market rates. For its plants outside Norway, Borregaard purchases energy at market rates.

Borregaard's customer contracts do not generally permit increases in operating expenses to be passed on to customers through sale prices under the periods for which the prices are fixed, and Borregaard generally does not seek to pass on these costs. Accordingly, sustained increases in the cost of wood, other raw materials or energy may, particularly if Borregaard is unable to offset such increases through successful productivity improvement programmes, have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

### *2.1.7 Borregaard does not enter into formal, written agreements with a portion of its customers, and this practice exposes Borregaard to litigation and ambiguity should a conflict or discrepancy arise*

Historically, Borregaard has not entered into formal, written contracts with a portion of its customers. Although this practice is not unusual for the industry, and orders are confirmed in writing incorporating price and terms of delivery, Borregaard's informal contracts create risk because Borregaard's standard terms of delivery may not apply and the precise terms of such agreements may be more difficult to determine and enforce by courts of law. In addition, due to the lack of detailed written contracts, Borregaard's ability to collect fees, protect its intellectual property and protect itself from liability to others may be impaired.

### *2.1.8 Borregaard operates in a high cost environment*

With most of its workforce based in Sarpsborg, Borregaard operates in a high– and rising cost environment for labour (see Section 11.3.6 "Key cost items"). Borregaard's customer contracts do not generally permit increases in operating expenses to be passed on to customers through increased sale prices, and Borregaard generally does not seek to pass on these costs. Accordingly, sustained increases in labour costs may, particularly if Borregaard is unable to offset such increases through successful productivity improvement programmes, have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

### *2.1.9 Prices in the dissolving cellulose market are volatile*

Dissolving cellulose prices have historically been volatile, in particular in the viscose grade segment, where volatility is mainly driven by supply, including the pricing and availability of cotton, and demand. As viscose is a substitute for cotton, the price and availability of cotton, which varies with the annual harvest, is a key factor affecting viscose demand. Specialty cellulose prices rose considerably in 2010 and 2011 due to sharp viscose grade price increases resulting from unusual dynamics in the viscose grade markets, the linkages between the viscose grade and specialty cellulose markets, and increasing demand for specialty cellulose (see Section 7.3.2 "Markets and applications"). These market dynamics have had a material positive effect on Borregaard's results of operation during the periods under review with operating profits in the Specialty Cellulose segment increasing from NOK 10 million in the year ended 31 December 2009 to NOK 317 million in the year ended 31 December 2011. Specialty cellulose prices have remained high during the first nine months of 2012 (despite the price of viscose grades, cotton and cotton linters pulp having fallen), but there is an increasing risk that specialty cellulose prices will face price pressure as a result of increased supply, and reduced demand, in particular from cyclical industries like the construction industry. During the third quarter of 2012, however, Borregaard has observed some soft spots and increased competition in the markets for specialty cellulose that have resulted in a weaker product mix for its sales, with increased sales of viscose grades. A weaker product mix and increased price pressure could reduce the gross average sales prices for cellulose products realised by Borregaard and could materially affect the profitability of its Specialty Cellulose segment, and have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

### *2.1.10 Borregaard's financial results and prospects could be significantly impacted by the inability to maintain or expand its existing sources of lignin*

Borregaard's Performance Chemicals business, which has historically been the primary contributor to its profitability and which forms a core component of its strategy for future growth, is dependent on the supply of lignin. For Borregaard's production of lignin-based products in Sarpsborg, lignin is produced as a co-product of Borregaard's production of cellulose products. For Borregaard's lignin plants in South Africa, Germany, the United States, the UK, Spain, Czech Republic and Brazil, Borregaard is dependent on the supply of lignin from external sources or from other entities within the Group. The majority of these plants are to a large extent dependent on an adjacent pulping mill as their sole source of lignin.

Borregaard has entered into certain long-term lignin supply agreements and strategic co-ownership or joint venture agreements in order to secure the supply of lignin to these plants. However, disruption in the supply of lignin to Borregaard's foreign plants could occur for reasons outside Borregaard's control, including those relating to the demand for, and profitability of, commodity and viscose grade pulp or other industry-specific factors. Borregaard may, for example, experience uncertainty under its existing supply arrangements, such as in Brazil where Borregaard's supplier of lignin has stopped its pulp production, or relating to renewals of existing supply agreements, such as for its lignin plant in the Czech Republic where the current supply agreement expires 31 December 2013. In addition, only a limited number of cellulose pulp producers use the sulphite pulping process that is necessary to produce the high-quality lignin used by Borregaard for its lignin-based products, and the number of sulphite mills may decrease in the future. Borregaard's lignin plant in Germany, for example, has been partly idle since 2009 constrained by the absence of a source of lignin supply. See Section 8.7.2 "Sourcing of the lignin feedstock".

Although Borregaard believes there is scope for expansion at its South African plant, and is exploring various ways to secure additional supply of lignin, including seeking to develop new sources of lignin supply from fast-growing wood and other biomasses (annual plants) through the BALI project, there can be no assurances that any such efforts undertaken will be successful. The BALI project may be subject to a number of risks and uncertainties characteristic of a longer-term research and development project (see Section 2.1.4 "Borregaard's investments in specialisation and longer-term research and development efforts may not be successful" and Section 8.7.2 "Sourcing of the lignin feedstock").

Any disruption in the supply of lignin from third parties to Borregaard's lignin-based production facilities, or the loss of a supplier where Borregaard is unable to find a suitable alternative, could force it to curtail its production, which may result in loss of revenue and may trigger the payment of severance obligations to employees depending on the applicable collective bargaining agreement, laws and regulations and the length of time a facility remains curtailed. Further, the inability to successfully obtain additional sources of lignin of suitable qualities may limit Borregaard's ability to grow its Performance Chemicals business in the future. Either of these circumstances could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

#### *2.1.11 Accidents or failures or other causes could result in significant production stoppages and losses*

Borregaard's success depends on the efficient and uninterrupted operation of its manufacturing operations, and in particular the Sarpsborg biorefinery. The various production facilities and processes at Borregaard's Sarpsborg plant all form part of a highly integrated biorefinery (see Section 8.8.1 "Borregaard's integrated biorefinery concept"). As a result, accidents such as fires which may develop as a result of insufficient sprinkling, extreme weather or other natural disasters such as a flooding of the Glomma River, or the failure of production equipment in separate parts of the plant may lead to production stoppages or reductions for the whole biorefinery. Any production stoppages or reductions, whether due to accidents, failures, scheduled maintenance, problems in achieving production quality parameters or other reasons could have a significant impact on Borregaard's results of operation, and the restarting of the biorefinery after a stoppage could take several days or longer, causing additional delays. In addition to loss of revenue, production stoppages may trigger the payment of severance obligations to employees depending on the applicable collective bargaining agreement, laws and regulations and the length of time production remains curtailed. Although Borregaard has property damage and business interruption insurance, such insurances do not cover all damage that may occur (as an example, damage caused by maintenance failure would not be covered) or may not be sufficient to compensate it for losses that may occur. Although Borregaard seeks to mitigate this risk through maintenance and investments to replace obsolete production equipment, such efforts may not be sufficient and such events could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

#### *2.1.12 Borregaard is dependent upon attracting and retaining highly skilled personnel*

Borregaard's ability to operate its business and implement its strategies depends, in part, on the skills, experience and efforts of its personnel involved in management, research, operations, production, sales and distribution. As a result, Borregaard believes that its success depends to a significant extent upon its ability to attract and retain such personnel, competition for whom may be intense. For example, many of Borregaard's products are sold and supported through dedicated staff and specifically trained personnel. Furthermore, if Borregaard loses the service of its executive officers or other highly skilled personnel, it may not be able to execute its business strategy. There can be no assurance, however, that Borregaard will be able to retain such personnel on acceptable terms or at all. Borregaard does not maintain any key-man insurance on any of its employees. The loss of such personnel due to market or other conditions could affect Borregaard's ability to sell and support its products effectively, which could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

#### *2.1.13 Hazards associated with chemical manufacturing could result in substantial claims, fines or significant damage to Borregaard's reputation*

The hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes are inherent in Borregaard's operations. These hazards could lead to an interruption or suspension of operations and could have an adverse effect on the productivity and profitability of a particular production facility or on Borregaard's business as a whole. Potential risks include: major accidents such as fires, explosions, release of chemicals or pathogens whether or not due to human error; system failures; deliberate sabotage; extreme weather or other natural disasters such as, in the case of the Sarpsborg facility, a flooding of the Glomma River. Such events could result in the release into the atmosphere of harmful gases such as chlorine ($Cl_2$), sulphur dioxide ($SO_2$), ammonia ($NH_3$) or epichlorohydrine, or the release of various other harmful chemicals produced in the production process or stored at the site into surface water bodies, groundwater and soil. Such events could result in injuries, loss of life or extensive damage to property and the environment. The impacts on Borregaard could include suspension of operations, major claims, the imposition of civil or criminal fines, penalties and other sanctions, and clean-up and remediation costs, as well as significant damage to Borregaard's reputation. Some of Borregaard's operations, in particular its Sarpsborg facility, are located in close proximity to sizable communities and significant bodies of water where such risks are particularly acute. Any of these events could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

During 2005 and 2008, two legionnaire's disease outbreaks occurred in the Sarpsborg-Fredrikstad region close to Borregaard's Sarpsborg facility. In total, 105 persons were infected and 12 persons died. The common initial source of these outbreaks was an aerobic wastewater treatment plant at Borregaard's site which released legionnaire's disease-infected water into the Glomma River. The Sarpsborg facility subsequently changed its wastewater treatment processes, removing, Borregaard believes, this legionnaire's disease risk from its wastewater treatment processes. See Section 8.11.2 "Sarpsborg wastewater discharge issues". However, in view of the sensitive location of the Sarpsborg facility, the effect of any future releases of hazardous substances could be material.

2.1.14 *Policies, procedures and systems to safeguard employee health, safety and security may not be adequate*

Chemical production may be dangerous. Detailed and specialised policies, procedures and systems are required to safeguard employee health, safety and security. Borregaard aims to follow best practices for employee health, safety and security. However, if these policies, procedures and systems are not adequate, or employees or contractors do not receive adequate training or instructions, the consequences could be severe including serious injury or loss of life, which could impair Borregaard's operations and cause it to incur significant legal liability.

*2.1.15 Borregaard is subject to the risk of substantial environmental liability and limitations on its operations brought about by the requirements of environmental laws and regulations*

Borregaard's operations are subject to stringent environmental laws, regulations and permit conditions concerning air, soil and water pollution, wastewater discharge, water usage and waste handling and disposal. These laws, regulations and permit conditions, now and in the future, may restrict Borregaard's production, limit its ability to increase production, and cause Borregaard to incur significant costs, monetary fines, penalties or liabilities with respect to environmental compliance and/or potential clean-up obligations. Borregaard currently has several significant capital projects underway to reduce its emissions and discharges to the environment, particularly at the Sarpsborg facility. See Section 8.11.1 "Sarpsborg air emission issues" and Section 8.11.2 "Sarpsborg wastewater discharge issues". It is expected that, overall, costs will likely increase over time as environmental laws, regulations and permit conditions become more stringent, and as the expectations of the communities in which Borregaard operates become more demanding. For example, the attainment of good ecological status of the Glomma River by 2021, as required by the EU Water Framework Directive (2000/60/EC) as adopted by Norway, is likely to be dependent on the reduction of chemical oxygen demand (COD) flux in the river. See Section 8.11.2 "Sarpsborg wastewater discharge issues". Any of these liabilities or limitations brought about by the requirements of environmental laws and regulations could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

*2.1.16 Borregaard is subject to the risk of substantial costs and liabilities relating to investigation and remediation of environmental contamination*

In line with the industry in which Borregaard operates, its production facilities have discharged and released various chemicals, some of which are hazardous, into the air, soil, surface water and / or groundwater. Borregaard currently owns, or formerly operated, manufacturing facilities and discontinued operations, or may acquire other properties, which are subject to costs and liabilities relating to investigation and remediation of contamination resulting from such discharges and releases. Investigation and/or remediation projects currently are active at the Sarpsborg and Rothschild facilities. See Section 8.11.3 "Investigation and remediation of contaminated properties". The discovery of previously unknown contamination, or the imposition of new obligations to investigate or remediate contamination at, or migrating off-site from, any of its current or former production facilities, including Sarpsborg, could result in substantial unanticipated costs. Additional investigation and remediation costs may also arise if Borregaard were to close down operation of any of its current facilities and operations in the future.

Borregaard also may have full or partial liability for off-site disposal activities under the laws of the various jurisdictions in which it operates, including under the U.S. Superfund law.

The cost of investigation and remediation of contaminated properties could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects. Although Borregaard believes it currently has adequate reserves for the investigation and remediation of its properties, legal requirements relating to assessment and remediation of these properties continue to become more stringent and there can be no assurances that actual expenditures will not exceed Borregaard's expectations, or that other unknown liabilities will not be discovered in the future.

In addition to costs and liabilities associated with investigation and remediation of contamination, Borregaard may also be subject from time to time to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including alleged property damage or personal injury caused by the effects of hazardous materials from Borregaard's facilities or other business activities.

*2.1.17 Borregaard is subject to a number of laws and government regulations*

Borregaard is subject to competition laws and regulations, and its business practices may become subject to the scrutiny of competition regulators. Due to its market position in the niche markets in which its specialises, Borregaard may be subject to various restrictions and requirements, including in its ability to offer rebates or discounts, to undertake exclusive purchase obligations from suppliers or to enter into exclusive distribution arrangements restricting distribution of competing products. The consequences of violating competition laws and regulations include the imposition of significant civil and criminal penalties. As an example, in 2008, Borregaard received and accepted a fine of NOK 1.6 million from the Norwegian Competition Authority for breach of the Competition Act. Although Borregaard did not acknowledge that there had been an infringement, and has undertaken an exercise to ensure that its contracts comply with competition law, there is a risk that Borregaard could be found not to comply with competition laws in the countries in which it operates. Further, such laws may become more stringent or be interpreted differently in the future.

Borregaard's operations, particularly those relating to the storage, transportation and sale of chemicals, are subject to numerous health, safety environmental and export control laws and regulation in the countries in which it operates. See Section 8.11 "Environmental, health and safety matters". Some of these laws and regulations require the company to hold permits, or obtain registrations, in connection with its operations. Further, the laws and regulations applicable to Borregaard's operations are subject to change and may become more stringent in the future. Since Borregaard's facilities would have the technical ability to produce certain illegal substances, such as chemical weapons, Borregaard may also be subject to surveillance activities by national or supra-national bodies controlling the use of such substances.

As a company that operates globally, Borregaard has conducted, and continues to conduct, business with entities located in jurisdictions targeted by comprehensive U.S. or EU economic and trade sanctions, in particular, Iran and Syria. The revenue derived from Borregaard's business with entities located in Iran or Syria constituted less than 1% of its gross revenue for the five-year period beginning 1 July 2007. While Borregaard has procedures in place to comply with U.S. and EU sanctions to the extent they apply to Borregaard or its subsidiaries, it remains possible that its products could be sold or transferred to countries, governments, entities or persons targeted by U.S. or EU sanctions in a manner that would violate such sanctions.

Borregaard is also subject to various laws and regulations relating to anti-corruption and anti-bribery, including provisions of the Norwegian Criminal Act of 22 May 1902 No. 10, which generally prohibit companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business or other benefits. The Norwegian provisions on anti-corruption and anti-bribery apply to actions taken by employees of Borregaard and its Norwegian subsidiaries regardless of the country where such actions take place, meaning that Borregaard may become liable for a breach of the Norwegian anti-corruption and anti-bribery law even if such breach is committed in jurisdictions other than Norway. Additionally, because of the international scope of the Group's operations, Borregaard is also subject to a range of other international and pan-national anti-corruption regulations, including the U.S. Foreign Corrupt Practices Act. Moreover, given the industries in which Borregaard participates, Borregaard may encounter public officials or interact with government-owned entities, and operate in parts of the world that have experienced governmental corruption to some degree, where strict compliance with anti-bribery laws may conflict with local customs and practices. Although Borregaard has policies and procedures designed to ensure that it operates in compliance with applicable laws and regulations, there can be no assurances that such policies or procedures will work effectively all of the time or protect Borregaard against liability for misconduct by its agents, employees and intermediaries.

Violations of the laws mentioned above, or allegations or investigations of allegations of such violations, could disrupt Borregaard's business, may lead to significant civil and criminal penalties and other remedial measures, including, in certain circumstances, restrictions on or shutdown of a part of its operations, all of which could have a material adverse effect on its business, results of operations, financial condition and prospects.

*2.1.18 The European sovereign debt crisis may have a substantial negative impact on Borregaard's business.*

For the financial year ended 31 December 2011, the Group generated 53% of its consolidated sales in Europe. Consequently, the European sovereign debt crisis poses a substantial risk to Borregaard. The European sovereign debt crisis has introduced considerable political and monetary uncertainty into the euro zone. The value of the euro has fluctuated substantially and unpredictably, and widespread political changes have occurred in several member states of the euro zone. Borregaard is unable to predict when and how the European sovereign debt crisis will be resolved. If countries leave the euro zone, either consensually or non-consensually, the value of the euro could depreciate rapidly, or the euro could cease to exist altogether. Such changes may result in substantial expense and disruption to Borregaard's business as a large portion of its revenues is currently in EUR. In addition, customers with which Borregaard currently does business may also face substantial disruption or cease to exist altogether. There is no guarantee that Borregaard would be able to enter into new agreements similar to those it has now or that purchasers of its products would continue to make purchases. Any such change may have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

*2.1.19 Borregaard's quarterly results of operations are subject to fluctuation due to the seasonality of certain of Borregaard's key costs.*

Borregaard is subject to seasonal factors affecting certain of its key costs. Borregaard's energy costs, a key component of the Group's costs, are higher during the fall and winter because prices for energy tend to increase during the fall and winter months in Norway and because it takes more energy for Borregaard to heat the boilers at its Sarpsborg facility to produce thermal energy during that time.

In addition, Borregaard's payroll costs, which represent a key component of its operating expenses, are higher during the fourth quarter and the first quarter because Borregaard's employees in Norway receive holiday pay (which has already accrued in the previous calendar year) during June and July, and Borregaard accrues all payroll expenses (including holiday pay for the next year) during the remaining months of each year, resulting in lower payroll expense in the second and third quarters than in the first and fourth quarters.

Because of the foregoing, Borregaard's operating profit will generally be comparatively lower in the first and fourth quarters than in the second and third quarters. These variations may also make comparisons between Borregaard's quarterly or other periodic financial information challenging or non-indicative of notable trends.

*2.1.20 Borregaard's joint venture partner and co-investors may have interests that differ from Borregaard's and may take actions that adversely affect Borregaard*

Borregaard currently participates in a joint venture in South Africa and has a partly owned subsidiary in Spain, and may enter into other joint venture or co-investment projects with third parties in the future, for example, as part of its strategy for the BALI project or its global lignin-based products business. Such current and prospective joint ventures and co-investments involve potential risks, including:

- the objectives of the joint venture or co-investment not being achieved in a timely manner or at all
- Borregaard not having voting control over the relevant entities
- partners at any time having or developing economic or business interests or goals that are inconsistent with Borregaard's
- partners becoming competitors of Borregaard or entering into agreements with its competitors or infringement by partners of Borregaard's intellectual property rights
- partners taking actions contrary to Borregaard's instructions or requests, or contrary to Borregaard's policies or objectives with respect to the investment
- partners becoming unwilling or unable to fulfil the objectives of the joint venture or co-investment due to general market conditions, financial difficulties or other circumstances beyond Borregaard's control.

Actions by Borregaard's joint venture or other partners may also subject property owned by the parties to liabilities greater than those contemplated by any governing joint venture or shareholders agreement, or to other adverse consequences.

*2.1.21 Borregaard relies upon intellectual property, trade secret laws and contractual restrictions to protect important proprietary rights and, if these rights are not sufficiently protected, its ability to compete and generate revenue could suffer*

Borregaard's ability to compete effectively in certain markets in part depends on its ability to obtain, maintain, and protect its trade secrets, proprietary information and other intellectual property rights. Borregaard relies to a certain extent on a combination of patent, trademark, copyright and trade secret laws, as well as contractual restrictions and physical measures to protect Borregaard's trade secrets, proprietary information and other intellectual property rights. Borregaard currently holds select patents, pending patent applications, and other intellectual property rights, both in Norway and in other jurisdictions, that it believes may give it a competitive advantage in certain markets.

Where Borregaard believes that patent protection is not appropriate or obtainable, it relies on trade secret laws and practices to protect its proprietary technology and processes, including physical security, limited dissemination and access, and confidentiality agreements with its employees, consultants, business partners, potential licensees and others to protect its trade secrets and other proprietary information. There can, however, be no assurances that such protective measures will effectively prevent disclosure or unauthorised use of proprietary information or provide an adequate remedy in the event of misappropriation, infringement, or other violations of Borregaard's proprietary information and other intellectual property rights. Furthermore, Borregaard's trade secrets and proprietary technology may otherwise become known or be independently developed by its competitors or it may otherwise not be able to maintain the confidentiality of information relating to its products.

Misappropriation of Borregaard's trade secrets, proprietary information and other intellectual property rights could enable third parties to benefit from its proprietary rights without payment. Any inability to adequately protect its proprietary rights could harm Borregaard's ability to compete, to generate revenue and to grow its business.

From time to time, Borregaard may also seek to enforce its intellectual property and proprietary rights against third parties. Policing unauthorised use of intellectual property can be difficult and expensive. The fact that Borregaard has intellectual property rights does not guarantee success in any attempts by it to enforce these rights against third parties, and any such litigation may result in substantial diversion of resources and, if decided unfavourably against it, could have a material adverse effect on Borregaard's business and financial results.

*2.1.22 Third parties may claim that Borregaard's products or processes infringe their intellectual property rights*

It is Borregaard's intention to avoid infringing, misappropriating, or otherwise violating the intellectual property rights of others. However, Borregaard cannot be certain that the conduct of its business or its products or processes do not infringe or otherwise violate such rights. From time to time, it may become subject to legal proceedings, including allegations and claims of alleged infringement or misappropriation of the patents and other intellectual property rights of third parties (including by means of counterclaims against it). As Borregaard's business expands and faces increasing competition, the number of such claims may grow.

Legal proceedings involving intellectual property rights, regardless of merit, are highly uncertain and can involve complex legal and scientific questions, can be time consuming, expensive to litigate or settle, and can significantly divert resources. Borregaard's failure to prevail in such matters could result in judgments awarding substantial damages and injunctive or other equitable relief against it. If Borregaard were to be held liable or discover or be notified that its products potentially infringe or otherwise violate the intellectual property rights of others, it may face a loss of reputation, may not be able to exploit some or all of such intellectual property rights or technology, and may need to obtain licenses from third parties or substantially re-engineer its products in order to avoid infringement. It may not be possible to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer Borregaard's products successfully or such efforts may cause it delay or require it to stop selling and marketing certain products or services.

Any of the foregoing could cause Borregaard to incur significant costs or prevent it from selling its products or services, which in turn could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

*2.1.23 Borregaard is subject to a variety of potential product liability risks*

The design, development, manufacture and sale of Borregaard's products involves an inherent risk of product liability claims and associated adverse publicity. Borregaard may be named directly in product liability suits relating to the chemicals it produces or products that are produced using its specialty chemicals and other products. These claims could be brought by various parties, including customers who purchase products directly from it, other companies who purchase products from its customers or by the end users of products produced using its chemicals.

Borregaard also delivers certain products, in particular to the foods, cosmetics and pharmaceutical industry, which are required to meet certain market standards and specifications set by international regulatory bodies such as the World Health Organisation, the EU and national regulators. However, there is a risk that the products sold by Borregaard may not always meet the required standard or specification for that product for a variety of reasons, including contamination of products in storage or during transit and handling, operator or customer error, customer adulteration of products or impurities with unknown impact that such products may contain.

Sub-quality, faulty and / or contaminated products may damage Borregaard's customers' end products or other property, fail to meet quality or performance specifications, or result in injury or loss of life, any of which may subject Borregaard to litigation and significant compensation claims, fines and penalties. Additionally, the sale of sub-quality, faulty and / or contaminated products may damage Borregaard's reputation and brand, resulting in negative customer perceptions and reduced demand for its products. Any resulting increase in costs or decline in sales due to such incidents could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects. In addition to seeking insurance coverage, Borregaard seeks to contractually limit its product liability, typically to the purchase price for the products sold, but may in certain cases have a broader liability including an obligation to share in the costs of product recalls for finished end-products.

#### *2.1.24 Future greenhouse gas / carbon legislation or regulations could increase Borregaard's costs of compliance with environmental laws and regulations*

Borregaard's Sarpsborg facility is included in the EU Emissions Trading Scheme (EUETS) governing greenhouse gas emissions. The business has accumulated a surplus allowance of $CO_2$ equivalents (Credits) that Borregaard believes will be sufficient under Phase II of the EUETS (which covers the trading period 1 January 2008 – 31 December 2012). The EUETS's third trading period (Phase III), which begins in January 2013 and will run through December 2020, will introduce significant changes to the emissions trading rules. The Norwegian Climate and Pollution Agency (Klif) has granted Borregaard, on a preliminary basis, annual cost-free climate quotas for the Phase III period. It is currently difficult to predict whether future $CO_2$ emissions will exceed the cost-free quotas that are anticipated to be finally granted under Phase III. See Section 8.11.4 "Greenhouse gas regulation". There can also be no assurances that the number of quotas currently allocated will not be reduced by adjustments by the European Commission. Failure to obtain the appropriate free allowances will negatively affect Borregaard's results, as it will be required to purchase additional $CO_2$ emissions allowances, prices of which are expected to increase substantially under Phase III of the EUETS.

Additional regulatory initiatives may be implemented in other jurisdictions to address greenhouse gas emissions and other climate-change-related concerns. If such initiatives are implemented and to the extent Borregaard operates or offers its products for sale in affected jurisdictions, it may be required to make additional capital investments, or incur additional operating costs or mitigation expenses, such as carbon taxes or other charges.

#### *2.1.25 Borregaard may not have adequate insurance coverage for potential liabilities or other losses*

Borregaard currently maintains insurance coverage of types and amounts that it believes to be customary in the industry, including property damage and business interruption, marine cargo / transportation, environmental liability, third-party public and product liability, workers' compensation, loss resulting from criminal acts by employees, employment practices liability, contaminated products insurance-recall, commercial general liability, umbrella liability and excess liability insurance all subject to certain limitations, deductibles and caps. (See Section 8.12 "Insurance").

Borregaard's insurance may be inadequate or unavailable to protect it in the event of a claim or other loss, or its insurance coverage may be cancelled or otherwise terminated. In particular, Borregaard's insurance cover does not include the cost of a product recall unless the recall is caused by potential damage to consumers or is required by public authorities. Borregaard faces the following additional risks in respect of its insurance coverage:

- It may not be able to continue to obtain insurance on commercially reasonable terms or at all.
- It may be faced with types of liabilities or losses that will not be covered by its insurance, such as liabilities for breach of contract.
- The amount of any liabilities may exceed its policy limits.
- It may incur losses from interruption of its business that exceed its insurance coverage.

Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

In addition, most of Borregaard's current non-life insurance contracts have been negotiated at the level of the Orkla group and will have to be re-negotiated on a standalone basis for Borregaard, and as a result be obtained on terms (namely applicable limits and deductibles) which vary from existing contracts, to the extent available at all. See Section 8.12 "Insurance".

### *2.1.26 There are risks relating to the countries in which Borregaard operates that could impact its earnings or affect an investment in Borregaard.*

Borregaard has production facilities in five countries in Europe, the United States, Brazil and in South Africa, and operates, or has operated in several other countries. In addition, Borregaard sells products to customers across a wide range of countries, including China. Borregaard also sources certain products from China. As a result, Borregaard's current or previous operations are subject to a variety of country, regulatory and political risks, particularly in connection with its operations in emerging markets, including Brazil, South Africa and China. These risks include potential political and economic uncertainty, application of foreign exchange controls, price controls, nationalisation, expropriation, crime and lack of enforcement, political insurrection, governmental interference, currency fluctuations, punitive taxation, anti-dumping duties and other restrictive government actions, and changes in law and government policy. Further, the legal systems in the emerging markets in which Borregaard operates may be less predictable than those in Norway, as the laws and courts of these countries have not been fully tested in enforcement of contracts and other types of commercial disputes. These conditions can lead to delays in enforcement proceedings, restructuring and other aspects of Borregaard's operations in these markets. Third parties or governments could also seek to hold Borregaard liable for obligations of related parties, including Orkla, based on legal principles that differ from those which would be applied by Norwegian courts. In addition, these factors could affect Borregaard's results by causing interruptions in its operations and by increasing the costs of operating in these countries or by limiting its ability to repatriate profits from these countries. Financial risks of operating in emerging markets also include risks of inflation, devaluation, price volatility, currency convertibility and country default. These factors could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects. Borregaard is also subject to the risk of corrupt practices and requests for bribes or similar illegal payments, particularly in its emerging markets and especially in connection with tendering for private or public business or commercial contracts, obtaining and renewing permits, approvals, land registrations and various regulatory or governmental consents. This could affect Borregaard's ability to operate in a particular market and expose it to significant fines and penalties, as well as reputational harm.

### *2.1.27 Borregaard may be unable to comply with the restrictions and the financial covenants in the agreements governing its indebtedness*

In connection with the Listing, Borregaard has entered into separate bilateral multicurrency revolving credit facilities with DNB Bank ASA, Svenska Handelsbanken and Skandinaviska Enskilda Banken, respectively, acting as lenders, in the aggregate amount of NOK 1,800 million for the purpose of financing its working capital and general corporate purposes, and to refinance the amounts outstanding under the existing intra-group loan facilities previously made available to Borregaard by Orkla and / or any of its affiliates. These agreements contain certain financial covenants and other restrictions and undertakings as described in Section 8.9 "Material contracts". The ability of Borregaard to comply with these restrictions and covenants, including meeting the financial ratios required to be met thereunder, is dependent on future performance and may be affected by events beyond its control. If Borregaard is unable to comply with the restrictions and covenants in these agreements or in any future debt financing agreements, this could result in a default under these agreements, that could permit lenders to terminate their lending commitments and declare the outstanding loans due and payable. If any of these events should occur, Borregaard cannot guarantee that its assets at such time will be sufficient to repay in full the outstanding indebtedness, and the Group may be unable to find alternative financing or such financing may not be available on terms that are favourable or acceptable.

### *2.1.28 In order to execute its strategy, Borregaard may require additional capital in the future*

Borregaard's business is capital intensive and will require capital expenditure in the future for the maintenance of its operations and compliance with laws and regulations, including environmental regulations. Further, Borregaard's initiatives for long-term growth include several potential projects which will require significant capital expenditure. These include plans to secure increased lignin supply from current sources, potentially producing lignin products from alternative feedstock (see Section 8.6.3 "The BALI project") and creating a new product line based on advanced microfibrillar cellulose (see Section 8.6.4 "The Exilva project"). Borregaard will not receive any proceeds from the Offering and, to the extent it does not generate sufficient cash from its operations and there are insufficient available amounts under the Bank Facilities Agreements for further borrowing, it may need to raise additional funds through public or private debt or equity financings to realise its strategic objectives and to fund capital investments. If sufficient funding for these or other initiatives is not available, or not available on favourable terms, or further financing is restricted by the terms of the Bank Facilities Agreements (see Section 2.1.27 "Borregaard may be unable to comply with the restrictions and the financial covenants in the agreements governing its indebtedness"), Borregaard may be unable to meet its maintenance requirements, carry out acquisitions, and otherwise take advantage of business opportunities or respond to competitive pressures, any of which could adversely impact its business, results of operations, financial condition and prospects.

#### *2.1.29 Labour disputes could have a material adverse effect on Borregaard's business*

Borregaard's financial results could be adversely affected if labour negotiations were to restrict the efficiency of Borregaard's operations. Borregaard's inability to negotiate acceptable wages, benefits and other employment terms with its employees, whether unionised or not, could result in strikes or work stoppages by the affected workers. Borregaard's operations could be similarly affected by central or local labour conflicts in the private or public sector affecting services (such as transportation of raw materials and finished products) on which Borregaard's operations rely. In case of work stoppages affecting Borregaard or such third parties, Borregaard could experience a significant disruption of its operations, which could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects

#### *2.1.30 Borregaard is exposed to exchange rate fluctuations*

Borregaard incurs a currency transaction risk whenever it enters into a purchase or sale transaction or incurs indebtedness using a different currency from the currency in which it records revenues. In 2011, Borregaard derived 91% of its revenues in currencies other than NOK, primarily in USD and EUR, while 53% of its costs were in NOK. Its net foreign exchange exposure related to its sales revenues in 2012 (before hedging) is estimated to be USD 230 million and EUR 100 million, respectively. The value of these currencies can be highly volatile, and any volatility in, or more sustained weakening of, the USD and EUR as compared to the NOK could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects. As discussed in Section 11.9 "Foreign exchange exposure and hedging strategy", Borregaard has implemented a hedging policy that aims to delay the effects of currency movements, so as to allow it sufficient time to implement measures to adjust costs and revenues to minimise the impact of currency movements on its margins. However, a strengthening of the NOK relative to the USD and EUR over the longer-term may negatively affect Borregaard's ability to effectively compete with competitors with their cost base in weaker currencies. There can be no assurance that the hedging policy will be effective or that it will protect Borregaard from the long-term effects of currency movements.

To a more limited extent, because Borregaard reports its consolidated results in NOK, the value of the NOK relative to its foreign operating subsidiaries' functional currencies will affect its consolidated income statement and consolidated statement of financial position when those operating subsidiaries operating results are translated into NOK for reporting purposes.

#### *2.1.31 Borregaard is exposed to interest rate risk*

Borregaard expects to use borrowings as a source of funding. In connection with the Listing, Borregaard has entered into three separate multicurrency revolving credit facilities with DNB Bank ASA, Svenska Handelsbanken and Skandinaviska Enskilda Banken, respectively, acting as lenders, in the aggregate amount of NOK 1,800 million for the purpose of financing its working capital and general corporate purposes, and to refinance the amounts outstanding under the existing intra-group loan facilities previously made available to Borregaard and / or any other member of the Group by Orkla and / or any of its affiliates. Each of these revolving credit facilities contemplates variable rates over an inter-bank reference rate specific to the currency selected for a specific revolving loan (NOK, EUR, USD or any other alternative currency approved by the relevant lender). In addition, the interest margin paid by Borregaard over the relevant interbank reference rates is dependent on the Group's leverage ratio from time to time. Borregaard intends to consider the establishment of a hedging policy going forward. However, Borregaard currently does not hedge the interest rate risk on its interest-bearing financial liabilities and is as such exposed to interest rate fluctuations. A significant increase in interest rates could therefore significantly increase Borregaard's debt service obligations, which in turn could have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

#### *2.1.32 Investment returns on pension assets may be lower than expected or interest rates may decline, requiring Borregaard to make significant additional cash contributions to our plans*

Borregaard sponsors funded and unfunded defined benefit pension plans for certain of its employees, principally in Norway and the United States. As of 31 December 2011, there was a net pension liability of NOK 51 million in respect of the defined benefit pension plans that requires ongoing funding by Borregaard. Borregaard's estimate of liabilities and expenses for pensions incorporates significant assumptions, including the interest rate used to discount future liabilities and expected long-term rates of return on plan assets. Borregaard's pension contributions and expenses, results of operations, liquidity or shareholders' equity in a particular period could be materially adversely affected by market returns that are less than the plans' expected long-term rates of return, a decline in the rate used to discount future liabilities and changes in the currency exchange rates. If the assets of its pension plans do not achieve expected investment returns for a fiscal year, such deficiency may result in increases in pension expense. Changing economic conditions, poor pension investment returns or other factors may require it to make substantial cash contributions to the pension plans in the future, preventing the use of such cash for other purposes and adversely affecting its liquidity.

*2.1.33 Borregaard's operating profits may fluctuate over time and its current level of profitability may not be sustainable*

Borregaard's current level of profitability may not be sustainable and may be adversely affected by numerous factors, including, but not limited to:

- changes in geographic and product mix
- increased price competition
- changes in production capacity in the industries in which it operates
- implementation of new products
- changes in sales volumes
- fluctuations in currency exchange rates
- loss of production due to accidents, labour disputes or other circumstances
- loss of single-source suppliers
- new onerous environmental and other regulatory requirements
- restrictions on transport of certain chemicals.

## 2.2 Risks relating to the Group's separation from Orkla and its ongoing relationship with Orkla

*2.2.1 Borregaard does not have an operating history outside of the Orkla group and investors may have difficulty assessing its historical performance and outlook for future revenues and other operating results*

The Company was incorporated on 22 August 2012 and, consequently, does not have an operating history as a separate entity. See Section 15 "Establishment of the current Borregaard Group", Section 11.2 "Presentation of financial information" and note 2 to the Combined Financial Statements. Financial information upon which prospective investors can evaluate Borregaard's historical financial performance is available only from the Combined Financial Statements and the Interim Condensed Financial Information that the Company has included in this Prospectus and that reflect (or, in the case of Interim Condensed Financial information, reflect in part) the activities of the Biorefinery Business prior to its transfer to Borregaard AS (see Section 4.2 "Presentation of financial and other information"). The Combined Financial Statements and the Interim Condensed Financial Information were extracted, or carved-out, from the consolidated financial statements of the Orkla group and may not necessarily reflect what Borregaard's results of operations, financial condition and cash flows would have been had Borregaard operated as a separate, stand-alone entity for the periods presented. Orkla did not account for Borregaard, and Borregaard was not operated, as a separate, standalone entity for the periods presented. The historical costs and expenses reflected in Borregaard's Combined Financial Statements and Interim Condensed Financial Information include an allocation of certain corporate functions historically provided to the Biorefinery Business by Orkla, including legal, finance, human resources and other administrative functions. Further, on 11 September 2012 and 17 September 2012, the shares of Borregaard AS were transferred to the Company by way of contribution in kind and the Company was capitalised with an additional NOK 999 million from the Selling Shareholder which resulted in a different debt and equity structure (see Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing"). Consequently, the financial statements and the other historical financial information included in this Prospectus do not necessarily reflect Borregaard's future results of operations, financial condition, cash flows or costs and expenses.

*2.2.2 Certain of the Biorefinery Business' agreements and instruments are subject to change of control or similar provisions based on Orkla's or third parties' ownership interest in Borregaard*

Certain arrangements, including certain agency or distribution agreements, pension arrangements, financing arrangements, corporate insurance arrangements and software licences contain change of control or similar provisions. Local laws or regulations may also trigger filing or approval requirements upon changes of control, such as a land transfer law in Brazil to which its Brazilian production site is currently subject that imposes certain restrictions on the acquisition of rural property. Such provisions, laws or regulations may provide for or permit, or may be alleged to provide for or permit, the loss of rights and benefits, increase of payment obligations or termination of the agreement or other rights or, in the case of debt instruments, repayment, if Orkla's direct or indirect ownership interest in the relevant Group company falls below a specified percentage or if a third party acquires a controlling stake in Borregaard. For instance, Borregaard's Bank Facility Agreements, described in further detail in Section 8.9.3 "Material financing agreements", will contain provisions that if a third party (other than Orkla or any of its affiliates), acquires a controlling stake in Borregaard, the relevant lender is released from its obligation to fund further utilisations and, on providing 60 days notice to Borregaard, the relevant lender may declare all outstanding loans under the relevant Bank Facility Agreement to be immediately due and payable. Based on the expected terms of the Bank Facility Agreements, if such situation occurs and the lenders choose to exercise their rights under these provisions and Borregaard is unable to procure alternate funding in a timely manner and on favourable terms, it could have a material adverse effect on Borregaard's business, results of operations financial condition and prospects. Although Borregaard does not expect that the change of control provisions in its agreements, or such laws or regulations will be materially implicated by the Offering (or, if implicated, will have a material adverse effect), there can be no assurance that in the longer-term, including as a result of actions by Orkla to further divest its interest in Borregaard or actions by Borregaard or local authorities to achieve greater certainty in this respect, such provisions, laws or regulations will not have a material adverse effect on Borregaard's business, results of operations, financial condition and prospects.

#### *2.2.3 Orkla may have significant voting power and the ability to influence matters requiring shareholder approval*

After the Offering, Orkla, through its wholly-owned subsidiary, the Selling Shareholder, will control not less than 19% of the Company's Shares if the Over-Allotment Option is not exercised and not less than 6.85% of the Company's Shares if the Over-Allotment Option is exercised in full. Accordingly, Orkla may, depending on the number of Offer Shares sold, continue to have significant ownership and voting power following the Offering, and be able to exercise significant influence in matters where a two-thirds majority of the votes cast and share capital represented is required, including mergers and other extraordinary transactions as well as amendments of the Company's organisational documents and alterations of its capital structure, including authorising the issue of new shares or buy-back of existing shares, and further, may, depending on the number of Offer Shares sold, be able to control or exercise significant influence in other matters, including the election of members to the Company's board of directors. This concentration of ownership, should it exist even after the Offering, may not be in the best interest of the Company's other shareholders. For instance, it could delay, defer or prevent a change in control, impede merger, consolidation, takeover or other business combination involving the Company, or discourage a potential acquirer from attempting to obtain control of the Company. In addition, the interests of Orkla may not always coincide with the interests of other shareholders, and other investors may not agree with the manner in which Orkla acts.

#### *2.2.4 Borregaard may from time to time experience conflicts of interest in its relationship with Orkla; because Orkla may own a significant stake in the Company, the resolution of these conflicts may not be on the most favourable terms for Borregaard*

Borregaard may from time to time have conflicts of interest in its relationship with Orkla, and the resolution of these conflicts may not be on the most favourable terms for Borregaard. Conflicts of interest may arise between Borregaard and Orkla in a number of areas, including:

- recruitment and retention of employees
- the transfer by Orkla of all or a portion of its ownership interest in the Company to a third party
- the nature, quantity, quality, time of delivery and pricing of services Orkla supplies to Borregaard under the Transitional Service Agreements (as defined in Section 15.5 "Insurance, IT services and other relationships with Orkla").

Although Borregaard and Orkla will have few ongoing commercial relationships after the Listing, and have attempted to structure those ongoing commercial relationships on an arm's-length basis, if a conflict of interest were to arise in the future, Borregaard and Orkla may not be able to successfully resolve that conflict, and even if they manage to do so, there can be no assurances that the resolution would be as favourable to Borregaard as it could potentially have been if Borregaard were dealing with an unaffiliated third party. Additionally, under the terms of the Transfer Agreement, Orkla has not made any representations or warranties in respect of the Biorefinery Business to Borregaard and Borregaard has also waived certain legal remedies it may have or otherwise had against BIL and Orkla, including certain rights to terminate or reverse the agreement, reduce the purchase price specified in the agreement or receive damages from Orkla. Consequently, Borregaard may have limited or no rights to make claims against Orkla in relation to the Transfer Agreement.

Several of the Company's interim directors are currently employees of Orkla and will continue their employment relationship with Orkla after the Offering. One of the shareholder-elected directors on the Company's board after the Listing of the Shares will also be an employee of Orkla. In addition, several of the Company's directors and executive officers own shares in Orkla and will continue to do so after the Offering. Each of these relationships could create, or appear to create, potential conflicts of interest when those directors and officers are faced with decisions that potentially have different implications for Orkla than for Borregaard. While the Company's directors, executive officers and members of its senior management are legally required to act in its best interests, Borregaard cannot assure investors that conflicts of interest between their duties and interests as the Company's employees and their affiliation with Orkla will not arise or that any such conflicts will be resolved in Borregaard's favour. See Section 12 "Board of Directors, Management, Employees and Corporate Governance" for a description of the relationship between the Company's directors, officers and senior management and Orkla.

#### *2.2.5 Borregaard currently relies on Orkla for several transitional services and may incur additional costs after its separation from Orkla*

Prior to becoming a stand-alone entity, the Biorefinery Business relied on Orkla to provide certain operational services, including services related to certain information and communication technology, human resources, legal, finance and treasury. Orkla, through the Transitional Service Agreements, has agreed to continue to provide Borregaard with these services (except for legal and tax advice) for the Transitional Period (as defined and further described in Section 15.5 "Insurance, IT services and other relationships with Orkla").

Borregaard intends to either develop internal capabilities or make arrangements with third-party services providers to provide the operational services for which it currently relies on Orkla. Borregaard can, however, provide no assurances that the transitional services Orkla has agreed to provide to it in these areas will be sufficient for its needs, and although Borregaard has attempted to structure these agreements to meet its needs, there can be no assurances that in case of a conflict of interest Orkla will not prioritise its own business interests. Moreover, Borregaard may fail to effectively develop the capabilities for which it currently relies on Orkla. In addition, the level of expertise Borregaard may ultimately acquire could be lower than the expertise it had access to as a part of Orkla. If Borregaard fails to adequately replace the functions currently provided by Orkla, or is unable to enter into alternative arrangements with third parties on commercially viable terms, such failure or inability could have a material adverse effect on Borregaard's business, results of operations financial condition and prospects.

In addition, as Borregaard develops the capabilities and third-party relationships to independently provide these services, it is possible that it may incur higher operational costs in the future, particularly in the short- or medium-term, compared to the costs it incurred as part of the Orkla group. These costs could be higher due to loss of economies of scale, the need for stand-alone corporate and support services and reduced access to financial and other resources compared to those available as a part of the Orkla group. Further, Borregaard could be exposed to certain costs (such as registration fees to transfer real property in Sarpsborg) in connection with the separation from Orkla. See Section 15.3.1 "The Transfer Agreement".

### 2.3 Risks relating to the Shares

#### *2.3.1 There is no prior market for the Shares, and an active trading market may not develop*

Prior to the Offering, there was no public market for the Shares, and there can be no assurances that an active trading market will develop, or be sustained or that the Offer Shares will be capable of being resold at or above the Offer Price. The market value of the Shares could be substantially affected by the extent to which a secondary market develops for the Shares following the completion of this Offering.

#### *2.3.2 The price of the Shares may fluctuate significantly, which could cause investors to lose a significant part of their investment*

The trading price of the Shares could fluctuate significantly in response to a number of factors beyond Borregaard's control, including quarterly variations in operating results, adverse business developments, changes in financial estimates and investment recommendations or ratings by securities analysts, announcements by Borregaard or its competitors of new product and service offerings, significant contracts, acquisitions or strategic relationships, publicity about Borregaard, its products and services or its competitors, lawsuits against Borregaard, unforeseen liabilities, changes in management, changes to the regulatory environment in which it operates or general market conditions.

In recent years, the Oslo Stock Exchange has experienced wide price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies. Those changes may occur without regard to the operating performance of these companies.

#### *2.3.3 The Company's ability to pay dividends is dependent on the availability of distributable reserves*

Norwegian law provides that any declaration of dividends must be adopted by the shareholders at the Company's general meeting of shareholders (the "**General Meeting**"). Dividends may only be declared to the extent that the Company has distributable funds and the Company's Board of Directors finds such a declaration to be prudent in consideration of the size, nature, scope and risks associated with the Company's operations and the need to strengthen its liquidity and financial position. As the Company's ability to pay dividends is dependent on the availability of distributable reserves, it is, among other things, dependent upon receipt of dividends and other distributions of value from its subsidiaries and the companies in which the Company has invested.

As a general rule, the general meeting may not declare higher dividends than the Board of Directors has proposed or approved. If, for any reason, the general meeting does not declare dividends in accordance with the above, a shareholder will, as a general rule, have no claim in respect of such non-payment, and the Company will, as a general rule, have no obligation to pay any dividend in respect of the relevant period.

#### *2.3.4 Future sales of Shares by the Selling Shareholder may depress the price of the Shares*

The market price of the Shares could decline as a result of sales of a large number of Shares in the market after this Offering or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for the Company to sell equity securities in the future at a time and at a price that it deems appropriate. Although the Selling Shareholder, is subject to an agreement with the Managers that restricts its ability to sell or transfer its Shares for 180 days after the date of the Purchase Agreement (as defined in Section 19.1 "Overview of the Offering"), the representatives of the Managers may, in their sole discretion and at any time, waive the restrictions on sales or transfer in the agreement during this period. Additionally, following this period, all Shares owned by the Selling Shareholder will be eligible for sale or other transfer in the public market, subject to applicable securities laws restrictions.

#### *2.3.5 Future issuances of Shares or other securities may dilute the holdings of shareholders and could materially affect the price of the Shares*

It is possible that the Company may in the future decide to offer additional Shares or other equity-based securities through directed offerings without pre-emptive rights for existing holders. Any such additional offering could reduce the proportionate ownership and voting interests of holders of Shares, as well as the earnings per Share and the net asset value per Share.

#### *2.3.6 Pre-emptive rights to secure and pay for Shares in any additional issuance may not be available to U.S. or other shareholders*

Under Norwegian law, unless otherwise resolved at a general meeting, existing shareholders have pre-emptive rights to participate on the basis of their existing share ownership in the issuance of any new shares for cash consideration. Shareholders in the United States, however, may be unable to exercise any such rights to subscribe for new shares unless a registration statement under the U.S. Securities Act is in effect in respect of such rights and shares or an exemption from the registration requirements under the U.S. Securities Act is available. Shareholders in other jurisdictions outside Norway may be similarly affected if the rights and the new shares being offered have not be registered with, or approved by, the relevant authorities in such jurisdiction. The Company is under no obligation to file a registration statement under the U.S. Securities Act or seek similar approvals under the laws of any other jurisdiction outside Norway in respect of any such rights and shares and doing so in the future may be impractical and costly. To the extent that the Company's shareholders are not able to exercise their rights to subscribe for new shares, their proportional interests in the Company will be reduced.

#### *2.3.7 Investors may not be able to exercise their voting rights for Shares registered in a nominee account*

Beneficial owners of the Shares that are registered in a nominee account (such as through brokers, dealers or other third parties) may not be able to vote for such Shares unless their ownership is re-registered in their names with the VPS prior to the general meetings. Borregaard can provide no assurances that beneficial owners of the Shares will receive the notice of a general meeting in time to instruct their nominees to either effect a re-registration of their Shares or otherwise vote for their Shares in the manner desired by such beneficial owners.

#### *2.3.8 Investors may be unable to recover losses in civil proceedings in jurisdictions other than Norway*

The Company is a public limited company organised under the laws of Norway. The majority of the members of its Board of Directors and of Borregaard's corporate management reside in Norway. As a result, it may not be possible for investors to effect service of process in other jurisdictions upon such persons or the Company, to enforce against such persons or the Company judgments obtained in non-Norwegian courts, or to enforce judgments on such persons or the Company in other jurisdictions.

#### *2.3.9 Norwegian law may limit shareholders' ability to bring an action against the Company*

The rights of holders of the Shares are governed by Norwegian law and by the Articles of Association. These rights may differ from the rights of shareholders in other jurisdictions. In particular, Norwegian law limits the circumstances under which shareholders of Norwegian companies may bring derivative actions. For instance, under Norwegian law, any action brought by the Company in respect of wrongful acts committed against the Company will be prioritised over actions brought by shareholders claiming compensation in respect of such acts. In addition, it may be difficult to prevail in a claim against the Company under, or to enforce liabilities predicated upon, securities laws in other jurisdictions.

#### *2.3.10 The transfer of Shares is subject to restrictions under the securities laws of the United States and other jurisdictions*

The Shares have not been registered under the U.S. Securities Act or any U.S. state securities laws or any other jurisdiction outside of Norway and are not expected to be registered in the future. As such, the Shares may not be offered or sold except pursuant to an exemption from the registration requirements of the Securities Act and applicable securities laws. See Section 20 "Selling and Transfer Restrictions". In addition, there can be no assurances that shareholders residing or domiciled in the United States will be able to participate in future capital increases or rights offerings.

#### *2.3.11 Shareholders outside of Norway are subject to exchange rate risk*

The Shares are priced in NOK, and any future payments of dividends on the Shares will be denominated in NOK. Accordingly, investors outside Norway are subject to adverse movements in the NOK against their local currency, as the foreign currency equivalent of any dividends paid on the Shares or of the price received in connection with any sale of the Shares could be materially adversely affected.

#### *2.3.12 Market interest rates may influence the price of the Shares*

One of the factors that may influence the price of the Shares is its annual dividend yield as compared to yields on other financial instruments. Thus, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the price of the Shares.

# 3 RESPONSIBILITY FOR THE PROSPECTUS

## 3.1 The Board of Directors of Borregaard ASA

This Prospectus has been prepared in connection with the Offering described herein and the Listing of the Shares on the Oslo Stock Exchange.

The Board of Directors of Borregaard ASA accepts responsibility for the information contained in this Prospectus. The members of the Board of Directors confirm that, after having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

2 October 2012

**The Board of Directors of Borregaard ASA**

| | | |
|---|---|---|
| Terje Andersen | Jan Anders Oksum | Veronica Skevik |
| *Chairman* | *Board member* | *Board member* |

## 3.2 The Selling Shareholder

The Selling Shareholder confirms that the Offer Shares are being offered free of any liens or encumbrances.

2 October 2012

**For BRG Holding AS**

Terje Andersen
*Chairman*

# 4 GENERAL INFORMATION

## 4.1 Other important investor information

The information contained herein is current as of the date hereof and subject to change, completion and amendment without notice. In accordance with Section 7-15 of the Norwegian Securities Trading Act, significant new factors, material mistakes or inaccuracies relating to the information included in this Prospectus, which are capable of affecting the assessment by investors of the Offer Shares between the time of approval of this Prospectus by the Norwegian FSA and the Listing of the Shares on the Oslo Stock Exchange, will be included in a supplement to this Prospectus. Neither the publication nor distribution of this Prospectus, nor the sale of any Offer Share, shall under any circumstances imply that there has been no change in the Group's affairs or that the information herein is correct as of any date subsequent to the date of this Prospectus.

No person is authorised to give information or to make any representation concerning Borregaard or in connection with the Offering or the sale of the Offer Shares other than as contained in this Prospectus. If any such information is given or made, it must not be relied upon as having been authorised by the Company, the Selling Shareholder or the Managers or by any of the affiliates, representatives, advisors or selling agents of any of the foregoing.

The Company has furnished the information in this Prospectus. No representation or warranty, express or implied is made by the Managers as to the accuracy, completeness or verification of the information set forth herein, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. The Managers assume no responsibility for the accuracy or completeness or the verification of this Prospectus and accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this Prospectus or any such statement.

None of the Company, the Selling Shareholder or the Managers, or any of their respective affiliates, representatives, advisers or selling agents, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares.

In connection with the Offering, each of the Managers and any of their respective affiliates, acting as an investor for its own account, may take up Offer Shares in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any Offer Shares or related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in the Prospectus to Offer Shares being offered or placed should be read as including any offering or placement of Offer Shares to any of the Managers or any of their respective affiliates acting in such capacity. None of the Managers intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

## 4.2 Presentation of financial and other information

### *4.2.1 Financial information*

This Prospectus includes the audited combined annual financial statements for the Borregaard Group as of and for the years ended 31 December 2011, 2010 and 2009 (the "**Combined Financial Statements**"). Such Combined Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union (the "**EU**") and audited by Ernst & Young AS, Borregaard's independent auditor, as set forth in their report thereon included herein. See Section 10.9 "Auditor". The unaudited interim condensed consolidated financial information for the Borregaard Group as of and for the six-month periods ended 30 June 2012 and 2011 (the "**Interim Condensed Financial Information**"), has been prepared in accordance with International Accounting Standard ("**IAS**") 34, and is also included in this Prospectus. Ernst & Young AS has issued a review report on the Interim Condensed Financial Information, as set forth in their report thereon included herein. The Combined Financial Statements and the Interim Condensed Financial Information is together referred to as the "**Financial Information**". The Financial Information reflects (or, in the case of the Interim Condensed Financial Information, reflects in part) the activities of the Biorefinery Business prior to its transfer to Borregaard AS through the Restructuring (see Section 15.2 "Overview of the Restructuring"). As the transfer of the shares of Borregaard AS to the Company in preparation for the Offering did not, however, occur during the periods covered by the Financial Information, the terms "Borregaard", "Group" or "Borregaard Group" as used in the Financial Information (and any reference in this Prospectus to the Financial Information of "Borregaard", "the Group" or the "Borregaard Group") do not include the Company, but rather represent those direct or indirect subsidiaries of Orkla through which the Biorefinery Business was conducted following the Restructuring, including Borregaard AS and its consolidated subsidiaries (see note 2 to the Combined Financial Statements). Terms like "parent company" in the Financial Information should similarly be construed in reference to Borregaard AS, and not in reference to the Company. The Combined Financial Statements and the Interim Condensed Financial Information are attached hereto as Appendix B and Appendix C, respectively. In addition to the above, this

Prospectus includes the Company's audited financial statements as of and for the period from its incorporation on 22 August 2012 to 31 August 2012, which have been prepared in accordance with IFRS as adopted by the EU and audited by Ernst & Young AS, as set forth in their report thereon included herein as Appendix D to this Prospectus. However, as a result of the capital increases resolved on 11 September and 17 September 2012, the Company's equity was increased to NOK 1,000 million through cash contributions by the Selling Shareholder. Of this amount, NOK 300 million was transferred from share capital and share premium reserve to other equity through a share capital reduction in order to create distributable reserves for future dividend payments. Further, on 17 September 2012, the Selling Shareholder transferred its shares in Borregaard AS to the Company by way of contribution in kind which increased the share capital and share premium reserve with a total of NOK 1,158 million. Further, on or about the first day of Listing, the Company intends to use such cash contribution (along with the proceeds of approximately NOK 1,100 of initial drawings under the Bank Facilities Agreements, and existing cash) to repay in full all its remaining indebtedness to Orkla. For a description of these transactions subsequent to the date of the Company's audited financial statements included in this Prospectus, see Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing".

Ernst & Young AS has not audited, reviewed or produced any report on any other information provided in this Prospectus. For further details regarding the basis of preparation of the Financial Information, see Section 11.2 "Presentation of financial information", note 2 to the Combined Financial Statements and note 1 to the Interim Condensed Financial Information.

Financial information and operating data in respect of Borregaard that is included in this Prospectus that has not been derived or extracted from the Financial Information, has, unless otherwise noted, been extracted or derived from Borregaard's data warehouse (SAP Business Warehouse) or from Borregaard's financial consolidation system (Hyperion Financial Management) where all companies in the Group report on a monthly basis ("**Company Books**"). The financial information and operating data extracted or derived from the Company Books are unaudited.

### *4.2.2 Non-IFRS financial measures*

In this Prospectus, Borregaard presents certain non-IFRS financial measures and ratios, including Adjusted EBITA, Adjusted EBITA margin, Adjusted EBITDA, Adjusted EBITDA margin, capital employed, return on capital employed, capital investments and gross average sales price.

The non-IFRS financial measures presented herein are not measurements of performance under IFRS or other generally accepted accounting principles and investors should not consider any such measures to be an alternative to: (a) operating revenues or operating profit (as determined in accordance with generally accepted accounting principles), as a measure of Borregaard's operating performance; or (b) any other measures of performance under generally accepted accounting principles. The non-IFRS financial measures presented herein may not be indicative of Borregaard's historical operating results, nor are such measures meant to be predictive of Borregaard's future results. Borregaard believes that the non-IFRS measures presented herein are commonly reported by companies in the markets in which it competes and are widely used by investors in comparing performance on a consistent basis without regard to factors such as depreciation and amortisation, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred) or based on non-operating factors. Accordingly, Borregaard discloses the non-IFRS financial measures presented herein to permit a more complete and comprehensive analysis of its operating performance relative to other companies and across periods, and of Borregaard's ability to service its debt. Because companies calculate the non-IFRS financial measures presented herein differently, Borregaard's presentation of these non-IFRS financial measures may not be comparable to similarly titled measures used by other companies.

### *4.2.3 Industry and market data*

This Prospectus contains statistics, data, statements and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to Borregaard's business and the industries and markets in which it operates. Unless otherwise indicated, such information reflects Borregaard's estimates based on analysis of multiple sources, including data compiled by professional organisations, consultants and analysts and information otherwise obtained from other third party sources, such as annual and interim financial statements and other presentations published by listed companies operating within the same industry as Borregaard, as well as Borregaard's internal data and its own experience, or on a combination of the foregoing.

Although Borregaard believes its estimates to be reasonable, these estimates have not been verified by any independent sources, and Borregaard cannot assure prospective investors as to their accuracy or that a third party using different methods to assemble, analyse or compute market data would obtain the same results. In addition, behaviour, preferences and trends in the marketplace tend to change. Borregaard does not intend, and does not assume any obligations to update industry or market data set forth in this Prospectus.

Industry publications or reports generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. Borregaard has not independently verified and cannot give any assurances as to the accuracy of market data contained in this Prospectus that was extracted from these industry publications or reports and reproduced herein. Market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market.

As a result, prospective investors should be aware that statistics, data, statements and other information relating to markets, market sizes, market shares, market positions and other industry data in this Prospectus and projections, assumptions and estimates based on such information may not be reliable indicators of Borregaard's future performance and the future performance of the industry in which it operates. Such indicators are necessarily subject to a high degree of uncertainty and risk due to the limitations described above and to a variety of other factors, including those described in Section 2 "Risk Factors" and elsewhere in this Prospectus.

#### *4.2.4 Other information*

In this Prospectus, all references to "**NOK**" are to the lawful currency of Norway, all references to "**EUR**" are to euro; the single currency of the member states ("**Member States**") of the EU participating in the European Monetary Union having adopted the euro as its lawful currency, and all references to "**USD**" or "**U.S. Dollar**" are to the lawful currency of the United States. No representation is made that the NOK, EUR or USD amounts referred to herein could have been or could be converted into NOK, EUR or USD, as the case may be, at the rates referred to in Section 4.4 "Exchange rates", at any particular rate, or at all. The Financial Information is published in NOK. Amounts included in Borregaard's Financial Information that were not originally denominated in NOK have been translated into NOK using the average exchange rate for the individual months of the relevant year or other financial period with respect to income statement and cash flow statement items and the period-end exchange rate with respect to balance sheet items.

#### *4.2.5 Rounding*

Certain figures included in this Prospectus have been subject to rounding adjustments (by rounding to the nearest whole number or decimal or fraction, as the case may be), accordingly, figures shown for the same category presented in different tables may vary slightly.

### 4.3 Cautionary note regarding forward-looking statements

This Prospectus includes forward-looking statements that reflect Borregaard's current intentions, beliefs or current expectations concerning, among other things, financial position, operating results, liquidity, prospects, growth, strategies and the industries and markets in which Borregaard operates. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "anticipates", "assumes", "believes", "can", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "should", "will", "would" or, in each case, their negative, or other variations or comparable terminology. Forward-looking statements as a general matter are all statements other than statements as to historic facts or present facts or circumstances. They appear in a number of places throughout this Prospectus, including, without limitation, in Section 2 "Risk Factors", Section 6 "Dividends and Dividend Policy", Section 7 "Industry and Market Overview", Section 8 "Business of the Group" and Section 11 "Operating and Financial Review", and include, among other things, statements relating to:

- Borregaard's strategy, outlook and growth prospects and the ability of Borregaard to implement its strategic initiatives
- Borregaard's future results of operations
- Borregaard's financial condition
- Borregaard's working capital, cash flows and capital investments
- Borregaard's dividend policy
- the impact of regulation on Borregaard
- general economic trends and trends in Borregaard's industries and markets
- the competitive environment in which Borregaard operates.

Prospective investors in the Shares are cautioned that forward-looking statements are not guarantees of future performance and that the Group's actual financial position, operating results and liquidity, and the development of the industries and markets in which the Group operates, may differ materially from those made in or suggested by the forward-looking statements contained in this Prospectus. Borregaard can provide no assurances that the intentions, beliefs or current expectations upon which its forward-looking statements are based will occur.

Although Borregaard believes that the expectations implied by these forward-looking statements are reasonable, Borregaard can give no assurances that the outcomes contemplated will materialise or prove to be correct. By their nature, forward-looking statements involve and are subject to known and unknown risks, uncertainties and assumptions as they relate to events and depend on circumstances that may or may not occur in the future. Because of these known and unknown risks, uncertainties and assumptions, outcomes may differ materially from those set out in any forward-looking statement. Important factors that could cause those differences include, but are not limited to:

- supply of raw materials required for production
- disruptions to manufacturing / production process
- implementation of its strategy and its ability to further expand its business and growth
- expected trends in the development of the specialty cellulose market
- the competitive nature of the business the Group operates in and the competitive pressure and changes to the competitive environment in general
- loss of important customers
- earnings, cash flow, dividends and other expected financial results and conditions
- technological changes and new products and services introduced into the Group's market and industry
- ability to develop new products and enhance existing products
- fluctuations of exchange and interest rates
- changes in general economic and industry conditions
- political and governmental and social changes
- changes in the legal and regulatory environment
- environmental liabilities
- changes in consumer trends
- access to funding
- legal proceedings
- costs or disruptions related to the separation from Orkla and changes to Borregaard's business arising as a result of operation as a stand-alone group after such separation.

Additional factors that could cause Borregaard's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under Section 2 "Risk Factors" and Section 11 "Operating and Financial Review". Prospective investors in the Offer Shares are urged to read all sections of this Prospectus and, in particular, Section 2 "Risk Factors" and Section 11 "Operating and Financial Review" for a more complete discussion of the factors that could affect the Group's future performance and the industry in which the Group operates when considering an investment in the Company.

These forward-looking statements speak only as of the date of this Prospectus. Save as required by Section 7-15 of the Norwegian Securities Trading Act or by other applicable law, Borregaard expressly disclaims any obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to Borregaard or to persons acting on Borregaard's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus. Accordingly, prospective investors are urged not to place undue reliance on any of the forward-looking statements herein.

### 4.4 Exchange rates

The following table sets forth, for the fiscal years indicated, information regarding the average, high, low and period end reference rates for the Norwegian kroner, expressed in NOK per USD, in each case rounded to the nearest three decimal places, based on the daily exchange rate announced by the Central Bank of Norway:

| **Fiscal year** | **Average**[1] | **High** | **Low** | **Period end** |
|---|---|---|---|---|
| 2007 | 5.860 | 6.479 | 5.269 | 5.430 |
| 2008 | 5.650 | 7.294 | 4.958 | 7.002 |
| 2009 | 6.290 | 7.237 | 5.541 | 5.777 |
| 2010 | 6.047 | 6.702 | 5.617 | 5.813 |
| 2011 | 5.606 | 6.020 | 5.220 | 5.968 |
| 2012 (through 30 September 2012) | 5.867 | 6.151 | 5.558 | 5.725 |

1 Represents the average of the noon buying rates on the last day of each month during the respective period.

The following table sets forth, for the previous six months indicated, information regarding the average, high, low and period end reference rates for the Norwegian kroner, expressed in NOK per USD, in each case rounded to the nearest three decimal places, based on the daily exchange rate announced by the Central Bank of Norway:

| **Month** | **Average**[1] | **High** | **Low** | **Period end** |
|---|---|---|---|---|
| March | 5.778 | 6.074 | 5.415 | 5.704 |
| April | 5.795 | 6.074 | 5.558 | 5.728 |
| May | 5.825 | 6.112 | 5.558 | 6.112 |
| June | 5.844 | 6.151 | 5.558 | 5.944 |
| July | 5.864 | 6.151 | 5.558 | 6.015 |
| August | 5.895 | 6.151 | 5.581 | 5.793 |
| September | 5.905 | 6.151 | 5.671 | 5.725 |

1 Represents the average of the noon buying rates on the last day of each month during the respective period.

The following table sets forth, for the fiscal years indicated, information regarding the average, high, low and period end reference rates for the Norwegian kroner, expressed in NOK per EUR, in each case rounded to the nearest three decimal places, based on the daily exchange rate announced by the Central Bank of Norway:

| **Fiscal year** | **Average**[1] | **High** | **Low** | **Period end** |
|---|---|---|---|---|
| 2007 | 8.017 | 8.381 | 7.643 | 7.939 |
| 2008 | 8.241 | 10.107 | 7.808 | 9.733 |
| 2009 | 8.737 | 9.733 | 8.288 | 8.288 |
| 2010 | 8.008 | 8.288 | 7.714 | 7.798 |
| 2011 | 7.797 | 7.949 | 7.511 | 7.747 |
| 2012 (through 30 September 2012) | 7.514 | 7.747 | 7.272 | 7.365 |

1 Represents the average of the noon buying rates on the last day of each month during the respective period.

The following table sets forth, for the previous six months indicated, information regarding the average, high, low and period end reference rates for the Norwegian kroner, expressed in NOK per USD, in each case rounded to the nearest three decimal places, based on the daily exchange rate announced by the Central Bank of Norway:

| **Month** | **Average** | **High** | **Low** | **Period end** |
|---|---|---|---|---|
| March | 7.675 | 7.860 | 7.407 | 7.596 |
| April | 7.647 | 7.850 | 7.407 | 7.582 |
| May | 7.610 | 7.797 | 7.407 | 7.557 |
| June | 7.576 | 7.747 | 7.407 | 7.544 |
| July | 7.539 | 7.670 | 7.369 | 7.408 |
| August | 7.499 | 7.645 | 7.272 | 7.301 |
| September | 7.477 | 7.635 | 7.272 | 7.365 |

1 Represents the average of the noon buying rates on the last day of each month during the respective period.

No representation is made that the NOK amounts have been or could have been converted into USD or EUR, or vice versa, at the exchange rates indicated in the tables above or any other exchange rate.

# 5 REASONS FOR THE OFFERING AND THE LISTING

On 14 September 2011, Orkla announced a shift in strategic focus to seek future growth and allocate capital to the branded goods sector, where it expects to be able to best apply its core strengths and expertise. As part of this shift in focus, and to allow Orkla to focus more on its core business, Orkla decided to separate the Biorefinery Business from Orkla in a manner that would provide the Biorefinery Business with improved strategic and operational flexibility. Through the Listing, Orkla aims to increase the profile and market awareness of one of its attractive assets and provide Borregaard with direct access to capital markets to further its own funding and growth needs in the future (see Section 15 "Establishment of the current Borregaard Group").

As a result of Orkla's strategic focus as described above, Orkla considers its shareholding in Borregaard to be a financial investment. Following a lock-up period undertaken by Orkla and the Selling Shareholder of 180 days from the date of the Purchase Agreement (as defined in Section 19.1 "Overview of the Offering"), see Section 19.14 "Lock-up", all Shares owned by the Selling Shareholder after the Offering will be eligible for sale or other transfer in the public market, subject to applicable securities laws restrictions.

# 6 DIVIDENDS AND DIVIDEND POLICY

## 6.1 Dividend policy

In deciding whether to propose a dividend and in determining the dividend amount, the Company's Board of Directors will take into account legal restrictions, as set out in the Norwegian Public Limited Liability Companies Act of 13 June 1997 No 45 (the "**Norwegian Public Limited Companies Act**") (see Section 6.2 "Legal constraints on the distribution of dividends"), Borregaard's capital requirements, including capital expenditure requirements, its financial condition, general business conditions and any restrictions that its credit agreements or other contractual arrangements in place at the time of the dividend may place on its ability to pay dividends and the maintaining of appropriate financial flexibility. Except in certain specific and limited circumstances set out in the Norwegian Public Limited Companies Act, the amount of dividends paid may not exceed the amount recommended by the Board of Directors.

Under the current dividend policy adopted by the Company's Board of Directors, Borregaard intends to pay regular and progressive dividends reflecting the expected long term earnings and cash flows of the Group, targeting an annual dividend between 30% and 50% of the Company's net profit for the preceding fiscal year. There can be no assurances that in any given year a dividend will be proposed or declared, or if proposed or declared, that the dividend will be in the range contemplated by the policy. In addition to cash dividends, the Company may buy back Shares as part of its total distribution of capital to the shareholders. Holders of Shares will be entitled to dividends declared after completion of the Offering.

## 6.2 Legal constraints on the distribution of dividends

Dividends may be paid in cash or in some instances in kind. The Norwegian Public Limited Companies Act provides several constraints on the distribution of dividends:

- Unless the Company follows the procedures stipulated in the Norwegian Public Limited Companies Act in respect of reduction of share capital, dividends are payable only out of the distributable reserves of the Company. Section 8-1 of the Norwegian Public Limited Companies Act provides that distributable reserves consist of the profit for the prior fiscal year (as reflected in the income statement approved by the annual general meeting) and the retained profit from previous years (adjusted for any reclassification of equity), less (i) uncovered losses, (ii) the book value of research and development, goodwill and net deferred tax assets (as recorded in the balance sheet, as of the most recent fiscal year end, as approved by the annual general meeting), (iii) the total nominal value of treasury shares acquired for ownership or as security in previous fiscal years, and credit and security that, pursuant to Sections 8-7 to 8-9 of the Norwegian Public Limited Companies Act, shall be limited to an aggregate amount equal to the distributable equity, and (iv) such part of the profit for the prior fiscal year which, by law or pursuant to the Company's Articles of Association, must be allocated to the un-distributable reserves or cannot be distributed as a dividend.
- Dividends cannot be distributed if the Company's equity amounts to less than 10% of its total assets unless the distribution is done in compliance with the procedures stipulated in the Norwegian Public Limited Companies Act for reduction of share capital.
- Dividends can only be distributed to the extent compatible with good and careful business practice, with due regard to any losses that may have been incurred since the balance sheet date (i.e. the prior fiscal year end) or that may be expected to be incurred.
- The amount of distributable dividends is calculated on the basis of the Company's separate financial statements and not on the basis of the consolidated financial statements of the Company and its subsidiaries.
- Distribution of dividends is resolved by a majority vote at the general meeting, and on the basis of a proposal from the Board of Directors. The general meeting cannot distribute a larger amount than what is proposed or accepted by the Board of Directors.

At the date of this Prospectus, the Company's distributable reserves are NOK 300 million.

The Norwegian Public Limited Companies Act does not provide for any time limit after which entitlement to dividends lapses. Subject to various exceptions, Norwegian law provides a limitation period of three years from the date on which an obligation is due. There are no dividend restrictions or specific procedures for non-Norwegian resident shareholders to claim dividends. For a description of withholding tax on dividends applicable to non-Norwegian residents, see Section 18 "Taxation".

# 7 INDUSTRY AND MARKET OVERVIEW

## 7.1 Introduction to the chemical industry

Chemicals are integral to the production of most products and materials used in everyday life. According to the American Chemistry Council, the global chemicals industry (based on the value of trade and output) represented approximately a USD 5 trillion market in 2011.[1] The chemicals industry can be broadly divided into the following three segments:

- *Basic chemicals*, or "commodity chemicals", encompass a broad category of bulk petrochemicals and intermediates, polymers and inorganic chemicals. Basic chemicals, such as sulphuric acid, ethanol, caustic soda or chlorine, are standardised products and are important raw materials or inputs into a wide range of chemical processes. Since basic chemicals are largely standardised, suppliers have few opportunities to differentiate their product offerings.
- *Fine chemicals* are complex pure chemical substances, generally produced to exacting customer and/or regulatory specifications concerning quality and process. Fine chemicals are typically intermediates used in the production of specialty chemicals such as pharmaceuticals and agrochemicals.
- *Specialty chemicals*, often called "performance chemicals," are generally characterised by and compete on the basis of their performance attributes rather than their chemical formulation. Specialty chemicals are used in a wide variety of more advanced chemical processes and applications. Specialty chemicals are often sold in combination with technical know-how and expertise, with suppliers of specialty chemicals often marketing themselves as solution providers that sell more than just a physical product.

Borregaard primarily operates in select niches within the specialty chemicals industry through its Performance Chemicals business and through its Specialty Cellulose business, which also has specialty chemicals characteristics. To some extent, primarily in respect of its $C_3$ aminodiols products for X-ray contrast media applications, Borregaard also operates in selected niches in the fine chemical industry. Exposure to the basic chemicals industry is limited, comprising bioethanol produced as a co-product and sales of surplus basic chemicals that are primarily produced as inputs into other production.

In the case of specialty chemicals, which are sold primarily based on their performance characteristics, and the value added to customers' products or processes, suppliers will generally seek to obtain a price based on the value they perceive their specialty chemicals are adding to their customers' products and processes as against alternative substances or against no added substance at all ("value-in-use"). For example, if a specialty chemical is perceived as providing a more efficient reaction in the customer's process, reduced energy costs, reduced input costs from other chemicals or other efficiencies, suppliers will generally seek to set a price based on these parameters rather than their own production costs. This requires considerable insight and understanding of the customer's processes, needs and products. The specialty chemicals industry is, however, competitive, and often both the competitiveness of a product and the pricing of a product may depend upon or be affected by a range of factors, the relative importance of which may vary across product offerings, end-market applications and geographies. These factors may include:

- general supply and demand factors
- product performance and quality
- reliability of supply (or, at times, diversification of supply)
- prices of competing products
- availability and pricing of potential substitutes
- innovation and technological development, both in respect of the supplier's product offerings and potential substitutes
- responsiveness to customer product development goals, customer service and relationships
- cost to customers of shifting to alternative suppliers
- cost of inputs
- logistics, including customers' production footprints and supply chain economics.

Chemical products can also be categorised on the basis of the feedstock used to produce them. Petrochemicals, which account for the vast majority of chemical industry production, are produced from petroleum, natural gas or other fossil feedstock. Because of the increasing scarcity of fossil fuels, intermittent and further expected increases over time in fossil fuel prices and environmental challenges linked to their use, regulators, and increasingly customers, have begun devoting greater attention to the long-term need for chemicals based on alternative feedstock. Certain "biomasses"

[1] Source: http://www.americanchemistry.com/Jobs/EconomicStatistics/Industry-Profile/Global-Business-of-Chemistry.

(that is, biological materials from living organisms such as various plants) that can be used as alternative feedstock for chemical production and are renewable are thus expected to become increasingly important in the long-term.

The niches in which Borregaard competes have seen emerging markets in Asia, and in particular China, and elsewhere steadily increase in importance in recent years as a source of demand for increasingly high-value products by increasingly more sophisticated customers.

## 7.2 Lignin-based products and markets

### *7.2.1 Introduction*

Lignin is the binding material in trees and plants. Approximately one third of the dry mass of a plant or a tree is composed of lignin. Lignin is a versatile material and can be used to produce lignin-based products with varied functionalities, often offering an alternative to the use of petrochemical-based products. For commercial applications, the most important of these are as dispersing or binding agents.

- *Dispersing agent*: Lignin-based products can prevent particles that have been combined into mixtures from settling or clumping, thereby providing stability and flow properties. This is the most significant functionality, by volume, for lignin-based products, and used in end-market applications such as concrete admixtures, agrochemicals, dyestuffs, carbon black and pigments and micronutrients.
- *Binding agent*: Lignin-based products can draw dry particles together in a way that maintains uniform consistency. This functionality is used in end-market applications like feed binders, granulation aids and dust binders.

Other functionalities of lignin-based products permit their use in applications such as soil conditioners (through their ability to increase plants' growth and strength), to improve the quality and performance of lead acid batteries (through the ability to regulate crystal growth) the retardation of cement hydration, oil-well cementing, phenol replacement, UV-protection, as antioxidants and complexion agents.

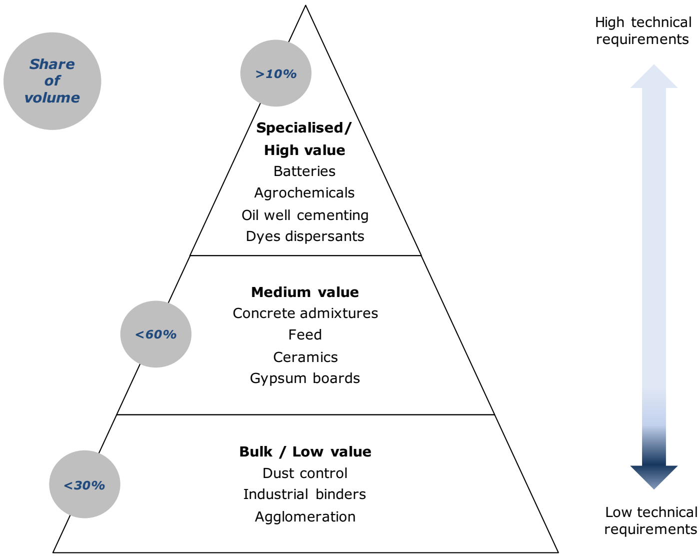
### *7.2.2 Applications and markets*

Lignin for industrial purposes is currently typically obtained as a co-product of pulping processes, primarily from wood feedstock, but also from annual plant feedstock. The total worldwide supply for commercial lignin is estimated by Borregaard to be approximately 1.25 mtds (metric tonne dry solid), of which approximately 1 million mtds is wood-based lignin. The remainder is predominantly straw-based lignin, which is primarily produced and sold in China.

Lignin-based products can be used in a wide range of niche end-markets applications and within a diverse array of industries. The market for lignin-based products can broadly be divided into three main categories of end-market applications representing a continuum of increasing value added to customers' products and processes and the technical complexity required to produce these applications: high-value, medium-value and bulk / low-value applications. These categories generally correspond to sales price ranges, which at current market prices are above USD 600 per mtds for high-value applications, between USD 250 and USD 600 per mtds for medium-value applications and below USD 250 per mtds for bulk / low-value applications.

- High-value or specialised category of applications: include applications such as lead acid batteries, oilfield chemicals and agrochemicals. The high-value applications are estimated by Borregaard to consume approximately 10% of the total global volume of lignin-based products, or 70,000-90,000 mtds.
- Medium-value category of applications: typically include concrete admixtures, ceramics and feed solutions. The medium-value applications are estimated by Borregaard to consume approximately 60% of the total global volume of lignin-based products, or 800,000 to 850,000 mtds.
- Low-value or "bulk" category of applications: typically include dust suppression, briquetting and various industrial binders. The bulk/low-value applications are estimated by Borregaard to consume approximately 30% of the total global volume of lignin-based products, or 300,000 to 350,000 mtds.

The above categories can be illustrated as follows:




The suitability of lignin for chemical applications depends on the pulping process utilised, including the choice of chemical base, as well as the feedstock to which the pulping process is applied.

There are two primary pulping processes for wood, the sulphite pulping process and the sulphate, or kraft, pulping process. The sulphate or kraft pulping process is more commonly used by pulp and paper companies since it produces stronger paper fibres. In mills that use the sulphate or kraft pulping process, lignin, which is a co-product of the pulping process, is typically burned together with other residual chemicals from the pulping process to recover its energy and residual chemicals value. The lignin produced from this process is, in any case, of low quality with limited potential for production of biochemicals. The sulphite pulping process, in contrast, generally produces the most versatile form of lignin that, if not burned for its energy and residual chemicals value (as often occurs in mills that use this process also), can be used in a variety of products and applications, although the specific chemicals used in the process (that is, calcium, sodium, magnesium or ammonium) impact the usability and range of potential applications. In general, a calcium-based sulphite pulping process produces lignin with the best potential for the most advanced products. Since the vast majority of pulp mills produce commodity cellulose for paper and cardboard, and accordingly utilise the sulphate or kraft pulping process, and since many of the few that use the sulphite pulping process also incinerate lignin produced as a co-product, there are a limited number of sources of lignin supply for the production of lignin-based biochemical products.

As noted, the original feedstock is also a factor that determines the quality and range of applications for which lignin supply can be used. Softwood such as spruce or pine, which has long fibres, has superior properties compared with hardwood, such as eucalyptus (a fast-growing hardwood), but both types of wood can be utilised for, lignin-based products. Lignin can also be produced from straw as feedstock, with properties comparable to the properties of lignin from hardwood.

Currently, new biorefinery concepts are being developed for different feedstocks (for example aimed at producing biofuel) that are expected to produce lignin as a co-product. However, with few exceptions (of which the BALI project described in Section 8.6.3 "The BALI project" is one), Borregaard expects that this lignin will generally have a quality similar to the lignin developed as a co-product from the kraft pulping process, with limited potential for the production of biochemicals.

In general, for the reasons discussed above, lignin produced from softwood using a sulphite pulping process with a calcium chemical base, such as at Borregaard's Sarpsborg site, is best suited (and often required) for the highest of the high-value applications. For the time being, most applications within the high-value category are based on softwood, while most lignin-based products based on hardwood are applications within the medium-value category.

Theoretically, the floor for the price of lignin-based products is determined by the energy and chemical value, since lignin can be burned as a source for energy, and the residual chemical content can be reused or sold. To be commercially feasible over the long-term, the production of lignin-based products should generate a value above the energy and residual chemical value. The energy and residual value will vary based on a given pulp mill's energy sourcing situation, chemical base, the species of wood feedstock used by the pulp mill, and other factors. In practice, when the market is oversupplied, some suppliers market their lignin-based products at prices well below the energy and residual chemical value in applications such as dust control, industrial binding, feed and admixtures in order to open an outlet for their surplus. Additionally, some cellulose producers do not have the need for the energy or the ability to process the energy to make use of the energy content of lignin, and they therefore market bulk/low-value lignin-based products as an alternative to investing in energy recovery capabilities.

However, the competitive landscape for lignin-based products varies from end-market application to end-market application, and may further vary between different geographies. In limited cases, lignin-based products may offer functional attributes not otherwise available in the marketplace, in which case their pricing may more closely adhere to the value-in-use dynamic described above. As a general matter though, lignin-based products will compete not only with similar products manufactured by other lignin-based product suppliers but also with petrochemical and non-chemical products and solutions. In extending their product portfolios into higher-value products, new end-market applications and new geographies, lignin-based product suppliers must generally succeed at selling their products as alternatives to chemicals currently in use and produced by competitors with long-standing business relationships with prospective customers.

The reasons for using a lignin-based product over a petrochemical-based product or other alternatives will vary from application to application and from customer to customer. The cost-performance ratio is an important factor. In some cases lignin-based products have a lower cost when compared to petrochemical or other alternatives. In other cases, lignin-based products have better performance characteristics when compared to the alternatives with similar value-in-use to customers. For some customers in some end-market applications, utilising a product perceived to be natural and renewable may be an important consideration in choosing a lignin-based product. Other factors including those discussed in Section 7.1 "Introduction to the chemical industry" above may also impact the choice to use lignin-based products as against alternatives. All of these factors have implications for the pricing and demand of lignin-based products. For example:

- *Concrete admixtures*: Lignin-based products help prevent the different particles that have been combined into the mixtures from settling or clumping, thereby improving stability and flow properties. Lignin-based products are used for this purpose either as a complement or as an alternative to more expensive petrochemical-based products like superplasticizers. Even though petrochemical-based products generally have certain superior properties to lignin-based products, lignin-based products are nevertheless able to compete on the basis of price.

- *Animal feed*: In the production of animal feed pellets, lignin-based products are used for their binding effect and compete with alternative lower cost products, such as starch residues or bentonite, or mechanical compacting. Lignin-based products generally offer better performance and are perceived as more natural, which can be an important consideration in the agricultural industry that increases their value-in-use.

- *Agrochemicals*: In agrochemicals, lignin-based products compete with petrochemical-based synthetic surfactants as lower-cost and more natural alternatives.

The competitive landscape may also be affected by general economic conditions and industry-specific factors. For example, the competitive landscape for concrete admixtures will also be affected by factors affecting the construction industry and for animal feed and agrochemicals by factors affecting the agriculture industries. The main end-market applications for lignin-based products worldwide are in the construction and agriculture industries (agrochemicals and animal feed).

Most customers for lignin-based products are other specialty chemicals companies, which use such products as intermediates for further chemical transformation or as functional additives.

### *7.2.3 Other lignin-based product suppliers*

Most producers of lignin-based products have a relationship with or are owned by a pulp mill that provides them with lignin feedstock supply. Historically, most lignin-based products producers were small businesses with few options to develop their businesses. Borregaard initiated an industry restructuring process in the early 1990s by building a business with substantial critical mass. A larger scale business has the ability to invest in innovation, can have a direct presence locally in all main markets and have a more efficient plant and distribution set up.

Borregaard, Tembec (Canada and France), Domsjö (Sweden) and Nippon Paper (Japan), all of which use the sulphite pulping process in their production, are currently the main suppliers of lignin-based products. However, Borregaard believes that it is currently the only supplier that uses a calcium-based sulphite pulping process. Domsjö and Tembec sell their products in several countries and deliver most of them within the medium-value and bulk categories. Nippon is a relatively small supplier by volume, but has a position also within the high-value category. The seven to ten other lignin producers are relatively small in terms of volume and mainly serve local and regional markets within the low-value/bulk categories.

The Chinese straw-based lignin producers, who produce approximately 250,000 mtds in China, mainly serve the Chinese domestic market in the low-value to medium-value categories of the lignin market.

## 7.3 Specialty cellulose products and markets

### *7.3.1 Introduction*

The global cellulose market can be divided into two main segments, commodity-grade cellulose and dissolving cellulose.

**Commodity-grade cellulose**

Commodity grade cellulose is mainly used for paper and cardboard production in addition to fluff grades for absorbent materials, such as diapers, and accounts for the vast majority of cellulose produced (approximately 210 million mt, including cellulose for captive use, in 2011).[2] This market segment is characterised by limited product differentiation, well established technology and extensive vertical integration. It is also highly cyclical.

**Dissolving cellulose**

Borregaard estimates that dissolving cellulose, a highly purified form of cellulose, accounted for approximately five million mt of the cellulose market in 2011. Dissolving cellulose can be divided into two sub-segments, viscose cellulose and specialty cellulose.

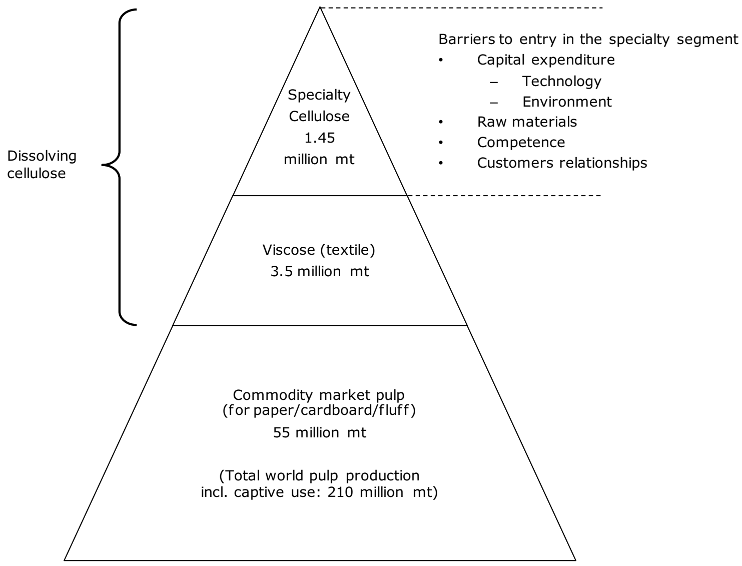
*Viscose cellulose* is used to produce viscose textile fibres that can compete both with synthetic fibres, such as polyamide and polyester, as well as other natural fibres, such as cotton and wool. Large demand and price swings for viscose cellulose can occur depending on the availability and price of substitute materials, as well as other factors (as discussed below).

*Specialty cellulose* is a high-value niche segment that requires greater technical, production and application competence on the part of suppliers in order to meet specification and performance parameters for viscosity, purity, brightness, reactivity and other physical properties. Borregaard views specialty cellulose as comprising cellulose for the production of cellulose acetate, cellulose ethers, nitrocellulose, microcrystalline cellulose and high strength viscose. This is because, notwithstanding differences between these grades that may cause short-term divergences in the competitive landscape (including pricing), each is nevertheless characterised by broadly similar barriers to entry that both distinguish them from viscose and commodity cellulose grades. Further, as between specialty cellulose grades, a certain amount of convergence over time may be expected because the limited number of specialty cellulose suppliers are each, to a certain extent, able to shift production between these grades. To compete in these cellulose grades, substantial investments are needed in technology and facilities in comparison to viscose cellulose and to an even greater extent, in comparison to commodity grade cellulose. Specialty cellulose grades are typically produced for individual customers within niche applications with very strict requirements on product quality and consistency. Qualification time and trial period is often lengthy, typically resulting in long-term customer relationships. The feedstock used, technical competence required and the market and application know-how required are more important factors for specialty cellulose producers than for viscose and commodity grade cellulose producers. The factors discussed above make it challenging for viscose and commodity grade cellulose producers to compete in the specialty cellulose market (conversely, specialty cellulose producers can more easily adjust their product mix and compete in the viscose cellulose segment when certain demand/pricing scenarios become attractive), and have also historically insulated specialty cellulose from the sharp price swings to which viscose and commodity grade cellulose grades are often subject.

Based on its definition of specialty cellulose, Borregaard estimates that specialty cellulose based on wood and cotton linters pulp accounts for approximately 1.45 million mt of the dissolving cellulose segment. Of this, Borregaard believes that cotton linters-based specialty cellulose accounts for approximately 10% of total volumes produced.

[2] Source: FAP, Paper production and consumption

The following illustration sets out Borregaard's view of the global cellulose market:




### *7.3.2 Markets and applications*

Within the five segments that Borregaard views as comprising specialty cellulose, Borregaard estimates that the acetate and ethers segments (which Borregaard describes as "highly specialised") accounted for more than 70% of total global specialty cellulose volumes in 2011.

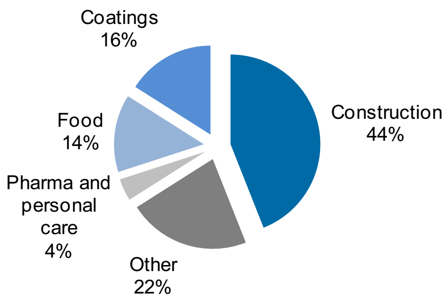
*Cellulose acetate*: The single largest use of specialty cellulose is in the production of cellulose acetate which Borregaard estimates accounted for a global demand of approximately 680,000 mt in 2011. Cellulose acetate is largely used to produce cigarette filters, which in 2011 Borregaard estimates consumed approximately 80% of total cellulose acetate volumes, and tri-acetate for LCD films, textile fibres, spectacle frames, wound dressings, tool handles and imaging films. Borregaard believes that the demand for cellulose acetate will grow on average at 1-2% (2011-2016) per year, as increased prevalence of smoking in emerging markets continues to more than offset decreases in more developed countries.

The production of specialty cellulose for cellulose acetate is characterised by high technological requirements and high environmental standards that are challenging to meet, lengthy qualification periods and a significant capital and technology investment requirement. The acetate used in cigarette filters and in various types of films is, in particular, characterised by extremely narrow specifications with very little variation and very high consistency. Typically, the specialty cellulose for most cellulose acetate end-uses is manufactured from hardwood and softwood, but for certain cellulose acetate applications, for example cellulose triacetate, specialty cellulose from both wood and cotton linters is used.

*Cellulose ethers*: The second largest use of specialty cellulose is in the production of cellulose ethers which Borregaard estimates accounted for approximately 350,000 mt of global demand in 2011. Cellulose ethers are used for viscosity modification, emulsifying power or adhesion in a number of end-market applications, predominantly in the construction, coatings and food industries. Examples of end-user products utilising cellulose ethers include concrete, adhesives, paints, oil drilling, muds, ceramic powders, food thickeners, detergents and personal care products.

Borregaard believes that the demand for cellulose ethers will grow on average at 5-7% per year (2011-2016), driven generally by global population growth and urbanisation.

Borregaard estimates that the cellulose ethers end-market by volumes of specialty cellulose mt in 2011 can be presented as follows:



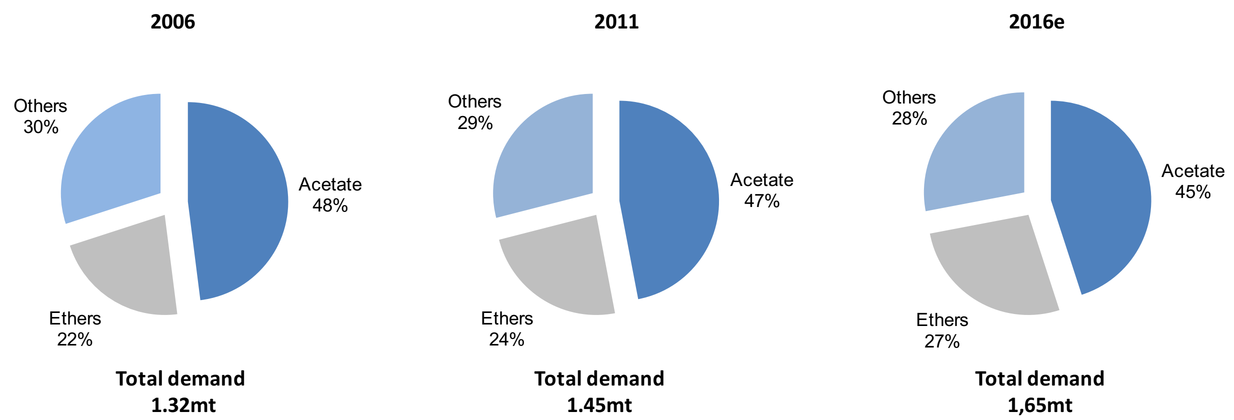

Specialty cellulose for the production of cellulose ethers includes a wide range of viscosities, from very high to very low, medium to very high brightness and requires good reactivity and very high product stability. The production of specialty cellulose for cellulose ethers is characterised by high technological requirements, in particular for the high viscosity grades, and high environmental standards that are challenging to meet, as well as significant capital and technology investment. Specialty cellulose for cellulose ethers is mainly made of softwood, in addition to cotton linters pulp. However, some cellulose ether customers are, based on cost-performance considerations, able to use different blends of different grades of cellulose to meet their needs. Currently the highest viscosity grades are produced from cotton linters pulp, but softwood producers, such as Borregaard, are targeting these grades and are increasingly seeking to move up the value chain.

*Other specialty grades*: Other uses for specialty cellulose include the production of nitrocellulose, used in coatings, printing inks, nail varnishes and explosives, the production of microcrystalline cellulose, used as excipients (i.e., as carrier of the active ingredient) in tablets and as thickeners and texturing agents in various food products, and the production of high strength viscose, used in tire cords and casings used in the meat processing industry for sausages. Borregaard believes that the demand for nitrocellulose in particular will grow on average at 1-2% per year (2011-2016), driven by GDP growth.

The production of specialty cellulose for these other specialty grades is characterised by lower technological requirements, with the exception of high strength viscose where technological requirements are complex, high environmental standards are challenging to meet and relatively high capital and technology investments are required. Specialty cellulose for all these other specialty grades can be made from both hardwood and softwood, with the exception of nitrocellulose where Borregaard is not aware of any producers able to use hardwood. For the production of nitrocellulose, cotton linters pulp and refined cotton are also used as feedstock.

From 2006 to 2011, Borregaard estimates that the total global demand for specialty cellulose increased from 1.32 mt to 1.45 mt, and that the total global demand for specialty cellulose will increase further to 1.65 mt in 2016.

The following figure sets out Borregaard's estimates of demand for cellulose acetate, cellulose ethers and other specialty cellulose grades (high strength viscose, nitrocellulose and microcrystalline cellulose) in the years indicated.



The average price for specialty cellulose has shown a relatively steady upward pattern in the past 6 years. Volumes made available by wood-based specialty cellulose producers (and, in particular, new capacity additions or expectations of such additions), as well as changes in demand (particularly in key end-markets applications like concrete admixtures, coatings and cigarette filters) tend to be important factors affecting pricing. Supply and pricing of cotton linters pulp (which, as discussed above, is used to produce specialty cellulose of certain grades) are also notable factors. Developments in the markets for viscose and commodity grade cellulose may also have a significant impact. For example, because specialty cellulose producers may choose to shift production into viscose grades amidst strong viscose prices with ease, actual choices to do so (or even the latent ability to do so), including, for example, when demand for specialty cellulose is weak or when viscose prices are strong, will generally tend to support specialty cellulose pricing. Conversely, although few viscose and commodity pulp producers are able to "trade up" in a similar manner without significant effort and investment, even limited additional specialty cellulose supplies or the expectation of greater competition in time could, in certain market environments, adversely affect pricing. Efforts by commodity grade producers to enter the viscose grade market may also indirectly impact specialty cellulose pricing in certain cases (for example, if such movements further commoditise the market for viscose grades and, in so doing, reduce the attractiveness of viscose sales as an alternative outlet for specialties producers or provide further impetus to viscose grade producers to "trade up"). In the short-term, prices for specialty cellulose, or certain specialty grades, can also be affected by factors such as the annual cotton crop (which, in addition to impacting viscose pricing, may affect the pricing of cotton linters pulp and the specialty cellulose grades that make heavy use of it) and pricing decisions of certain leading specialty cellulose suppliers. Over time, customer efforts to reduce costs, of which the cost of specialty cellulose products is often a major element, and technological innovation (whether spurred by customer efforts, or otherwise), as well as, more generally, the range of factors discussed in Section 7.1 "Introduction to the chemical industry" can each have an important impact.

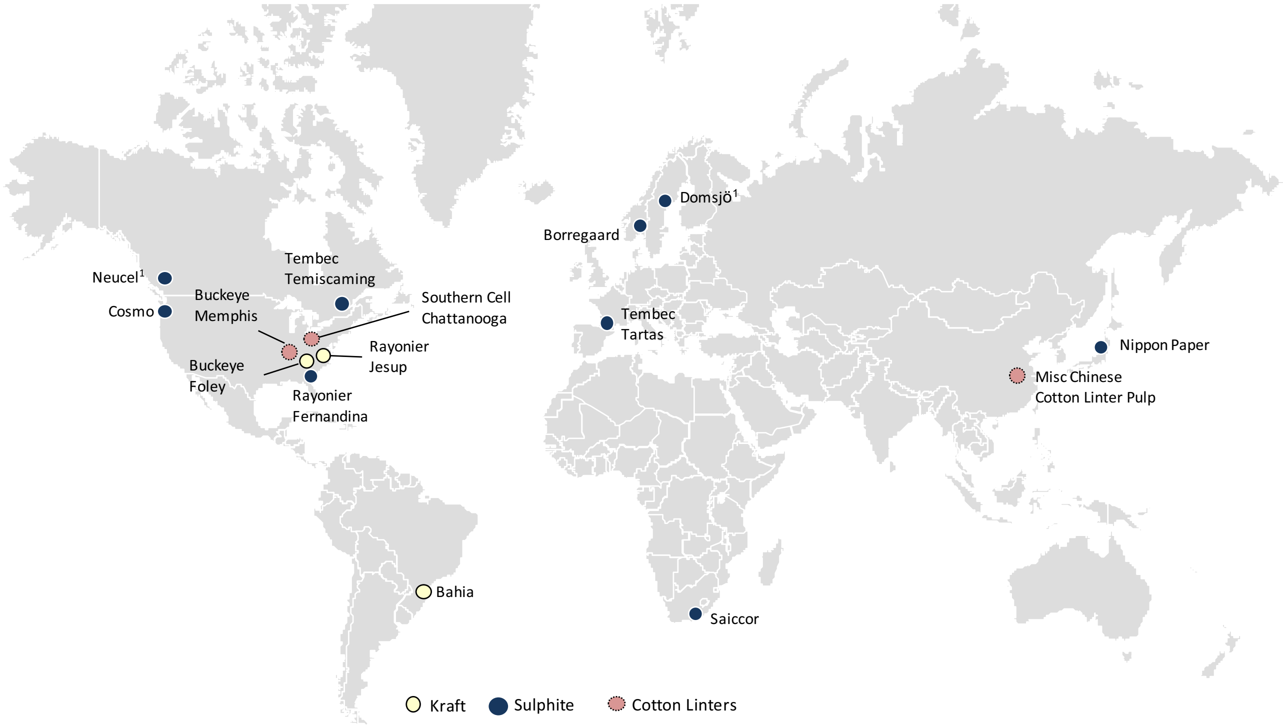
In 2011, a sharp increase in the price of viscose grade cellulose was experienced (following strong increases in 2010 also), due to significant imbalance between supply and demand in the textile market. This was caused by high activity and capacity expansion in the Asian viscose textile industry, particularly in China, and a weak cotton harvest in China and India which drove cotton prices to historical highs, both of which resulted in increased demand for viscose grades. This significant price increase in viscose grade cellulose also affected prices of specialty cellulose, due to the potential for specialty cellulose producers to shift opportunistically into viscose grade cellulose production. The high cotton prices and reduced volumes of cotton linters also reduced the competitive pressure within specialty cellulose from producers of cotton linters pulp. The above, combined with high activity within several of the industries to which specialty cellulose is exposed, resulted in a sharp price increase for specialty cellulose in 2011.

Prices for viscose-grade cellulose have subsequently fallen back closer to long-term averages driven by increased capacity in the supply of viscose grade cellulose and a return to more normal cotton markets. For specialty cellulose, prices in the first half of 2012 remained close to the highs seen in 2011. However, the specialty cellulose industry is facing cyclical end-markets like the construction industry and, in addition, some of Borregaard's largest competitors have announced plans for major investments in specialty cellulose expansions, with increased capacity of approximately 270,000 mt in aggregate expected to come on stream in 2013 and 2014. The factors discussed above may influence the market balance for specialty cellulose products. See Section 11.13 "Trend information".

Most customers for specialty cellulose are other specialty chemicals companies that produce cellulose derivatives for use in different end-market applications.

*7.3.3 Competition*

The specialty cellulose industry is characterised by a limited number of large customers and relatively few large suppliers, due to the high technology and competence requirements, lengthy qualification periods with customers and limited size of the niches. The figure below sets out the major dissolving cellulose (specialty cellulose and viscose) suppliers including their locations and method of pulping process.




1 Domsjo and Neucel have been acquired by viscose staple fibre producers.

Borregaard believes that the four major suppliers, Rayonier, Buckeye, Borregaard and Tembec, account for more than two thirds of total installed capacity and production in the specialty cellulose segment. In the acetate segment, Rayonier is the market leader, while Tembec and Borregaard are the leading producers in the ether segment. In addition, there are suppliers like Neucel (Canada), Sappi Saiccor (Proprietary) Ltd.'s ("**Sappi**") Saiccor mill (South Africa), which uses eucalyptus as feedstock, and Cosmo (USA) that compete in parts of the specialised cellulose segments although they mainly focus on viscose cellulose. In addition, Sateri, traditionally a viscose grade producer, has recently started to focus on specialty grades, using eucalyptus as feedstock.

Specialty cellulose suppliers based in North America, which generally produces more specialty cellulose than demand in the Americas can absorb, will generally sell the resulting surplus into Europe and Asia. European producers will generally sell their specialty cellulose products to customers in Europe and Asia, because sales into the Americas are less attractive due to unfavourable logistics (primarily the cost of shipping) and significant regional (and, as noted, surplus) supply.

## 7.4 Other chemicals markets

*7.4.1 The vanillin market*

7.4.1.1 Market and product overview

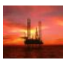
The vanilla flavour is one of the world's most widely used flavourings. Borregaard estimates that the total worldwide market for vanillin is approximately 19,000 mt. In 2011, Borregaard estimates that approximately 90% of total vanillin demand came from food and flavours and fragrances companies for use in applications such as chocolate, bakery products, confectionary, dairy products and perfume. In general, within this broader category of applications, food markets tend to show relatively stable demand, while fragrance markets are more volatile. The remaining vanillin demand of approximately 10% was used in other industries, typically as an intermediate in the fine chemicals industry.

The vanillin market consists of different product segments. Natural vanillin is extracted from the vanilla bean. This product has a much higher price than the alternatives, reflecting scarcity, production cost, the flavouring profile and the ability to be labelled as natural. There are also other natural based vanillin products on the market, but with smaller volumes and lower prices than natural vanillin from the vanilla bean. Natural vanillin products accounted for less than 1% of the total demand for vanilla flavour in 2011. The main vanillin segments by volume are petrochemical-based vanillin and ethyl vanillin producers, with a global demand, estimated by Borregaard, of 14,000 mt and 4,000 mt respectively in 2011. The vanillin molecule in petrochemical-based vanillin is chemically the same as the vanillin molecule in natural vanilla. Ethyl vanillin is also petrochemical-based but has a different molecular structure than vanillin found in nature and has a similar but stronger taste and fragrance than vanillin. The price of ethyl vanillin is somewhat higher than that of vanillin due to higher production cost and greater intensity, thereby requiring less volume in order to obtain the same taste and aroma.

Borregaard believes that demand for vanillin will grow on average at 2-3% per year (2011-2016), supported by population growth, increasing wealth in emerging markets and corresponding shifts in dietary patterns.

Borregaard produces wood-based vanillin as an alternative to petrochemical-based vanillin. Borregaard believes that it is the only supplier of wood-based vanillin, with a capacity of 1,400 mt. Since wood is a natural and renewable raw material, Borregaard markets wood-based vanillin as a sustainable alternative to petrochemical-based vanillin and typically receives a price premium over petrochemical-based vanillin for that reason as well as for its more complex flavour profile, both of which are preferred by some customer groups.

The figure below sets out an overview of the global vanillin market, as estimated by Borregaard.

| | Volume (MT) | % of total | Major producers |
|---|---|---|---|
| Vanillin from vanilla beans  | 60 | < 1 | • A highly fragmented sub-segment<br>• Largest producer by volume in Indonesia |
| Vanillin from wood  | 1,400 | 7 | • Borregaard |
| Vanillin from petrochemicals  | 14,000 | 72 | • Jiaxing<br>• Solvay-Rhodia<br>• Borregaard |
| Ethyl vanillin  | 4,000 | 20 | • Solvay-Rhodia<br>• Jiaxing<br>• Borregaard<br>• Thrive |

7.4.1.2 Competition

The market for vanillin has undergone a major consolidation, with a substantial share of the production capacity shifting towards China where a significant overcapacity situation has emerged. Key suppliers of vanillin and ethyl vanillin include Solvay-Rhodia (USA, France), Jiaxing (China), Borregaard (Norway) and various other Chinese suppliers.

*7.4.2 Second-generation bioethanol*

7.4.2.1 Product and market

Ethanol can either be produced from oil-based raw materials through chemical synthesis (synthetic ethanol) or from sugars and starch through fermentation (bioethanol). Bioethanol is a commodity product with a global market where the main end-use is biofuel, but it is also used in end-applications such as car care products, household chemicals, solvents and in processes that require a high degree of purity, such as pharmaceutical production. Bioethanol competes with synthetic ethanol in some technical applications, while there is a specific requirement for bioethanol in biofuels due to its non-fossil origin.

7.4.2.2 First vs. second-generation bioethanol

The vast majority of the world's bioethanol is produced by fermentation of sugar and starch from annual plants that also could be used as food (i.e. sugar canes, corn and wheat). There is an increasing concern that using food crops and farmland for biofuel production will increase the price and reduce the availability of food for human consumption.

A number of initiatives (political, technical and commercial) have been taken in order to produce biofuels from "lignocellulosic" biomasses that do not compete with food production, such as wood and residues from agriculture or forestry operations. Biofuels based on such raw materials are called second-generation. Today there are relatively few commercial operations supplying second-generation bioethanol but there are a number of initiatives in research and pilot phase to develop processes for second-generation bioethanol.

#### 7.4.2.3 Competition

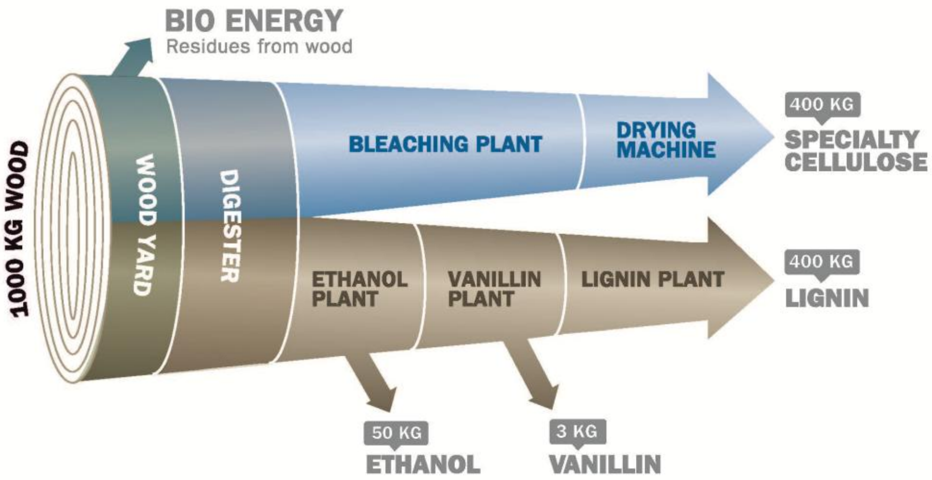
Bioethanol is a commodity with a transparent market price and relatively few options for differentiation, even though political incentives play a role in some markets and applications, particularly fuel. Some countries, including the EU, have customs tariffs that protect domestic producers. In Norway there are no customs tariffs for importing bioethanol into Norway. However, for export from Norway to the EU, there is a customs free quota of 16.5 million litres. Brazil, which produces bioethanol primarily from sugar cane, and the U.S., which produces bioethanol primarily from corn, are the leading producers of bioethanol and export bioethanol globally.

# 8 BUSINESS OF THE GROUP

## 8.1 Introduction

Borregaard is a supplier of specialised biochemicals for a global customer base consisting mainly of specialty chemical companies. Borregaard's main product offerings are lignin-based products and specialty cellulose, but its product portfolio also extends to vanillin, fine chemicals and bioethanol. Borregaard's products serve niche end-market applications in a wide range of global end-markets including construction, agriculture, food and beverages, transportation and pharmaceuticals.

Borregaard's business model is closely linked to the integrated nature of its biorefinery in Sarpsborg, which utilises the three key components of wood (cellulose fibres, lignin and sugar), to produce a diversified portfolio of products. The biorefinery utilises approximately 85% of the feedstock by volume to make Borregaard's products, with most of the residuals from the biomass used to produce energy for its production processes.




In addition to its biorefinery in Sarpsborg, Borregaard has seven plants outside of Norway dedicated to producing lignin-based products, and sales offices in 17 countries in Europe, Asia, Africa and the Americas serving its global customer base. For the year ended 31 December 2011 and the six months ended 30 June 2012, Borregaard had total operating revenues of NOK 3,854 million and NOK 2,017 million, respectively, and operating profit of NOK 530 million and NOK 236 million, respectively. As of 30 June 2012, the Group had approximately 1,100 employees.

Borregaard is currently organised in two main business areas:

- *Performance Chemicals* develops, produces and sells lignin-based products for use in a wide range of end-market applications, with a particular focus on products within the medium- and high-value categories. In addition, Performance Chemicals includes some trading activity of relatively limited scale in respect of chemicals that are either linked to lignin-based products (for example, through blending) or have been produced by Borregaard historically.
- *Specialty Cellulose* develops, produces and sells cellulose products, with a particular focus on specialty cellulose for use in the production of cellulose acetate and cellulose ethers (which Borregaard labels as "highly specialised" grades). The production and sale of second-generation bioethanol also forms part of the Specialty Cellulose business area.

In addition, as part of its Other Businesses, mainly consisting of Ingredients and Fine Chemicals, Borregaard supplies, within Ingredients, wood-based and petrochemical-based vanillin products to flavour and fragrance companies, as well as, increasingly, to companies in the food and beverage industry. Borregaard is the only producer of wood-based vanillin in the world. Within Fine Chemicals, Borregaard supplies fine chemicals to the pharmaceutical industry, and believes that it is the world's largest supplier of $C_3$ aminodiols for X-ray contrast media.

In 2011, 53% of Borregaard's total sales by revenues were to customers located in Europe, 26% in Asia, 20% in the Americas (14% in the United States and Canada and 6% in the rest of the Americas) and 1% to customers located in the rest of the world. Sales towards the construction (for example, for concrete additives, paint, gypsum board and tiles), agriculture (for example, for animal feed, agrochemicals and soil conditioner) and food and pharmaceutical industries accounted for approximately 30%, 15% and 20%, respectively of total operating revenues, with the remaining approximately 35% comprising sales towards the broader chemical industry and other industries.

For additional information on the products Borregaard produces and the industries in which it operates, see Section 7 "Industry and Market Overview".

## 8.2 Investment highlights

**Sustainable biorefinery business model with strong value creation**

Borregaard's integrated biorefinery concept creates value through high utilisation of feedstock. The business model uses the biomass co-products from the pulping process, which cellulose producers have historically burned or discharged as waste, for the production of a diverse array of speciality biochemicals, including lignin-based products, vanillin and bioethanol. As such, Borregaard is able to add value to each step of an integrated production sequence. The resulting product portfolio of wood-based biochemicals, which in many cases serve as substitutes for petrochemicals, has historically resulted in stable earnings, and, together with tight control on capital investments and working capital, stable cash flows, even in challenging macro-economic environments.

**Global niche player with market leading positions**

Borregaard holds strong positions in selected niche markets and end-market applications served by the broader specialty chemicals industry. Through a market driven organisation, dedicated global sales force focused on maximising the value of the product portfolio, and with production facilities in 8 countries and sales offices in 17 countries, Borregaard combines global reach with local presence in marketing its products and efficiently serving its global customer base. Borregaard generally operates in markets with high barriers to entry, requiring, among other things, substantial investments, know-how and the ability to consistently anticipate and deliver products that meet changing customer requirements in order to build sustainable market positions. In addition, the diversity of niche markets and end-market applications, as well as geographic regions, in which Borregaard is able to compete increases its ability to shift production away from less profitable industries, end-market applications or regions towards more profitable ones, which both helps insulate it from cyclical declines and helps it to seize new opportunities as they arise.

**Biochemicals portfolio helping meet global challenges**

The biorefinery concept of producing chemicals based on renewable feedstock provides a sustainable alternative to petrochemicals that are currently used in end-markets such as construction, agriculture, food and beverages, transportation and pharmaceuticals. While petrochemicals production depends on depleting oil reserves, biochemicals are based on renewable feedstock. In addition, many of Borregaard's biochemicals offer an alternative to petrochemicals with favourable greenhouse gas footprints.[3] Amidst a global trend of growing population and increased urbanisation, that is expected to drive long-term demand in the end-markets in which Borregaard's products compete, biochemicals may become particularly favoured and adopted as a competitive, yet sustainable alternative to petrochemicals.

**Projects in pipeline with potential to expand and strengthen the biorefinery business model**

Borregaard currently has several projects in the pipeline to expand and strengthen the biorefinery business model. This includes its two longer-term innovation projects which are already in the pilot phase: the BALI project, through which Borregaard aims to develop a new biorefinery concept that uses fast-growing wood or other biomasses (annual plants) to produce medium- and high-value lignin-based products and other biochemicals like bioethanol, and the Exilva project, through which Borregaard aims to develop a new product line of microfibrillar cellulose that it believes will have attractive market potential. See Section 8.6.3 "The BALI project" and Section 8.6.4 "The Exilva project". In addition to these longer-term innovation projects, Borregaard has several on-going initiatives to drive revenue and increase profitability, including increasing lignin supply, improving the mix of its lignin-based products, developing new specialty cellulose grades and further developing higher-value vanillin blends.

**Highly experienced and proven management team**

The management team has a cumulative 165 years of experience working for Borregaard, of which Borregaard's CEO and CFO have been employed by Borregaard for 22 years and 23 years, respectively. Amidst the challenges associated with a major manufacturing base in a high- and rising- cost country like Norway, and major changes in the competitive landscape, management has kept Borregaard on track towards continued specialisation, profitability and growth

[3] As documented by third party life cycle analysis.

through development of the integrated biorefinery concept and steady productivity improvements, all in accordance with the long-term strategy.

**A successful strategy of specialisation and productivity improvement driven by an attractive set of competencies**

Borregaard has a strategic focus on specialisation and productivity improvement, which has been developed and implemented consistently for decades, and the success of which is based on an attractive set of competencies within research and development, sales and marketing and production.

Borregaard's specialisation strategy, focusing on product differentiation into new industries and end-market applications, geographic diversification and longer-term innovation, has historically facilitated profitability and is founded on a long tradition of innovation, focusing on market niches where market leading positions might be obtained, and a global network of production facilities. Borregaard's research and development centre in Norway has a dedicated staff of 70 employees (of which 26 hold PhDs) which drive product differentiation into new industries and end-market applications and longer-term innovation. The sales and marketing department holds intimate application knowledge obtained through close and longstanding relationships with customers, which in return forms the basis for active and constant feedback to the research and development department that spurs further specialisation. Equally, on the production side, Borregaard strives to consistently improve its production processes based on long-term competence and application knowledge, to ensure optimal process control and quality. Borregaard believes that it is able to capitalise on its technical capabilities, sophisticated production and process know-how, strong customer relationships across regions and deep industry knowledge to extend product breadth into new industries and end-market applications.

Borregaard also consistently focuses on improving productivity through efforts to increase production efficiency and reduce downtime and/or to reduce operating costs. From 2006 to first half 2012, Borregaard's number of full-time employees in Norway decreased from approximately 930 to 709. Historically, for example, Borregaard has closed manufacturing sites to streamline its operations and improve profitability. A number of improvements in recent years, including the implementation of a centralised control centre and reductions in full-time employees, as well as significant improvements in product quality, have occurred within the ambit of a broader productivity programme initiated in 2008, aimed at achieving substantial cost efficiencies, productivity improvements and quality improvements at the Sarpsborg site to help mitigate the high and rising cost environment in Norway. By continuing to focus on productivity improvements and the development of higher value products for niche markets in diverse industries and geographies in line with its historic track record, Borregaard believes that it will remain well-positioned for future growth.

## 8.3 History and important events

Borregaard was originally established in Sarpsborg in 1889 under the Kellner Partington Paper and Pulp Co. Ltd. Borregaard began its transition away from commodity pulp and paper production and towards the production of specialty cellulose in 1921 when it made its first delivery of dissolving pulp for textiles production and commenced production of bioethanol made of wood in 1938.

Borregaard continued to grow its business through a combination of product, process and market development in subsequent years. In the 1960s, Borregaard began production of wood-based vanillin and lignin-based products. Over the last 30 years, Borregaard has focused on developing its core biorefinery concept, expanding its lignin capabilities and streamlining its operations while developing more specialised products to serve customer needs.

In 1986, Borregaard merged with Orkla Industrier. Thereafter, Borregaard gained significant scale in its lignin-based business by acquiring Holmen LignoTech and its plants in Sweden, Germany and Spain in 1990, creating Borregaard's Performance Chemicals business. The Performance Chemicals business was further strengthened by the acquisition of Daishowa's North American lignin operations in 1991. Through acquisitions and co-operation agreements, Borregaard gained access to new sources of lignin in South Africa, the Czech Republic and Brazil.

Borregaard has also during the last decade closed manufacturing sites to streamline its operations and improve profitability.

The table below provides an overview of key events in the history of Borregaard:

| Year | Event |
|---|---|
| 1889 | The first pulp and paper mill is constructed in Sarpsborg. |
| 1921 | First specialisation step is taken by starting production of dissolving pulp grades. |
| 1938 | Production of second-generation bioethanol starts. |
| 1962 | Production of wood based vanillin starts. |
| 1967 | Production of lignin-based products starts. |
| 1986 | Borregaard and Orkla Industrier merge into Orkla Borregaard. |
| 1990 | Holmen LignoTech with units in Sweden, Germany, UK and Spain is acquired. |
| 1991 | Daishowa's lignin operations in the United States are acquired. |
| 1993 | New plant for production of petrochemical-based ethyl vanillin in Sarpsborg is completed. |
| 1998 | The joint venture with Sappi is entered into. |
| 2003 | Capacity expansion in South Africa is completed. |
| 2004 | Lignin operations in Czech Republic are acquired through the acquisition of the Austrian company Biotech Lignosulfonate Handels GmbH. |
| 2006 | Lignin operations in Brazil are acquired. |
| 2008 | A further capacity expansion in South Africa is completed. |
| 2012 | Pilot plants for the BALI project (alternative sources of lignin) and Exilva project (microfibrillar cellulose) become fully operational. |

## 8.4 Overview of the Group's business areas

### *8.4.1 Performance Chemicals*

#### 8.4.1.1 Introduction

Borregaard's Performance Chemicals business area develops, produces, markets and sells lignin-based products as a niche supplier while providing service and know-how to its customers. Within the Performance Chemicals area, there is also some trading activity of relatively limited scale that sells chemicals that either are linked to lignin-based products or have been produced by Borregaard historically, as well as limited income from licences and royalties.

The following table sets out key financial information and other operational data for the Performance Chemicals business for the periods indicated.

| **Performance Chemicals** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million unless otherwise stated* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| Operating revenues | 859 | 784 | 1,539 | 1,495 | 1,425 |
| Operating profit | 94 | 137 | 219 | 250 | 237 |
| Lignin-products sales volume ('000 mtds)[1,2] | 255 | 235 | 473 | 453 | 420 |
| Gross average sales price (NOK/mtds)[1,2,3] | 3,422 | 3,269 | 3,222 | 3,285 | 3,366 |
| High-value as a % of total sales volume[1,2] | - | - | 15% | 16% | 15% |
| Medium-value as a % of total sales volume[1,2] | - | - | 69% | 68% | 71% |

1 Derived from Company Books.

2 Since Borregaard has overall sales and marketing responsibility for lignin-based products produced in its joint venture with Sappi in South Africa (in which it owns a 50% interest), volume figures reflect 100% of external sales volumes and 100% of external sales revenues and sales volumes of the joint venture have been taken into account in deriving the gross average sales prices shown above. However, being sales on behalf of the 50/50 joint venture, one half of such external sales revenues are excluded from the Financial Information.

3 Gross average sales price in NOK for lignin-based products is based on the average sales price obtained. Sales denominated in currencies other than the legal entities' trading currency have been converted into each legal entity's trading currency using exchange rates on the transaction date. When converting monthly sales data from foreign subsidiaries, the average exchange rate for the period as set out by the Central Bank of Norway has been used.

#### 8.4.1.2 Applications and customers

Most of Borregaard's customers for lignin-based products are other specialty chemicals companies, which use such products as intermediates for further chemical transformation or as functional additives. Borregaard's Performance Chemicals business has a large and diverse customer base of more than 3,300 customers globally. The average customer relationship with key customers, which Borregaard defines as the ten largest customers by volume in the business area, exceeds 10 years as of 2011. The top ten customers by volume of the Performance Chemicals business area accounted for 15% of Borregaard's total operating revenues in the year ended 31 December 2011, with the top customer and top three customers by volumes accounting for 11% and 23%, respectively, of the operating revenues of the Performance Chemicals business that year.

As discussed in Section 7 "Industry and Market Overview", the lignin-based products market can broadly be divided into three main categories of applications representing a continuum of increasing value added to customers' products and processes and the technical complexity required to produce these applications: bulk / low-value, medium-value and high-value categories of applications, generally corresponding to sale prices of less than USD 250 per mtds, between USD 250 and USD 600 per mtds and above USD 600 per mtds, respectively. Borregaard is capable of supplying lignin-based products within all three categories and into each major end-market application, although only the high- and medium-value categories are targeted.

Borregaard supplies high-value lignin-based products to specialty chemical companies primarily for use in agrochemical applications, but also for use in oil well cementing applications, soil conditioners, lead acid batteries, dye dispersants and in other applications. In 2011, 15% of Borregaard's lignin-based products by volume were sold in the high-value category.

Borregaard supplies medium-value lignin-based products to specialty chemical companies primarily for use in construction and animal feed applications. In addition, Borregaard sells medium-value lignin-based products to companies for use in ceramics, gypsum board and other applications. In 2011, 69% of Borregaard's lignin-based products by volume were sold in the medium-value category.

Borregaard supplies low-value lignin-based products to specialty chemical companies primarily for use in dust control, industrial binders and agglomeration applications. Sales into this category are mostly an outlet for excess capacity in periods when production is not absorbed by sales of high- or medium-value applications or sales of products from lignin supply of a quality that cannot be used towards the medium- and high-value categories. In 2011, 16% of Borregaard's lignin-based products by volume were sold in the low-value category.

Borregaard's largest customer group within its Performance Chemicals business is within construction, to which Borregaard supplies medium-value lignin-based products mainly for concrete admixture applications. Sales to customers active in the construction industry accounted for approximately 45% of the Performance Chemicals business' operating revenues in 2011. Another important group of customers is in the agriculture industry, to which Borregaard supplies a wide range of products, primarily for medium-value animal-feed and high-value agrochemical applications. Sales to customers in the agrochemical and animal feed industries accounted for approximately 27% of the Performance Chemicals business' operating revenues in 2011. The remaining 28% of the Performance Chemicals business' operating revenues were attributable to sales to customers active in other industries.

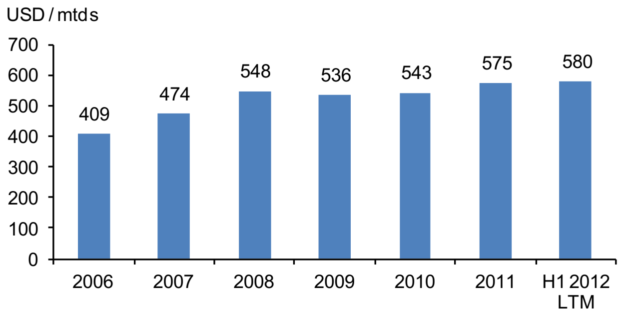
In the year ended 31 December 2011, 47% of Borregaard's operating revenues related to lignin-based products were from customers located in Europe, 38% from customers in the Americas and 15% from customers in Asia.

#### 8.4.1.3 Strategy

The strategic focus of Borregaard's Performance Chemicals business is: in the short term, on continuous improvements to the existing business, by developing more specialised and customised lignin-based products and stepwise extending the product portfolio's reach into new end-market applications; in the short- to medium-term, on growing demand for its lignin-based products by developing products that will compete in altogether new industries and / or end-market applications, and by penetrating new geographical areas and on increasing lignin supply to its existing facilities (permitting a greater amount of production to be directed into the higher-value categories); and in the long term, on solutions for increasing its supply of lignin from new sources, such as through the BALI project described in Section 8.6.3 "The BALI project".

In 2009, Borregaard initiated a programme aimed at growing demand for its lignin-based products. The programme has delivered positive results, with both sales volumes and gross average sales prices (together reflecting both an incremental increase in demand and the sought after improvement in product mix) having increased since its initiation.

The figure below illustrates the development in gross average sales prices, in USD per mtds, for the period 2006 to 2011, and the 12 month period ended 30 June 2012.[4]




This trend represents the tangible outcome of Borregaard's efforts to extend the product portfolio into new end-market applications and introduce lignin-based products to new customers and geographies, and resulting increases in sales into its targeted medium- and higher-value categories.

8.4.1.4 Competition

With production facilities in eight countries and a total installed capacity of approximately 550,000 mtds and production and sales of approximately 473,000 mtds in 2011, Borregaard's Performance Chemicals business is, according to Borregaard's estimates, the largest supplier of lignin-based products in the world, having produced approximately 40% of the world's lignin-based products by volume that year. Although Borregaard believes that it is the only company focusing on producing and selling lignin-based products globally, it faces competition from several other lignin-based product suppliers in different regional markets. Borregaard considers, based on the information available to it with respect to production capacity and sales, Domsjö (based in Sweden), Tembec (based in Canada and France) and Nippon Paper Group (based in Japan) to be its main competitors in the production of lignin-based products.

Since Borregaard's lignin-based products are often used as substitutes for products made from petrochemicals, the Performance Chemicals business also faces competition from suppliers of petrochemical-based substitutes. See Section 7.2 "Lignin-based products and markets".

*8.4.2 Specialty Cellulose*

8.4.2.1 Introduction

Borregaard is a producer and global supplier of cellulose products to selected segments, with a particular focus on specialty cellulose for use in the production of cellulose acetate and cellulose ethers (which Borregaard labels as "highly specialised" grades). In addition, as part of the Specialty Cellulose business, Borregaard produces second-generation bioethanol (see Section 8.4.2.5 "Bioethanol").

[4] Gross average sales price in USD for lignin-based products is based on the average sales price obtained in NOK converted to USD using the average exchange rates for each period as set out by the Central Bank of Norway. Sales denominated in currencies other than legal entities' trading currency have been converted into each legal entity's trading currency using exchange rates on the transaction date. When converting monthly sales data from foreign subsidiaries, the average exchange rate for the period as set out by the Central Bank of Norway has been used. Since Borregaard has overall sales and marketing responsibility for lignin-based products produced in its joint venture with Sappi in South Africa (in which it owns a 50% interest), volume figures reflect 100% of external sales volumes and 100% of external sales revenues and sales volumes of the joint venture have been taken into account in deriving the gross average sales prices shown above. However, being sales on behalf of the 50/50 joint venture, one half of such external sales revenues are excluded from the Financial Information.

The following table sets out key financial information and other operational data for the Specialty Cellulose business for the periods indicated.

| **Specialty Cellulose** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million unless otherwise stated* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| Operating revenues | 827 | 818 | 1,644 | 1,296 | 1,283 |
| - *Sales revenues - cellulose products*[1] | *773* | *775* | *1,554* | *1,223* | *1,188* |
| - *Sales revenues – bioethanol products*[1] | *52* | *42* | *87* | *70* | *94* |
| Operating profit | 145 | 137 | 317 | 43 | 10 |
| Cellulose products sales volume ('000 mt)[1,2] | 72.2 | 73.0 | 143.9 | 145.9 | 159.5 |
| Gross average sales price (NOK/mt)[1,3] | 10,572 | 9,936 | 10,279 | 8,099 | 7,409 |
| Highly specialised as % of total cellulose product sales volume[1] | - | - | 85% | 77% | 60% |

1 Derived from Company Books. However, sales revenues for cellulose products and bioethanol products for the full years have been extracted or derived from the Combined Financial Statements.

2 Includes sales of all cellulose products in the period, including highly specialised grades (i.e., acetate and ether grades), other specialty cellulose grades (i.e., nitrocellulose and microcrystalline cellulose) and viscose grades.

3 Gross average sales price in NOK for cellulose products is based on the average sales price obtained in NOK (excluding bioethanol). Sales denominated in currencies other than NOK have been converted into NOK using the exchange rates for the day of the individual transaction as set out by the Central Bank of Norway.

#### 8.4.2.2 Applications and customers

Borregaard's Specialty Cellulose business' product portfolio consists primarily of customised specialty cellulose products designed to meet the specifications of its customer base, primarily other specialty chemical companies in Europe and Asia that produce cellulose derivatives for use in different end-market applications, such as cigarette filters, construction and coatings. Because the industry as a whole is characterised by few suppliers and customers, Borregaard has longstanding relationships with most of its specialty cellulose customers. The top ten customers by sales volumes of the Specialty Cellulose segment accounted for 34% of Borregaard's total operating revenues, while the top customer and top three customers by sales volumes accounted for 15% and 41%, respectively, of the operating revenues of the Specialty Cellulose segment in the year ended 31 December 2011, in each case excluding sales of bioethanol.

Within the specialty cellulose market, Borregaard focuses on customers using highly specialised grades of cellulose for the production of cellulose acetate and cellulose ethers (for which it produces the highest-viscosity wood pulp in the industry). Borregaard also produces specialty cellulose suitable for the production of other specialty products.

*Highly specialised grades*. Sales of specialty cellulose suitable for the production of cellulose acetate and cellulose ethers accounted for 85% of the speciality cellulose volumes sold in 2011. Most of Borregaard's specialty cellulose for the production of cellulose acetates is ultimately used in the production of cigarette filters. A large share of Borregaard's specialty cellulose for the production of cellulose ethers is ultimately used in the construction industry, but to some extent is also used in the food, pharmaceutical and cosmetics industries.

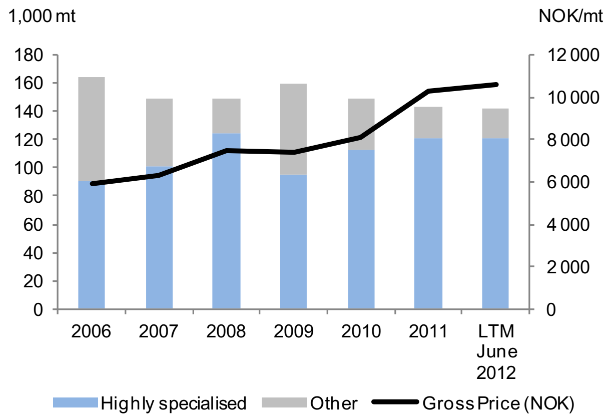
*Other grades*. Borregaard also produces smaller amounts of specialty cellulose suitable for the production of nitrocellulose and microcrystalline cellulose through a wide range of specialty cellulose products with different levels of purity, viscosity, brightness, density and reactivity combined with high product stability to meet customer's requirements. Viscose grades sales may also be undertaken as an alternative outlet in a given period.

Due to logistics (including the cost of shipping) and with Borregaard's main competitors being located in the Americas, Borregaard sells most of its specialty cellulose products to customers located in Europe and Asia. In the year ended 31 December 2011, 58% of the Specialty Cellulose business' operating revenues related to cellulose products were from customers located in Europe, 41% from customers in Asia and 1% from customers in the rest of the world.

#### 8.4.2.3 Strategy

Borregaard targets niches within the broader specialty cellulose niche. It focuses on shifting its product mix towards higher-value and more customised specialty cellulose grades, in particular the highly specialised cellulose grades (cellulose for the production of cellulose acetate and ethers), and into products within those grades that allow it to capitalise on its softwood spruce feedstock, calcium-based sulphite pulping facilities and expertise developed over time in Sarpsborg. From time to time, Borregaard also produces cellulose for customers producing viscose fibres for the textile industry, but sales of this sort are generally only undertaken as an alternative outlet in the face of weak demand in the specialty cellulose market.

Since 2006, Borregaard's Specialty Cellulose business has also successfully moved its product mix towards higher-value and more customised specialty cellulose grades and products, which has contributed to a steady increase in the gross average sales price of its cellulose products. The figure below illustrates the development in product mix and gross average sales prices for cellulose products, in NOK per mt, for the period 2006 to 2011, and the 12 month period ended 30 June 2012.[5]




8.4.2.4 Competition

Borregaard believes that it was one of the three largest global suppliers in 2011, based on volumes, of specialty cellulose suitable for the production of cellulose acetate, cellulose ethers and nitrocellulose. Borregaard believes that its strongest competitor in the cellulose acetate segment is Rayonier and that Tembec is its strongest competitor in the cellulose ethers and nitrocellulose segments.

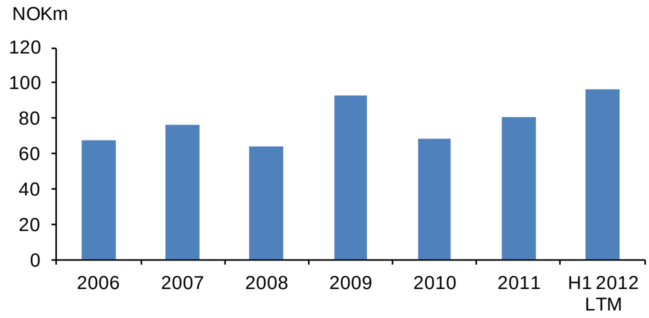
8.4.2.5 Bioethanol

To extract further value from its feedstock, Borregaard produces second-generation bioethanol. Second-generation bioethanol is bioethanol produced from non-food biomass such as agriculture residues, wood or energy crops, and is used for biofuels, car care, in household chemicals, solvents and in the pharmaceutical industry. Borregaard's second-generation bioethanol products offer an alternative to petrochemicals with favourable greenhouse gas footprints.[6] The production of second-generation bioethanol adds further value to the biorefinery concept by converting the sugar component of the wood into a product offering. Borregaard believes that it is a significant supplier of second-generation bioethanol by volume and is one of few suppliers in Europe, with a production capacity of approximately 20 million litres per year. Borregaard produces two different technical grades of bioethanol and two pharmaceutical grades of bioethanol. In addition, Borregaard can also produce denatured grades in accordance with individual customers' own specifications.

[5] Gross average sales price in NOK for cellulose products is based on the average sales price obtained in NOK (excluding bioethanol). Sales denominated in currencies other than NOK have been converted into NOK using the exchange rates for the day of the individual transaction as set out by the Central Bank of Norway.

[6] As documented by third party life cycle analysis.

The following figure sets out (in NOK million) Borregaard's second-generation bioethanol sales revenues for the years 2006 to 2011, and for the 12 month period ended 30 June 2012.[7]




*8.4.3 Other Businesses*

8.4.3.1 Introduction

Borregaard utilises lignin from the sulphite pulping process in Sarpsborg to produce wood-based vanillin. Borregaard also produces petrochemical-based ethyl vanillin. In addition, Borregaard is a supplier of fine chemicals for the global pharmaceutical industry. Borregaard produces caustic soda for use in its production processes in Sarpsborg (accounting for approximately three quarters of its total caustic soda requirements) and sells co-products of that production, such as hydrochloric acid and sodium hypochlorite, externally.

Within its Ingredients and Fine Chemicals businesses, Borregaard's top ten customers by revenues from sales accounted for 5% of Borregaard's total operating revenues in the year ended 31 December 2011, while its top customer and top three customers by revenues accounted for 10% and 28%, respectively, of operating revenues generated from its Other Businesses in the year ended 31 December 2011.

In the year ended 31 December 2011, 46% of Borregaard's operating revenues related to sales within Ingredients and Fine Chemicals were from customers located in Europe, 20% from customers in Asia, 33% from customers in the Americas and 1% from customers in the rest of the world.

The following table sets out key financial information and other operational data for Other Businesses for the periods indicated.

| **Other Businesses** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million unless otherwise stated* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| Operating revenues................................................ | 371 | 395 | 749 | 736 | 756 |
| Operating profit[1]................................................... | -3 | 16 | -6 | 12 | 0 |
| Sales revenues - Ingredients[2].................................. | 151 | 190 | 360 | 401 | 391 |
| Sales revenues – Fine Chemicals[2] ............................ | 131 | 99 | 193 | 188 | 227 |

1 Operating profit for Other Businesses includes cost related to HQ and other unallocated costs.
2 Derived from Company Books. However, sales revenues for Ingredients and Fine Chemicals for the full years have been extracted or derived from the Combined Financial Statements.

8.4.3.2 Ingredients

With a 50 year history of vanillin production, Borregaard is a well-established producer in the global vanillin industry. Borregaard's wood-based vanillin is produced at Borregaard's biorefinery in Sarpsborg. Borregaard also produces ethyl vanillin, a petrochemical-based vanillin product, at its site in Sarpsborg and sources petrochemical-based vanillin from third-party suppliers to satisfy customer demand for various types of vanillin products.

[7] Sales revenues for bioethanol products are based on the sales price obtained in NOK. Sales denominated in currencies other than NOK have been converted into NOK using the exchange rates for the day of the individual transaction as set out by the Central Bank of Norway.

Borregaard's vanillin product portfolio, sold under the "EuroVanillin" brand, includes:

- *Supreme*: Borregaard's premium grade vanillin product, derived from wood.
- *Aromatic*: Borregaard's ethyl vanillin (petrochemical-based) which has a stronger vanilla-like aroma than other vanillin products.
- *Regular*: Borregaard's petrochemical-based vanillin sourced from China and sold under Borregaard's brand and quality regulations.
- *Blends*: Borregaard's uniquely developed vanillin products, blended with other materials with customised properties for different market applications (such as bakery goods, chocolate, sweets and dairy).

Borregaard believes it is able to sell its wood-based vanillin at a premium compared to petrochemical-based vanillin products due to the product's different flavour profile and sustainability, derived from its natural and renewable raw materials. The customer base for Borregaard's vanillin products varies substantially in size, ranging from larger international companies to smaller independent companies active in the food, as well as the flavours and fragrances industries. Borregaard also focuses on further developing customised blends, targeting customers in the food industry such as manufacturers of chocolate, sweets, bakery goods and dairy. By leveraging its global footprint, Borregaard plans to continue to introduce wood-based vanillin to a wider customer group that Borregaard believes may value the perceived benefits of wood-based vanillin and be willing to pay premium prices compared to the prices of petrochemical-based substitutes and to further develop and extend its sales of blends.

Borregaard estimates that it is the world's third largest supplier of vanillin in terms of volume. Borregaard's primary competitors in the production of vanillin and ethyl vanillin are Solvay-Rhodia and Jiaxing.

#### 8.4.3.3 Fine Chemicals

Borregaard supplies fine chemicals intermediates for the global pharmaceutical industry. Borregaard's Fine Chemicals business consists of two main product lines:

- $C_3$ aminodiols and related derivatives for X-ray contrast media intermediates.
- Custom-made products for the pharmaceutical industry.

$C_3$ aminodiols are incorporated as intermediates in non-ionic X-ray contrast media to enhance solubility. In-vivo imaging is used to diagnose pathological conditions in the human body. The three main modalities in usage are X-rays (64%), magnetic resonance imaging (7%) and ultrasound (29%). X-rays using contrast media is the key demand driver of $C_3$ aminodiols. Borregaard believes that it was the largest supplier, by volume, of $C_3$ aminodiols to the pharmaceutical industry in 2011. Borregaard's custom-made intermediates are fine chemicals produced exclusively for each single customer. Borregaard believes the X-ray contrast media market to have demand growth prospects of 2-3% per year.

Borregaard's competitors within this area are certain fine chemicals companies or individual customers themselves, which typically possess the necessary competence and capacity to produce these products in-house and for whom the decision to outsource part of their fine chemicals production is often based on flexibility and efficiency considerations.

Borregaard's activities within its Fine Chemicals business are stand-alone from the other business units in that they are produced in separate production bays at the Sarpsborg site with raw materials sourced from third parties. However, the Fine Chemicals unit shares certain functions with the other business segments including utilities, technical competence and health, safety and environmental (HSE) facilities. Borregaard has mothballed idle capacity in Sarpsborg with potential for fine chemicals production (and reduced related workforce accordingly) in order to curb costs. The mothballed idle capacity comprises approximately 50% of Borregaard's total fine chemicals capacity.

### 8.5 Sales and distribution

Most of Borregaard's sales are to customers that are also specialty chemicals companies. To meet its customers' demand, Borregaard has a marketing and sales organisation with high technical competence, consisting of approximately 100 employees and with sales offices located in 17 countries in Europe, Asia, Africa and the Americas, serving Borregaard's customers located in approximately 100 countries. Sales of Borregaard's products are primarily organised by business area. The majority of Borregaard's sales organisation is dedicated to its Performance Chemicals business due to the diverse and often unrelated nature of the industries and end-market applications and high number of customers it serves, in contrast to the Specialty Cellulose business, which is fairly concentrated among both suppliers and customers. Borregaard is currently strengthening its position in Asia and Latin America to meet an expected general growth in demand for its lignin-based products, in emerging markets and the need to do business "locally". Recruitments have been driven by the need to secure local value chain competence for Borregaard's current and future key applications. A majority of Borregaard's sales organisation has been recruited from targeted end-market industries which, combined with long years on average of experience with Borregaard, provides the sales organisation with a sound understanding of Borregaard's product applications and its customers' needs.

Borregaard's global sales organisation is organised into teams with specific regional, segment and business area focuses. Borregaard's main customers are served by key account managers with support from its technical and research and development teams in order to best serve the needs of individual customers.

For products that require a high level of sales and technical service support, such as the high-value products in Performance Chemicals, specialty cellulose products, vanillin blends and fine chemicals, Borregaard works closely with its customers. The dedicated sales organisation frequently visits customers' facilities to modify or design products that are customised to their needs and manufacturing processes. The dedicated sales organisation also focuses on product innovation and business development. As part of this process, the global sales organisation is supported by Borregaard's technical, manufacturing and research and development teams based in Sarpsborg. This close collaboration between the customers and Borregaard's own technical and research and development personnel provides Borregaard with valuable market insight and an ability to produce customised products that meet specific customer requirements and allows Borregaard to anticipate global and local supply and demand trends.

In addition to Borregaard's own sales organisation, which accounts for approximately 90% of Borregaard's sales to customers, Borregaard has a network of agents and distributors supporting its global sales organisation. Agents and distributors are mainly used for smaller volume product sales in smaller regions that require less technical expertise.

Borregaard generally maintains two- to three-year volume-based agreements with its customers within the Specialty Cellulose business area (mainly for the highly specialised grades) and its key customers within the Performance Chemicals business area, which set out the general terms applicable to the contractual relationship, and under which prices for sales orders are initially agreed and thereafter typically renegotiated on a 6-12 month basis.

## 8.6 Research and development

### *8.6.1 General*

Borregaard relies on its research and development and market-based innovation to continue to differentiate itself from its competitors. Borregaard has a top management focus on innovation involving the whole organisation supported by defined innovation management teams that plan, define and prioritise Borregaard's research and development projects. Borregaard has a dual research and development focus, both on optimisation of existing and on the development of new processes, products and applications.

Borregaard's collaborative and integrated research and development function has a dedicated team of 70 employees in Sarpsborg, working on various product innovations across all business units. In addition, Borregaard operates four research and development / technical service centres globally with focus on the Performance Chemicals business, of which one laboratory is dedicated to concrete applications and one is dedicated to agrochemical formulation and technical service. At Borregaard's site in Sarpsborg the research and development department has its own research facilities, including pilot plants, simulation technologies, and sophisticated testing laboratories devoted to developing new products, improving process efficiencies and realising further cost savings. The research and development department works closely with Borregaard's sales organisation, often meeting directly with Borregaard's customers, to improve existing products and processes and to develop new business and products.

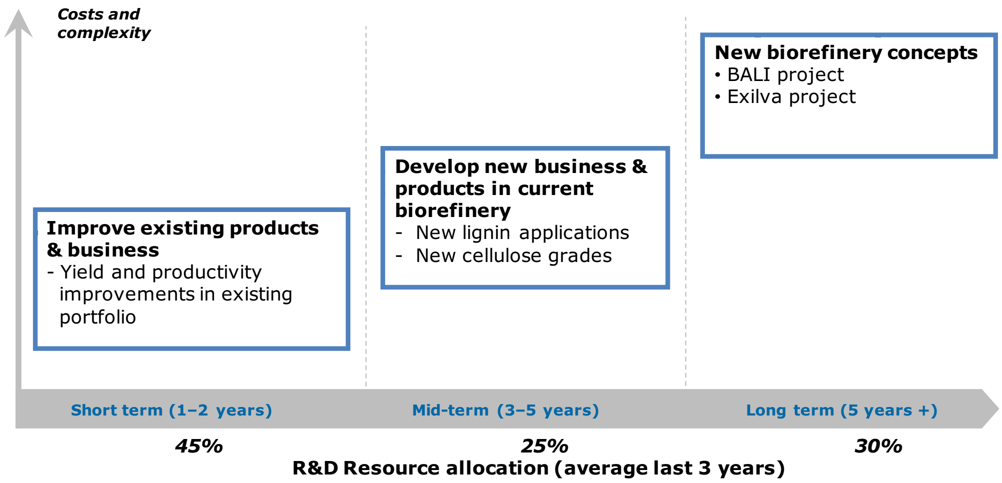
Borregaard's focus on research and development and innovation has been a key driver in Borregaard's development. Borregaard is an innovation driven organisation focused on providing its customers with new products that improve performance, provide desired product attributes, lower costs and / or help customers satisfy changing environmental regulations. Through innovations that permitted increased sale of specialty cellulose for the production of cellulose acetate and high-value lignin-based products, for example, Borregaard has been able to shift production away from the bulk segments of both specialty cellulose and lignin-based products towards higher-value products.

Borregaard defines products first commercially introduced in the last five years as "new" products. In average over the last five years, sales of new products have contributed to more than 15% of Borregaard's sales.

### *8.6.2 Borregaard's research and development / innovation portfolio*

Borregaard spent NOK 56 million (net of governmental grants) in 2011 (NOK 53 million in 2010 and NOK 49 million in 2009) on activities at its corporate research and development centre in Sarpsborg, which focuses on product innovation and efficiency improvements. As a part of Borregaard's integrated innovation model, the different business areas dedicated substantial resources to market and application innovation activities, in addition to, project costs for and operation of the BALI and Exilva pilot plants. This resulted in total innovation spending of approximately NOK 120 million in 2011.

Borregaard believes it has a balanced research and development / innovation portfolio, conceptually consisting of a mix of short term (1-2 years), mid-term (3-5 years) and long term research and development projects (5 years or more):




Over the last three years, approximately 45% of Borregaard's research and development resources, calculated by man hours, were spent on short-term projects aimed at developing more specialised, customised products based on its existing products and businesses. Mid-term projects focus on the development of new businesses and more advanced products in the existing biorefinery. Currently, Borregaard is focused on the development of more advanced products for the feed and agrochemicals end-markets. Over the last three years, approximately 25% of Borregaard's research and development resources calculated by man hours were spent on mid-term projects. In recent years, Borregaard has increased its long-term focus on developing new sources of feedstock for its products, new production processes and new products. Over the last three years, approximately 30% of Borregaard's research and development resources, calculated by man hours, have been dedicated to long-term research and development projects. The main on-going long-term projects are the BALI and Exilva projects.

#### *8.6.3 The BALI project*

The BALI project is a long-term project for the development of new sources of lignin supply from fast-growing wood and other biomasses (annual plants). Borregaard has developed a pre-treatment process that can be applied to a broad range of feedstock to separate its lignin and cellulose / hemicellulose components. BALI's biorefinery concept aims to produce high-quality lignin from low-value biomass and to use the residual cellulose to produce high-purity sugar for use in the production of second-generation bioethanol or other biochemicals.

If Borregaard succeeds with the development of the BALI project, Borregaard believes that it will be the only cellulosic ethanol process currently able to produce marketable lignin products on a commercial scale. This additional source of lignin will assist the growth strategy of the Performance Chemicals business in addition to supplying sugars for the production of second-generation bioethanol as a co-product.

The Bali concept is well suited for co-operation with potential partners, such as potential suppliers of feedstock, partners involved in producing second-generation bioethanol or partners that already have operations at relevant locations for a commercial plant.

Borregaard has had a pilot plant in operation from the third quarter of 2012 at Borregaard's site in Sarpsborg. The cost of a full-scale commercial production plant is presently difficult to quantify, and will require a period of operating the pilot plant to accurately estimate. An investment decision on building a full-scale commercial production plant based on the BALI concept is expected in 2014, at the earliest.

Borregaard has been granted EUR 3 million in support by the EU (EuroBioRef), NOK 19 million from the Norwegian Research Council (Biomass 2 Products) and NOK 58 million by Innovation Norway for the development of the project.

#### *8.6.4 The Exilva project*

The Exilva project is a long-term research and development project for production of advanced microfibrillar cellulose ("MFC"). By exposing the purest cellulose to very high shear forces, the cellulose fibres become further separated from each other (defibrillated). The product, MFC, in this form is not chemically modified or derivatised. The defibrillated cellulose can achieve high surface area with relatively small amounts of product by weight, giving properties suitable for a number of applications such as adhesives, paint, packaging, food and pharmaceuticals. If Borregaard succeeds with the development of the Exilva project, Borregaard aims to create a new business area with distinct customers and a new product line of MFC-based products that it believes could potentially be used in a wide range of food, pharmaceutical and other industrial applications. In contrast to most of Borregaard's other existing businesses, the customers for Borregaard's MFC-based products would typically be closer to the end-markets or operating within the end-markets themselves, as producers of end-market applications.

Borregaard has an MFC pilot plant expected to be in full operation at Borregaard's site in Sarpsborg by the end of 2012. The cost of a full-scale commercial production plant is presently difficult to quantify, and will require a period of operating the pilot plant to accurately estimate. An investment decision on building a full-scale commercial MFC plant is expected in late 2014, at the earliest.

Borregaard has been granted EUR 1 million in support by the EU (SupraBio), NOK 2 million by Innovation Norway, NOK 1.7 million by Oslofjordfondet and an additional NOK 2.3 million by the EU (Nanobarrier) for the development of the project.

### 8.7 Sourcing of raw materials and energy

#### *8.7.1 Sarpsborg site sourcing*

**Wood**

Borregaard uses 100% softwood spruce at its Sarpsborg site and sources on average approximately 1 million solid cubic metres of spruce (round wood and chips) per year. In 2011, approximately two-thirds of the wood was sourced locally from Norway while the remainder was imported, primarily from Sweden.

Prices are typically fixed on a six-month basis. Short-term wood pricing is mainly determined by demand and supply dynamics, where important drivers for demand comprise, among other things, production volumes and the profitability of the pulp and paper and the wood board industries, the use of wood as substitute for energy (i.e. oil, gas, electricity and coal) and transportation logistics (including ease of shipment by truck, train and boat). Wood mix (including wood quality and whether chips or round wood are purchased) and transportation costs also impact wood costs. Key drivers for supply include, net income from harvesting activity, production volumes and profit levels of the sawmill industry.

**Energy**

Approximately 85% of Borregaard's total energy cost is related to the Sarpsborg site where Borregaard has an energy demand, based on current production processes, of approximately 1,000 GWh of thermal energy mainly in the form of steam and 500 GWh of electricity. Borregaard currently sources approximately two-thirds of its demand for thermal energy from internally generated energy through burning biomass and recovery (bioboiler, $SO_2$ plant and bark boiler) and from on-site third-party owned facilities burning waste, the Hafslund Waste Incineration Plant and the Østfold Energi Waste Incineration Plant. Heavy fuel oil (and to some extent electricity at spot prices, when such prices are favourable) is used to cover peak-load demand for thermal energy which accounts for the remaining approximately one-third. The oil boiler will be replaced by a new multi-fuel boiler based on LNG and gasoil by the end of 2013. See Section 8.8 "Production facilities and processes". In general, the cost of thermal energy is mainly related to the oil price, the spot market for electricity, the price of natural gas and the cost of waste incineration. Borregaard has entered into a long-term agreement with Hafslund Varme og Infrastruktur AS for the supply of 190 GWh of thermal energy per year through 2034. The plant currently owned by Østfold Energi AS, which will be taken over by Borregaard from 1 January 2013, supplies Borregaard with 170 GWh of thermal energy per year. Electricity is sourced from the national grid, currently under a long-term power agreement with Orkla (BIL), which will terminate on 31 December 2012. Borregaard has signed a new long-term power contract with Eidsiva Vannkraft AS that, beginning in 2013, will also provide Borregaard's Sarpsborg plant electricity at a predictable cost.

**Chemicals**

Caustic soda (NaOH) is also an important input for Borregaard's production process in Sarpsborg. Consumption of caustic soda in 2011 was 64,000 mt (measured as 100% concentrated product) with 47,000 mt (100%) produced at the Sarpsborg site in the chlor-alkali plant. Borregaard purchased 17,000 mt of caustic soda (100%) from external suppliers in 2011, which met approximately one-quarter of its caustic soda requirements, with the remaining three-quarters being produced internally. The key cost drivers for caustic soda produced internally are salt, electricity and the sales value of co-product. Other important chemicals for production are sulphur, sodium chlorate, calcium/limestone and sulphuric acid. Epichlorohydrine and ammonium solution are the primary chemicals used in the fine chemicals production, and guethol and glyoxylic acid are the primary chemicals used in the vanillin production.

### *8.7.2 Sourcing of the lignin feedstock*

Borregaard's Sarpsborg facility supplies lignin for the production of lignin-based products at Sarpsborg, in addition to being a supplier of lignin for selected Borregaard facilities. For Borregaard's lignin plants in South Africa, the United States, Spain, the Czech Republic and Brazil, Borregaard has contracted the supply of lignin from third-parties through supply agreements. Specifically, Borregaard has entered into a joint venture with Sappi (South Africa) and a co-investment with Sniace S.A. (Spain) with associated supply agreements, and separate supply agreements with Biocel Paskov A.S. ("**Biocel**") (Czech Republic), Cambará S.A. ("**Cambará**") (Brazil) and Domtar (Rothschild, WI, USA) for the delivery of lignin from their respective sulphite pulp mills. These agreements vary as to the terms on which lignin is supplied depending on the lignin quality and other relevant factors. In addition, selected lignin feedstock is also purchased on a spot basis or through short term contracts, predominantly from various Russian sources.

In April 2012, Cambará, the supplier of lignin to Borregaard's lignin plant in Brazil, stopped its pulp production due to the lack of water and profitability. Because Cambará was the sole source of supply of lignin to Borregaard's plant in Brazil, Borregaard's production of lignin-based products at the plant has stopped. It is currently uncertain whether, and if so when, Cambará will recommence its production. If the current situation ends up becoming more permanent, Borregaard will consider mothballing its Brazilian lignin plant. The Brazilian market and other markets that might otherwise have been supplied from the Brazilian plant are meanwhile supplied from alternative Borregaard sources. In addition, Borregaard's supply agreement with Biocel, the supplier of lignin to Borregaard's lignin plant in the Czech Republic, expires 31 December 2013. Biocel is currently rebuilding its plant in order to burn lignin to recover its energy value, which may adversely affect lignin supply to the plant. The parties are currently discussing a new agreement. Borregaard's lignin plant in Germany has been partly idle since 2009, constrained by the absence of a source of lignin supply.

In general, Borregaard's supply agreements for lignin require it to receive all the lignin produced by the lignin suppliers' adjacent pulp mills (mainly being producers of commodity pulp or dissolving cellulose). However, the actual supply of lignin to Borregaard, may depend upon or be affected by a range of factors. These factors may include

- profitability and general market conditions, in particular for commodity pulp (producers of which generally have the ability to scale down production in response to prevailing market conditions)
- regulatory considerations
- loss or closure of production due to accidents or failures, labour disputes, maintenance (scheduled or unscheduled), lack of water, energy and other key factors affecting production and/or profitability
- a range of industry-specific factors, including the supply and cost of raw materials.

Since only a limited number of the cellulose pulp producers use the sulphite pulping process that is necessary to produce the lignin required by Borregaard for its lignin-based products, and the number of sulphite mills may decrease in the future, there are a limited number of third-party sources of lignin. Borregaard's joint venture in South Africa has the only significant potential source of additional supply from existing sources and further expansion of the joint venture facility in South Africa is currently being considered by Borregaard and Sappi. Borregaard is currently exploring various other sources for lignin raw material. In addition to third-party sources of lignin, the BALI concept, which is described in Section 8.6.3 "The BALI project", is a current research project that will, if successful, allow the extraction of lignin-based products from fast-growing wood and other biomasses (annual plants).

## 8.8 Production facilities and processes

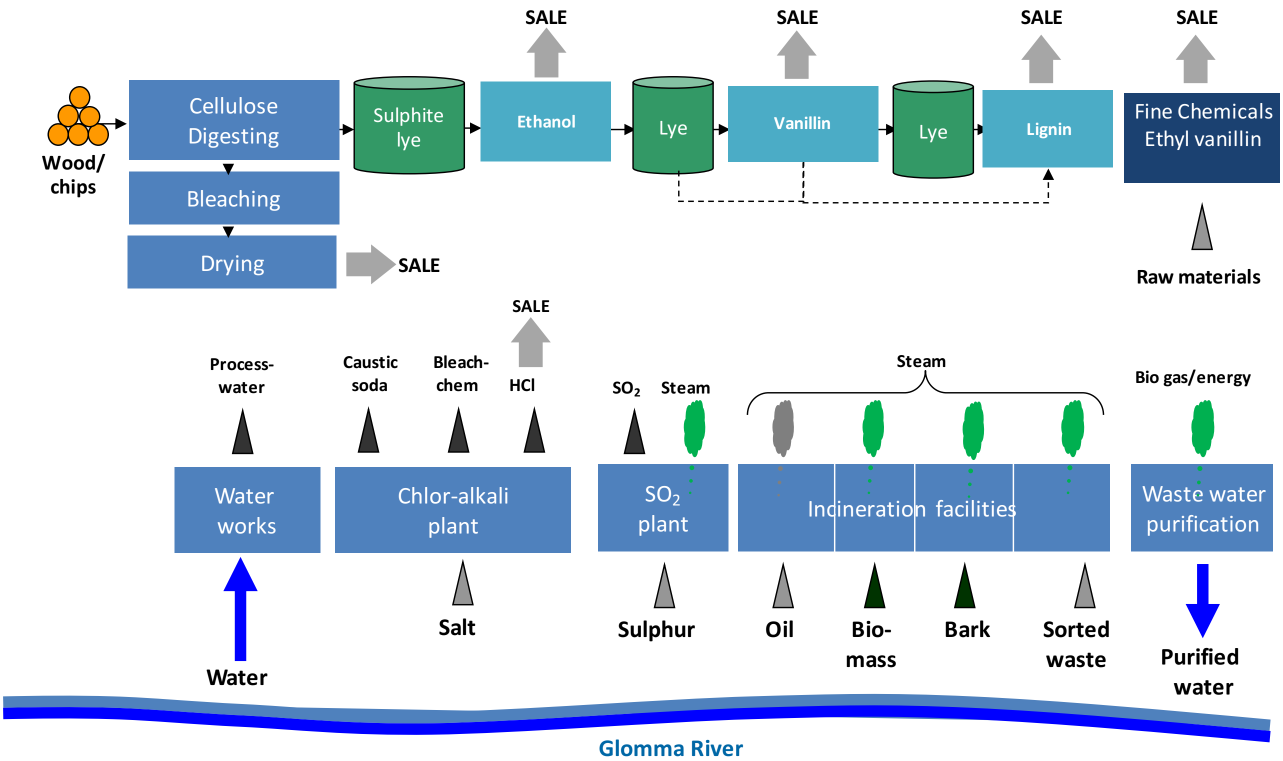
### *8.8.1 Borregaard's integrated biorefinery concept*

According to the International Energy Agency, "biorefining" refers to the sustainable processing of biomass into a spectrum of bio-based products (food, feed, chemicals and materials) and bioenergy (biofuels, power and / or heat). By producing multiple products, a biorefinery takes advantage of the various components in biomass and their intermediates, to maximise the value derived from the relevant biomass feedstock (for example, wood or annual plants). Biorefineries may produce chemicals and materials that are traditionally produced from petroleum and other inputs and are in certain respects similar to petroleum refineries, which also produce multiple products.

The feedstock used in Borregaard's biorefinery in Sarpsborg is softwood spruce, which is sourced from Northern Europe. The use of spruce as a feedstock, combined with Borregaard's calcium-based sulphite pulping process, allows Borregaard to produce highly advanced lignin-based specialty chemicals, high viscosity specialty cellulose and wood-based vanillin.

Borregaard's biorefinery in Sarpsborg is highly integrated. Due to this integrated nature, potential production levels of lignin-based products are limited by the amount of cellulose produced. Further, absent unusual circumstances, it will generally prove less profitable to operate the Sarpsborg biorefinery at less than its full production capacity due to this high degree of integration (which both precludes increasing or decreasing production of lignin-based products or cellulose products in isolation in response to the particular market dynamics of either, and also contributes to relatively high fixed costs). As a result, the Sarpsborg biorefinery will generally produce cellulose and lignin-based products at their respective maximum capacities, and in an essentially unvarying proportion.

The figure below illustrates the production processes at Borregaard's site in Sarpsborg.




**Cellulose production**:

Production of cellulose requires several steps. After debarking and chipping, wood chips are cooked in the digester house in acid at high temperature and high pressure, which separates the cellulose fibres from the lignin and sugars in the wood chips. The cellulose fibres are then treated / modified and purified with chemicals in several steps in the bleaching plant to meet desired customer specifications (including viscosity, reactivity, brightness and purity). The cellulose is then dried in the cellulose drying plant and packed as rolls or sheets.

**Lignin production**:

Lignin in the form of spent sulphite liquor is separated from cellulose fibre in the digester house. The production of lignin-based products consists of several chemical and physical modification steps, beginning with the removal of sugars from the spent sulphite liquor by fermentation in the ethanol plant. Lignin-based products are sold either in a liquid state or spray dried to powder.

**Bioethanol production**:

Bioethanol production begins with the sugar-containing spent sulphite liquor from the digester house. In the ethanol plant, yeast is then added to the spent sulphite liquor, starting a fermentation process which produces ethanol. The ethanol goes through a distillation process.

**Wood-based vanillin production**:

The vanillin molecule is a part of the lignin polymer. To produce wood-based vanillin from lignin, a chemical catalyst is first used to oxidize the lignin, which is then followed by a multistep refining process.

**Fine chemicals and ethyl vanillin production**:

In addition to its biorefinery process, Borregaard also produces ethyl vanillin (a petrochemical-based vanillin product) and fine chemicals for the pharmaceutical industry at its site in Sarpsborg, using petrochemicals sourced from third parties.

**Basic chemicals and input chemicals production**:

Borregaard produces some of the basic chemicals needed in its biorefinery processes on-site, including caustic soda and sulphur dioxide. From its production of caustic soda, hydrochloric acid and sodium hypochlorite are obtained as co-products and sold externally to customers.

**Energy production and input**:

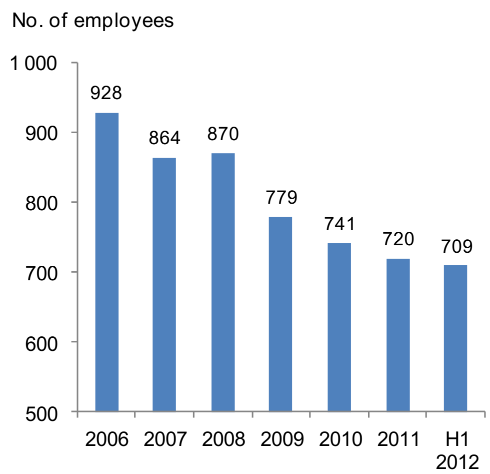
The Sarpsborg site's thermal energy demand (mainly steam) is produced on site. The base load of steam (mainly used in cellulose production) is produced from Borregaard's $SO_2$ plant, bark boiler and bioboiler together with steam from on-site third parties' waste incineration plants. In addition, steam is produced in Borregaard's boiler house using oil and electricity as inputs to cover top / peak loads. Borregaard is currently in the process of replacing its oil boiler with an LNG boiler. Borregaard's demand for electricity is currently delivered by Orkla, but beginning in 2013, this will be sourced from a third party. See Section 8.7 "Sourcing of raw materials and energy".

**Purification and waste treatment**:

Process water from the production process is treated in a dedicated anaerobic treatment plant in order to reduce emissions to the Glomma River, particularly of organic compounds (COD). In this process bacteria are used to break down the organic material. This process forms biogas (methane) which is used as an energy source to replace fossil fuel in the lignin spray driers. Borregaard is now building a new and more efficient anaerobic treatment facility that will replace the present plant. The new facility will be commissioned during the first half of 2013. See Section 8.11.2 "Sarpsborg wastewater discharge issues".

**Employees**:

As of 30 June 2012, the Sarpsborg site employed 709 full-time employees, of which 130 full-time employees were in administrative and support / sales functions, 70 full-time employees were dedicated to research and development and the remainder were in various production departments. Due to productivity improvements and cost reductions, the number of full-time employees at Borregaard's site in Sarpsborg has decreased, as illustrated in the chart below showing the number of full-time employees as of 31 December 2006 to 2011, and as of 30 June 2012.



### 8.8.2 *Production capacity and production facilities*

Borregaard has a total installed annual production capacity for the products described below of:

- approximately 550,000 mtds of lignin-based products (of which approximately 160,000 mtds of installed capacity is at Sarpsborg);
- 160,000 mt of specialty cellulose
- 1,400 mt of wood-based vanillin
- 1,000 mt of ethyl vanillin
- 20 million litres of second-generation bioethanol.

The actual annual volumes produced will depend on several factors. For lignin-based products, the actual volumes produced depend, primarily, on the actual volumes of lignin supplied to its production plants. See Section 8.7.2 "Sourcing of the lignin feedstock" for factors that can affect the supply of lignin. For specialty cellulose products, the actual volume produced depend on the product mix, as some of the specialised grades have a reduced product yield (i.e. grades with very high purity) or requires additional time in certain parts of the production process. In addition, the volume produced will depend on the amount of unscheduled production downtime.

Borregaard's Sarpsborg site with its two principal production lines (one for its cellulose products and one for its lignin-based / bioethanol / vanillin products) and a number of supporting chemical and energy facilities is located 85km south of Oslo in Sarpsborg, Norway. Borregaard's Sarpsborg site consists of Group functions (HQ, business area management, support functions and the main research and development centre) and the highly integrated chemical / biorefinery manufacturing complex.

In addition to its biorefinery plant in Sarpsborg (which generally accounts for approximately 25-30% of Borregaard's lignin-based products production by volume), Borregaard operates seven partly or fully owned plants on four continents, producing lignin-based products from both hardwood and softwood. The following is a brief description of Borregaard's seven other production facilities:

- *South Africa, Umkomaas (LignoTech South Africa)*: The plant's operations include modification and spray drying. The plant is Borregaard's largest production plant outside Norway and it has the ability to produce for the low-value and medium-value categories. The plant is owned by LignoTech South Africa, a joint venture between Borregaard (50%) and Sappi (50%). The joint venture company leases the land from Sappi. The lignin raw materials are supplied from the Sappi-owned pulp mill, Saiccor, located on the adjacent site.
- *Germany, Karlsruhe (Borregaard Deutschland)*: The plant's operations include modification, toll manufacturing and spray drying and the plant has the ability to produce for the low-value and medium-value categories. The plant and property (including buildings) are owned by Borregaard. The plant has no nearby source for supply of the lignin raw materials, and as a result significant idle capacity.

- *U.S., Rothschild, WI (LignoTech USA):* The plant's operations include modification and spray drying and it has the ability to produce for all the three different value categories. The plant, including buildings and property, is owned by Borregaard. In addition, Borregaard leases three additional small outbuildings from Domtar. The lignin raw materials are supplied from the Domtar-owned pulp mill located on an adjacent site.

- *Spain, Torrelavega (LignoTech Ibérica):* The plant's operations include modification and spray drying and it has the ability to produce for the medium-value category. The plant and site are owned by LignoTech Ibérica, a company owned by Borregaard (60%) and Sniace (40%). The lignin is supplied from the Sniace-owned pulp mill located on the adjacent site.
- *Czech Republic, Paskov (Biotech Czech Republic*, a branch of Biotech Lignosulfonate Handels GmbH): The plant's operations include modification and it has the ability to produce for the low-value and medium-value categories. The plant is operated by Borregaard through its Austrian subsidiary, Biotech Lignosulfonate Handels GmbH. Borregaard owns the equipment while the buildings are leased from Biocel and the infrastructure is sourced from Lenzing. The lignin raw materials are supplied by Biocel, from an adjacent site. However, Borregaard's supply agreement with Biocel expires 31 December 2013. See Section 8.7 "Sourcing of raw materials and energy".
- *Brazil, Cambará do Sul (LignoTech Brasil)*: The plant's operations include modification and spray drying and it has the ability to produce for the low-value and medium-value categories. The plant, including buildings and property, is owned by Borregaard. Lignin raw material has historically been supplied by the Cambará

owned pulp mill located on an adjacent site. However, since Cambará has stopped its pulp production, the lignin plant is currently not in operation. See Section 8.7 "Sourcing of raw materials and energy".

- *UK, Warrington (Borregaard UK)*: The plant's operations comprise modification and toll manufacturing. The plant, including land and buildings, are owned by Borregaard. The lignin raw material is supplied from other Borregaard plants.

The following figure illustrates the geographic breath and installed annual production capacity for lignin-based products that Borregaard currently possesses.


Production at each lignin plant is centralised and co-ordinated within the Performance Chemicals business, allowing Borregaard to optimise its global product mix logistics and supply customers more efficiently. Products in the low-value categories are mostly sold to customers in the local market of each plant, products in the medium-value categories are sold both regionally and depending on logistics to other continents, while products in the high-value categories are sold globally. A significant portion of Borregaard's lignin-based products production for the high-value category, however, occurs at the Sarpsborg biorefinery, where Borregaard is able to leverage, among other things, its softwood feedstock and calcium-based sulphite pulping processes.

## 8.9 Material contracts

Borregaard is party to a select number of material contracts.

### *8.9.1 Shareholders agreement between Borregaard, Sniace S.A. and Celltech S.L.U*

LignoTech Ibérica S.A. is owned by Borregaard (60%) and Sniace S.A.'s subsidiary Celltech S.L.U (40%), and governed by a shareholders' agreement, dated 26 June 2001, and related agreements.

LignoTech Ibérica S.A. produces and sells lignin-based products from lignin raw material supplied by Sniace S.A. and Celltech S.L.U. LignoTech Ibérica S.A. is responsible for manufacturing while Borregaard is responsible for sales and marketing of the manufactured products. The site (building and property) is owned by LignoTech Ibérica S.A. In an amendment dated 26 March 2012, the term of the shareholder agreement was extended to 31 December 2017.

### *8.9.2 Joint venture agreement between Borregaard and Sappi*

The joint venture company Umkomaas Lignin Proprietary Limited t/a LignoTech South Africa ("**LignoTech South Africa**") is owned by Borregaard (50%) and Sappi (50%), and governed by a joint venture agreement, dated 15 December 1997, and related agreements. While Borregaard supplies LignoTech South Africa with sales and marketing functions in the overseas export market and technology and specialist research functions, Sappi provides LignoTech South Africa with lignin raw material and utilities.

LignoTech South Africa leases land from Sappi and the leased land is located on Sappi's site adjacent to the Sappi-owned Saiccor plant. The term of the lease agreement is indefinite. The joint venture agreement is to continue in force indefinitely subject to the right of Sappi or Borregaard to terminate it by giving 5 years' written notice of termination provided that such notice may not be given so as to terminate the joint venture agreement before 31 December 2027.

### *8.9.3 Material financing agreements*

Prior to the separation of the Borregaard business from Orkla and the transactions related thereto, the business of Borregaard was solely financed through various intra-group financing arrangements, see Section 11.5.1 "Sources of liquidity". On 21 September 2012, Borregaard entered into three separate, bilateral multicurrency revolving loan facilities agreements, with DNB Bank ASA, Svenska Handelsbanken and Skandinaviska Enskilda Banken, respectively, acting as lenders, such agreements being in the aggregate amount of NOK 1,800 million (together, the "**Bank Facilities Agreements**"). The purpose of the revolving facilities made available under the terms of the Bank Facilities Agreements is to finance working capital and general corporate purposes, and to refinance the amounts outstanding under the existing intra-group loan facilities previously made available to Borregaard and / or any other member of the Group by Orkla and / or any of its affiliates.

The principal borrower under each Bank Facilities Agreement is Borregaard AS, but Borregaard ASA may also join as additional borrower for specific purposes as approved by the bank(s). Borregaard ASA's is acting as a guarantor for Borregaard AS's obligations under the different bank agreements and *vice versa*.

Borregaard intends to make initial drawings under the Bank Facilities Agreements in the aggregate amount of approximately NOK 1,100 million on or about the first day of Listing, and will use such proceeds (along with approximately NOK 1,000 million in cash from certain capital contributions made to it on 11 September and 17 September 2012, and existing cash) to repay in full all its remaining indebtedness to Orkla in accordance with the terms of the Bank Facilities Agreements.

Each of the Bank Facilities Agreement are made on identical terms (save for pricing terms), including conditions of utilisation, undertakings and covenants, and with similar amounts being available for utilisation under each loan agreement. The revolving facilities made available under each Bank Facilities Agreement are split in two tranches: (i) 3-year revolving loan facilities (in the aggregate amount of NOK 600 million) and (ii) 5-year revolving loan facilities (in the aggregate amount of NOK 1,200 million), so that the debt facilities will be reduced to NOK 1,200 million after year 3.

The interest rate for the revolving loan facilities made available under the Bank Facilities Agreements is based on a specified margin over an inter-bank interest rate applicable to the currency selected in relation to a given loan, subject in each case to a ratchet up or down of the margin levels based on the level of Borregaard's leverage ratio (Net Interest Bearing Debt to Consolidated EBITDA, measured quarterly on a twelve months rolling basis).

The Bank Facilities Agreements includes the following financial covenants:

(1) *Leverage Ratio*: the ratio of Net Interest Bearing Debt to EBITDA shall not exceed the following ratios:

| | |
|---|---|
| Up to and including the accounting period ending 30 June 2013: | < 3.50:1 |
| Thereafter and up to and including the accounting period ending 30 June 2015: | < 3.25:1 |
| After the period ended 30 June 2015: | < 3.00:1 |

(2) Equity Ratio: the ratio of Total Consolidated Equity to Total Assets shall not be lower than 25.00%.

(3) Interest Cover Ratio: the ratio of Consolidated EBITDA to Net Interest Expense shall not be lower than 3.00:1.

In addition to the above mentioned financial covenants, the Bank Facilities Agreements contain customary general undertakings imposing restrictions on Borregaard AS and, where applicable, other companies in the Group, including, *inter alia*, restrictions on the Group companies' ability to: (i) grant security or guarantees (negative pledge); (ii) incur any new financial indebtedness; (iii) be a creditor in respect of any financial indebtedness; (iv) dispose of assets; (v) enter into any mergers; (vi) make any substantial changes to the general nature of the Group's business; and (vii) make investments and acquisitions, in each case subject to customary exceptions and carve-outs. Borregaard also makes certain customary representations to the relevant banks. Each agreement contains a "most favoured lender clause", such that if Borregaard agrees to introduce any financial covenants, undertaking and / or event of default provisions to another lender which is not included (or is more favourable than provisions included) in a Bank Facility Agreement, then Borregaard will be required to offer the same financial covenants, general undertakings and / or events of defaults under that Bank Facilities Agreement.

Pursuant to the Bank Facilities Agreements a change of control occurs if any person or group of persons acting in concert (other than Orkla and / or any of its affiliates) would acquire shares in Borregaard ASA representing more than fifty per cent (50.00%) of the voting rights or otherwise establishing control over more than fifty per cent (50.00%) of the voting rights in Borregaard ASA, or if Borregaard ASA ceases to own 100% of the shares of Borregaard AS. Such change of control would allow for the relevant lender, with 60 days notice to Borregaard, to cancel the total outstanding commitments under the relevant Bank Facilities Agreement, to be released from its obligation to fund further utilisations and to declare immediately due and payable all outstanding amounts under the relevant Bank Facilities Agreement together with accrued interest, and all other amounts accrued in relation to the relevant Bank Facility Agreement. The same right of cancellation by a lender will apply if Borregaard ceases to be listed on the Oslo Stock Exchange, provided that the relevant lender notifies Borregaard within 20 days of being notified by Borregaard of such delisting.

In addition, Borregaard AS has established a cash-pool and overdraft facility with a Nordic bank. The overdraft facility has a limit of NOK 70 million, with a guarantee from the Company and a covenant structure similar to the Bank Facilities Agreements. This facility has a floating NIBOR-based interest rate and expires on or about one year following Listing. Borregaard is also in the process of establishing a predominantly EUR-based cash pool arrangement with an international bank.

## 8.10 Intellectual property

Borregaard relies to a certain extent on a combination of patent, including certain pending patents applications, trademark, copyright and trade secret laws, as well as contractual restrictions and physical measures to protect its trade secrets, proprietary information and other intellectual property rights. Borregaard has its own intellectual property manager, and patent agents in different jurisdictions are responsible for handling the patent and trademark portfolio. Borregaard has adapted an intellectual property rights strategy for each of its business areas, covering focus areas as well as measures to be taken in order to protect its intellectual property rights.

Where Borregaard believes that patent protection is not appropriate or obtainable, it relies on trade secret laws and practices to protect its proprietary technology and processes, including physical security, limited dissemination and access, and confidentiality agreements with its employees, consultants, business partners, potential licensees and others to protect its trade secrets and other proprietary information.

## 8.11 Environmental, health and safety matters

Borregaard is subject to a broad range of laws, regulations and permit conditions relating to environmental, health and safety matters in the various countries and legal jurisdictions in which it operates. These laws, regulations and permit conditions impose increasingly stringent standards and requirements and potential liabilities regarding the construction and operation of Borregaard’s plants and facilities, air and water pollutant emissions, the storage, treatment and discharge of wastewater, the use and handling of hazardous or toxic materials, the generation, storage, treatment and disposal of waste material, the investigation and remediation of environmental contamination, and occupational health and safety, among other matters.

Borregaard incurs substantial capital and operating expenditures to reduce releases into the air and water, waste materials, implementation of investigation and remediation obligations, and other ongoing environmental and safety and health compliance matters. Borregaard aims to keep maintenance and environmental investments below the level of depreciation in each financial year, although maintenance and environmental capital investments in the first six months of 2012 was above this level due to capital investments related to new waste water purification plant and multifuel boiler at its site in Sarpsborg.

Borregaard’s production, in particular at its Sarpsborg facility, is an energy-intensive process that generates significant air emissions and wastewater discharges. The Sarpsborg facility also is located near the Glomma River, and a significant population centre. Accordingly, Borregaard incurs a substantial portion of its capital investments to reduce environmental impacts at the Sarpsborg facility.

### *8.11.1 Sarpsborg air emission issues*

Sarpsborg municipality has established ambient air quality objectives for $SO_2$. Borregaard’s Sarpsborg facility is regarded as a major emitter with regard to $SO_2$ in the area and is required to produce an action plan to remedy its $SO_2$ emissions. The Sarpsborg facility currently has several projects underway to reduce its $SO_2$ emission and Borregaard believes that the regulatory authority will grant adequate time for further reductions. There are also plans to reduce the $SO_2$ levels inside the digester plant in order to improve working conditions. The costs related to all these $SO_2$ reduction efforts are subject to further evaluations and will likely be implemented over several years, but current estimates include scenarios with investments of NOK 100 million.

### *8.11.2 Sarpsborg wastewater discharge issues*

Borregaard's Sarpsborg facility is located adjacent to the Glomma River and discharges both treated and untreated process effluents into the river, including a range of organic and inorganic compounds and other chemicals. Borregaard is required to track the discharges and monitor compliance with environmental regulations and permit conditions.

The significant chemical oxygen demand (COD) and other pollutants, including a range of organic and inorganic compounds and other chemicals, of the Sarpsborg facility's wastewater discharge have contributed to the classification of the Glomma River as moderate to poor ecological status adjacent to, and downstream from, the facility. To address this situation, the regulatory authority regards significant reduction in the COD discharges to the river as a key initial objective. In order to comply with any more stringent wastewater discharge limitations, including those under the EU Water Framework Directive to be implemented by 2021, Borregaard may be required to make material investments at the Sarpsborg facility to reduce COD and/or other pollutants.

During 2005 and 2008, two legionnaire's disease outbreaks occurred in the Sarpsborg-Fredrikstad region close to Borregaard's Sarpsborg facility. In total, 105 persons were infected and 12 persons died. The common initial source of these outbreaks was an aerobic wastewater treatment plant at the Sarpsborg facility that released legionnaire's disease-infected water into the Glomma River. As a result, Borregaard was required to close the aerobic wastewater treatment plant in 2008 and on an ongoing basis is required to monitor and submit compliance reports on legionnaire's disease levels at the Sarpsborg facility. Borregaard believes that these actions have removed the legionnaire's disease risk related to its wastewater treatment, but have left the Sarpsborg facility less flexible in its ability to address current and future wastewater discharge limitations.

Borregaard is currently in the process of constructing a new anaerobic wastewater treatment plant at a cost of approximately NOK 205 million (NOK 30 million of which will be covered by a government grant), expected to be operational in 2013, to provide the necessary treatment capacity. Pending its completion, the Norwegian Climate and Pollution Agency has given the Sarpsborg facility a temporarily increased daily COD limit to enable compliance with its wastewater discharge permit. However, the anaerobic treatment process is less effective than the previous process in reducing COD, various chemical compounds and other hazardous constituents in the facility's wastewater discharge. As stricter environmental limitations take effect, including the Sarpsborg site's forthcoming IPPC permit (See Section 8.11.6 "Integrated environmental permit – EU Directives"), it is likely that additional investments that could be material will be required in the future in order to further manage COD and reduce the release of process effluents, other organic and inorganic compounds or other chemical compounds into the Glomma River.

Due to requirements of forthcoming regulations, it is likely that the Sarpsborg facility will incur material expenditures over the next few years in relation to upgrading the secondary containment of some of the storage tanks.

### *8.11.3 Investigation and remediation of contaminated properties*

Borregaard has a number of facilities that have been operated for a number of years or have been acquired after operation by other entities. Sub-surface contamination of soil and groundwater has been identified at a number of such sites, in particular at the Sarpsborg and Rothschild facilities, which have active investigation and/or remediation projects. In addition, contamination of the sediment in the Glomma River has been identified and future remediation of the Glomma River may be required. At the Sarpsborg facility, Borregaard has installed a groundwater barrier and pump and treat system at the chlor-alkali plant to control and remediate mercury contamination resulting from the former operation of mercury cell technology. For 2012, Borregaard estimates the cost of operating and managing the groundwater barrier and pump and treat system to be NOK 1 million, with similar annual expenditures expected in future years. Further, the environmental authorities have required Borregaard to complete the final closure of Opsund landfill, a historical waste disposal site located near the Sarpsborg facility. Estimated costs vary from limited to approximately NOK 50 million if a full impermeable capping is required. The current estimate from Borregaard is in the lower end of the range. At Rothschild, chlorinated solvents in groundwater are the subject of additional investigation with the goal of obtaining regulatory closure without active remediation. Borregaard has established a reserve which management believes will be adequate to address this matter.

In view of Borregaard's long history of industrial activity, and the increasing stringency of environmental standards, it is possible that additional contamination requiring investigation or remediation will be identified in the future at these or other sites.

### *8.11.4 Greenhouse gas regulation*

The EU Emissions Trading Directive 2003/87/EC (EUETS) has established a scheme for trading greenhouse gas emission allowances. Borregaard's Sarpsborg facility is included in the EUETS. Given the nature of their operations and the size of their combustion plants, none of Borregaard's other European facilities fall within the scope of Phase II of the EUETS.

Under Phase II of the EUETS, emission credits are assigned through national allocation plans. The Sarpsborg facility is subject to the Norwegian Climate Quota Act of 17 December 2004 and related secondary regulation. The Norwegian Climate and Pollution Agency (Klif) granted Borregaard a permit on 11 March 2005 regarding emissions of greenhouse gases which requires quotas, in accordance with the EUETS.

Under Phase II of the EUETS (covering the trading period 2008-2012), Borregaard had, as of 25 May 2012, accumulated a surplus of 304,294 mt $CO_2$ equivalent (credits), partly as a result of the introduction of two third-party owned and operated municipal waste boilers at the site, which reduced the biorefinery's use of heavy oil.

The EUETS was significantly revised in December 2008 and changes will be implemented in Phase III, which begins in January 2013 and will run through to December 2020. In particular:

- There will no longer be any national allocation plans; instead the allocation will be determined directly at EU level.
- The majority of allowances will no longer be allocated for free, but will be auctioned. However, in order to reduce the risk of "carbon leakage", whereby production and thereby emissions could be relocated to non-EU states, in the relevant sectors an appropriate emissions benchmark will be taken based upon the average performance of the top 10% installations in the sector, either by product, heat, fuel or process emissions, and installations within the sector will receive 100% of this benchmark for free.

The Sarpsborg site will continue to have an EUETS obligation during Phase III. According to a decision on 15 June 2012 by the Norwegian Climate and Pollution Agency, Borregaard has been preliminary assigned 223,669 cost-free climate quotas per year for the Phase III period, equal to the applied for number of quotas. As the Phase III regulation requires that the total annual assignment of cost-free climate quotas within the EU area to be adjusted by a mutual European correction factor set by the European Commission, the Norwegian Climate and Pollution Agency states in the decision as of 15 June 2012 that Borregaard's assignment of 223,669 cost-free climate quotas per year may be reduced under the Phase III period. It is currently difficult to predict whether future $CO_2$ emissions will exceed the cost-free quotas that are anticipated to be finally granted under Phase III.

Based upon current operations, none of the other Borregaard sites are anticipated to have any obligations under Phase III of the EUETS.

#### *8.11.5 Chemicals legislation - REACH*

The EU regulation for the Registration, Evaluation, Authorisation and Restriction of Chemical substances (REACH – EC 1907/2006) came into force in the EU on 1 June 2007. The regulation has also been applicable in Norway since June 2008 through the EEA agreement.

REACH requires producers and importers of chemicals to formally register chemicals and to evaluate their health and safety impacts. In some cases, REACH may require producers and importers to replace hazardous chemicals with those of less concern. The registration of chemicals will be a lengthy process over a number of years and will be prioritised by volumes produced.

Borregaard has satisfied the currently-effective obligations under REACH. Future REACH compliance activities will involve substance information exchange forum (SIEF) and consortia activity; registration obligations as a producer or importer; registration, monitoring and communicating substance property and use related information as a downstream user; and maintaining an updated substance inventory. These activities have all been initiated and will require ongoing annual costs that are included in Borregaard's budget projections. In the future, Borregaard may need to reformulate certain products or to submit full registrations for certain chemicals to maintain REACH compliance, which may result in unexpected costs.

#### *8.11.6 Integrated environmental permit – EU Directives*

Under the EU Directive on Integrated Pollution Prevention and Control 2008/17/EC (the "IPPC Directive"), industrial installations require national operating permits based on best available techniques ("BAT") for pollution prevention and control. The Sarpsborg facility is operated under an environmental permit issued by the Norwegian Climate and Pollution Agency in accordance with the Norwegian Pollution Control Act, which effectively implements the provisions of the IPPC Directive into Norwegian law. The Directive on Industrial Emissions 2010/75EU (the "IED"), which replaces the IPPC Directive, was adopted on 24 November 2010 and has to be transposed into national legislation by 7 January 2013. The BAT reference document ("BREF") for the pulp and paper industry, which applies to Borregaard's operations in Sarpsborg, is currently under revision. Any future environmental permit need to comply with the IED and the revised BREF.

The EU Water Framework Directive 2000/60EC (the "WFD") commits the member states to achieve good qualitative and quantitative status of all water bodies. The WFD was implemented into Norwegian law by the Regulation on Framework for Water Management of 15 December 2006 no. 1446. The WFD prescribes various steps to be taken to reach the common goal of the directive rather than adopting the more traditional limit value approach. The WFD requires that each of the member states prepare River Basin Management Plans ("RBMPs") in the period 2010-2015, and that such plans are implemented by 2021. As mentioned in Section 8.11.2 "Sarpsborg wastewater discharge issues", significant chemical oxygen demand (COD) flux to the Glomma River and other pollutants, including a range of organic and inorganic compounds and other chemicals, have contributed to the classification of the river as moderate to poor ecological status adjacent to, and downstream from, the Borregaard site. In order to meet the goals of the WFD/RBMP, Borregaard expects that discussions about a potential Borregaard contribution to improve the ecological status of the Glomma River will be needed with authorities. Besides that, the new anaerobic waste water treatment plant, planned to be operational from 2013, is expected to improve the ecological status of the Glomma River significantly.

### 8.12 Insurance

Borregaard currently maintains insurance coverage of the type and in amounts that it believes to be customary in the industry, including property damage and business interruption, marine cargo / transportation, environmental liability, third-party public and product liability, workers' compensation, loss resulting from criminal acts by employees, employment practices liability, contaminated products insurance-recall, commercial general liability, umbrella liability and excess liability insurance all subject to certain limitations, deductibles and caps. Most of these non-life insurance contracts have been negotiated at the level of the Orkla group and will have to be re-negotiated on a standalone basis for Borregaard, and be obtained on terms (namely applicable limits and deductibles) which may vary from existing contracts. In addition, Borregaard may not be able to maintain the same level of insurance cost on a stand-alone basis as it has as part of the Orkla group today.

Orkla's corporate liability insurance arrangements, which Borregaard currently is part of, expire on 1 December 2012. Borregaard has bought cover as a co-insured under these existing insurances for the period from completion of the Listing until such date, and will seek to obtain separate insurance cover for the same risks it is currently insured against from that date.

### 8.13 Litigation and disputes

From time to time, Borregaard is involved in litigation, disputes and other legal proceedings arising in the normal course of its business. Neither the Company nor any other company in the Group are, nor have been during the course of the preceding twelve months involved in any legal, governmental or arbitration proceedings which may have, or have had in the recent past, significant effects on the Company's and / or the Group's financial position or profitability, and the Company is not aware of any such proceedings which are pending or threatened.

### 8.14 Dependency on contracts, patents, licenses etc. - Contracts entered into outside ordinary course of business

Other than set out in Section 8.9 "Material contracts", it is in the opinion of the Company that Borregaard's existing business or profitability is not materially dependant on patents or licenses, industrial, commercial or financial contracts.

Other than the Restructuring as described in Section 15.2 "Overview of the Restructuring", Borregaard has not entered into any material contracts outside the ordinary course of business for the two years prior to the date of the Prospectus or any other contract entered into outside the ordinary course of business which contains any provision under which any member of the Group has any obligation or entitlement.

# 9 CAPITALISATION AND INDEBTEDNESS

## 9.1 Capitalisation

The tables below should be read in conjunction with the information included elsewhere in this Prospectus, including Section 10 "Selected financial and other information" and the Combined Financial Statements and the Interim Condensed Financial Information and related notes, included in Appendix B and Appendix C of this Prospectus.

The tables set forth the capitalisation and indebtedness of Borregaard as of 30 June 2012 in accordance with IFRS on a historical basis and adjusted to take into consideration the material changes related to incorporation of the Company on 22 August 2012, the transfer of Borregaard AS from BRG Holding AS to the Company on 17 September 2012 and the refinancing of Borregaard following the separation from Orkla and the Listing, see Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing" and Section 11.5 "Liquidity and capital resources", as if these changes had occurred as of 30 June 2012.

**Capitalisation**

| *In NOK million* | **As of 30 June 2012** | |
|---|---|---|
| | **Actual**[1] *(unaudited)* | **Adjusted**[2] *(unaudited)* |
| **Indebtedness** | | |
| Total current debt | 7 | 7 |
| - Guaranteed | - | - |
| - Secured | - | - |
| - Unguaranteed / unsecured | 7 | 7 |
| Total non-current financial debt | 2,425 | 1,125 |
| - Guaranteed | - | - |
| - Secured[3] | 25 | 25 |
| - Unguaranteed / unsecured[4] | 2,400 | 1,100 |
| **Total indebtedness** | **2,432** | **1,132** |
| Shareholders' equity | | |
| a. Share capital[5] | 200 | 100 |
| b. Additional paid-in capital[6] | - | 1,100 |
| c. Other reserves | 426 | 426 |
| d. Non-controlling interests | 13 | 13 |
| **Total equity** | **639** | **1,639** |
| **Total capitalisation** | **3,071** | **2,771** |

**Indebtedness**

| *In NOK million* | **As of 30 June 2012** *(unaudited)* | |
|---|---|---|
| | **Actual**[1] *(unaudited)* | **Adjusted**[2] *(unaudited)* |
| Net indebtedness | | |
| (A) Cash[7] | 33 | 33 |
| (B) Cash equivalents[7,8] | 388 | 88 |
| (C) Interest bearing receivables | - | - |
| (**D) Liquidity (A)+(B)+(C)** | **421** | **121** |
| **(E) Current financial receivables** | **-** | **-** |
| (F) Current bank debt | - | - |
| (G) Current portion of long-term debt | - | - |
| (H) Other current financial liabilities | 7 | 7 |
| **(I) Current financial debt (F)+(G)+(H)** | **7** | **7** |
| **(J) Net current financial indebtedness (I)-(E)-(D)** | **-414** | **-114** |

| **Indebtedness** *In NOK million* | **As of 30 June 2012** *(unaudited)* | |
|---|---|---|
| | **Actual**[1] *(unaudited)* | **Adjusted**[2] *(unaudited)* |
| (K) Long-term interest bearing debt[9] | 2,425 | 1,125 |
| (L) Bonds issued | - | - |
| (M) Other non-current financial liabilities | - | - |
| **(N) Non-current financial indebtedness (K)+(L)+(M)** | **2,425** | **1,125** |
| **(O) Net financial indebtedness (J)+(N)** | **2,011** | **1,011** |

1 Data set forth in this column is derived from the statement of financial position set out in the unaudited Interim Condensed Financial Information as of 30 June 2012 and included hereto in Appendix C.

2 Data set forth in this column is shown as adjusted for the transfer of Borregaard AS from the Selling Shareholder to the Company on 17 September 2012, the cash contribution by the Selling Shareholder on 11 September and 17 September 2012 of an aggregate of NOK 999 million of new equity to the Company and the contemplated refinancing of Borregaard following the separation from Orkla (see Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing") and the Listing, as if these changes had occurred as of 30 June 2012. Borregaard expects that following the Listing it will have approximately NOK 1,100 in interest-bearing debt, approximately NOK 100 million in cash and cash equivalents and an equity ratio of approximately 46%. See Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing".

3 Secured by pledges either on receivables and inventory or plant and equipment.

4 The adjusted amount under unguaranteed / unsecured non-current financial debt reflects the approximately NOK 1,100 million drawn under the Bank Facilities Agreements following repayment of outstanding interest bearing debt to Orkla on or about the first day of Listing.

5 The adjusted amount under share capital reflects the NOK 100 million share capital of the Company, which following the transfer of Borregaard AS from BRG Holding AS to the Company, became the parent company of the Group.

6 The adjusted amount under additional paid-in capital includes, *inter alia*, NOK 300 million of paid in capital in Borregaard ASA which was converted to other equity through a capital reduction

7 The adjusted amounts under cash and cash equivalents reflect the remaining cash and cash equivalents following repayment of outstanding interest bearing debt to Orkla on or about the first day of Listing by using approximately NOK 1,000 million in cash from the capital increases and approximately NOK 300 million (assuming NOK 2,400 in outstanding interest bearing debt to Orkla as of the day of repayment) of existing cash equivalents.

8 Cash equivalents are mainly cash deposited with Orkla under the Orkla group's cash-pools.

9 The adjusted amount under long-term interest bearing debt reflects Borregaard's long-term interest bearing debt following repayment of outstanding interest bearing debt to Orkla by drawing on the Bank Facilities Agreements.

## 9.2 Working capital statement

Borregaard is of the opinion that the working capital available to the Group is sufficient for the Group's present requirements, for the period covering at least 12 months from the date of this Prospectus.

# 10 SELECTED FINANCIAL AND OTHER INFORMATION

## 10.1 Introduction

The following tables present selected Financial Information in respect of Borregaard. Unless otherwise stated herein, the selected interim condensed financial information as of, and for the six-month periods ended, 30 June 2012 and 2011 and the selected combined financial information as of, and for the years ended, 31 December 2011, 2010 and 2009 have been derived from, and are based on, the Interim Condensed Financial Information and the Combined Financial Statements, respectively. The historical information in the Financial Information has been derived from the consolidated financial statements of Orkla and combines the result of operations, assets and liabilities of the entities and operations that formed the Borregaard group prior to the Restructuring as described in Section 15.2 "Overview of the Restructuring". The Combined Financial Statements and the Interim Condensed Financial Information have been prepared in accordance with IFRS, as adopted by the EU.

The Financial Information reflects (or, in the case of the Interim Condensed Financial Information, reflects in part) the activities of the Biorefinery Business prior to its transfer to Borregaard AS through the Restructuring (see Section 15.2 "Overview of the Restructuring"). As the transfer of the shares of Borregaard AS to the Company in preparation for the Offering did not, however, occur during the periods covered by the Financial Information, the terms "Borregaard", "Group" or "Borregaard Group" as used in the Financial Information (and any reference in this Prospectus to the Financial Information, or portions thereof, of "Borregaard", "the Group" or the "Borregaard Group") do not include the Company (see Section 4.2.1 "Financial information" and note 2 to the Combined Financial Statements for additional details in respect of the basis of preparation of the Financial Information).

The selected combined financial information should be read in connection with, and is qualified in its entirety by reference to the Combined Financial Statements and the Interim Condensed Financial Information included in Appendix B and Appendix C, respectively, of this Prospectus, and should be read together with Section 11 "Operating and Financial Review" and in particular Section 11.2 "Presentation of financial information" and note 2 to the Combined Financial Statements and note 1 to the Interim Condensed Financial Information for further details regarding the basis of preparation of the Financial Information.

## 10.2 Selected income statement

The table below sets out selected data from Borregaard's condensed income statement for the six-month periods ended 30 June 2012 and 2011 and from its combined income statement for the years ended 31 December 2011, 2010 and 2009.

| **Income statement** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| Sales revenues | 1,993 | 1,925 | 3,810 | 3,419 | 3,338 |
| Other operating revenues | 24 | 31 | 44 | 42 | 44 |
| **Operating revenues** | **2,017** | **1,956** | **3,854** | **3,461** | **3,382** |
| Cost of materials | -859 | -824 | -1,605 | -1,524 | -1,532 |
| Payroll expenses | -356 | -337 | -699 | -674 | -665 |
| Other operating expenses | -415 | -401 | -815 | -774 | -722 |
| Depreciation and write-down property, plant and equipment | -104 | -101 | -199 | -200 | -210 |
| Amortisation intangible assets | -3 | -3 | -6 | -6 | -6 |
| Other income and expenses | -44 | 0 | 0 | 22 | 0 |
| **Operating profit** | **236** | **290** | **530** | **305** | **247** |
| Finance income | 78 | 60 | 160 | 171 | 161 |
| Finance costs | -101 | -90 | -235 | -216 | -197 |
| **Profit / loss before taxes** | **213** | **260** | **455** | **260** | **211** |
| Taxes | -74 | -77 | -135 | -76 | -67 |
| **Profit / loss for the period** | **139** | **183** | **320** | **184** | **144** |

The table below sets out selected data from Borregaard's interim condensed comprehensive income statement for the six-month periods ended 30 June 2012 and 2011 and from its combined comprehensive income statement for the years ended 31 December 2011, 2010 and 2009.

| **Comprehensive income statement** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| **Profit / loss for the period** | **139** | **183** | **320** | **184** | **144** |
| Change in hedging reserve after tax | 34 | -1 | -70 | 50 | 266 |
| Translation effects | -10 | -32 | -28 | 0 | -75 |
| **Comprehensive income** | **163** | **150** | **222** | **234** | **335** |
| Profit / loss attributable to non-controlling interests | 0 | 2 | 2 | 3 | 5 |
| Profit / loss attributable to owners of the parent | 163 | 148 | 220 | 231 | 330 |

## 10.3 Selected statement of financial position

The table below sets out selected data from Borregaard's interim condensed statement of financial position as of 30 June 2012 and from its combined statement of financial position as of 31 December 2011, 2010 and 2009.

| **Statement of financial position** | **Consolidated as of 30 June** | **Combined as of 31 December** | | |
|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| **Assets** | | | | |
| Property, plant and equipment | 1,942 | 1,822 | 1,791 | 1,776 |
| Intangible assets | 38 | 72 | 76 | 86 |
| Deferred tax assets | 0 | 0 | 10 | 23 |
| Other assets | 84 | 91 | 128 | 88 |
| **Non-current assets** | **2,064** | **1,985** | **2,005** | **1,973** |
| Inventories | 599 | 558 | 468 | 497 |
| Receivables | 749 | 665 | 661 | 624 |
| Cash and cash equivalents and deposits in Orkla group cash pool | 421 | 496 | 427 | 340 |
| **Current assets** | **1,769** | **1,719** | **1,556** | **1,461** |
| **Total assets** | **3,833** | **3,704** | **3,561** | **3,434** |
| **Equity and liabilities** | | | | |
| Group equity | 626 | 1,109 | 998 | 1,335 |
| Non-controlling interests | 13 | 14 | 16 | 20 |
| **Equity** | **639** | **1,123** | **1,014** | **1,355** |
| Deferred tax | 126 | 158 | 183 | 160 |
| Provisions and other liabilities | 43 | 42 | 38 | 67 |
| Interest-bearing liabilities | 2,425 | 1,788 | 1,862 | 1,403 |
| **Non-current liabilities** | **2,594** | **1,988** | **2,083** | **1,630** |
| Interest-bearing liabilities | 7 | 20 | 23 | 19 |
| Income tax payable | 55 | 62 | 23 | 8 |
| Other liabilities | 538 | 511 | 418 | 422 |
| **Current liabilities** | **600** | **593** | **464** | **449** |
| **Equity and liabilities** | **3,833** | **3,704** | **3,561** | **3,434** |

### 10.4 Selected cash flow statement

The table below sets out selected data from Borregaard's interim condensed cash flow statement for the six-month periods ended 30 June 2012 and 2011 and from its combined cash flow statement for the years ended 31 December 2011, 2010 and 2009.

| **Cash flow statement** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| Profit / loss before taxes | 213 | 260 | 455 | 260 | 211 |
| Amortisation, depreciation and impairment charges | 142 | 104 | 205 | 206 | 216 |
| Changes in net working capital, etc | -26 | -178 | -75 | 17 | 84 |
| Taxes paid | -71 | -39 | -49 | -31 | -7 |
| **Cash flow from operating activities** | **258** | **147** | **536** | **452** | **504** |
| Investments property, plant and equipment and intangible assets | -241 | -88 | -251 | -205 | -128 |
| Other capital transactions | -4 | 0 | 4 | -5 | -5 |
| **Cash flow from investing activities** | **-245** | **-88** | **-247** | **-210** | **-133** |
| Dividends / Group contributions paid | -714 | -93 | -149 | -609 | -214 |
| **Net paid to shareholders** | **-714** | **-93** | **-149** | **-609** | **-214** |
| Change in interest-bearing liabilities | 633 | 35 | -74 | 452 | -274 |
| Change in interest-bearing receivables | 0 | -1 | 9 | 9 | 23 |
| **Change in net interest-bearing liabilities** | **633** | **34** | **-65** | **461** | **-251** |
| **Cash flow from financing activities** | **-81** | **-59** | **-214** | **-148** | **-465** |
| **Change in cash and cash equivalents** | **-68** | **0** | **75** | **94** | **-94** |
| Cash and cash equivalents as of beginning of period | 496 | 427 | 427 | 340 | 374 |
| Change in cash and cash equivalents | -68 | 0 | 75 | 94 | -94 |
| Currency effect of cash and cash equivalents | -7 | -13 | -6 | -7 | 60 |
| **Cash and equivalents as of end of period**[1] | **421** | **414** | **496** | **427** | **340** |

1 Includes deposits in the Orkla group's cash pool.

### 10.5 Selected statement of changes in equity

The table below sets out selected data from Borregaard's combined statement of changes in equity for the years ended 31 December 2009, 2010 and 2011 and from its interim condensed change in equity for the six-month period ended 30 June 2012.

| **Changes in equity** *In NOK million* | **Hedging reserve**[1] | **Translation effects** | **Allocated equity / retained earnings** | **Group equity** | **Non-controlling interests** | **Total equity** |
|---|---|---|---|---|---|---|
| **Equity 31 December 2008** | **-225** | **34** | **1,343** | **1,152** | **18** | **1,170** |
| Profit / loss for the year | - | - | 139 | 139 | 5 | 144 |
| Group comprehensive income | 266 | -75 | 0 | 191 | 0 | 191 |
| Share based payment | - | - | 3 | 3 | - | 3 |
| Dividends / Group contributions | - | - | -150 | -150 | -3 | -153 |
| **Equity 31 December 2009** | **41** | **-41** | **1,335** | **1,335** | **20** | **1,355** |
| Profit / loss for the year | - | - | 180 | 180 | 4 | 184 |
| Group comprehensive income | 50 | 0 | 1 | 51 | -1 | 50 |
| Share based payment | - | - | 4 | 4 | - | 4 |
| Dividends / Group contributions | - | - | -572 | -572 | -7 | -579 |
| **Equity 31 December 2010** | **91** | **-41** | **948** | **998** | **16** | **1,014** |

| **Changes in equity**<br>*In NOK million* | **Hedging reserve**[1] | **Translation effects** | **Allocated equity / retained earnings** | **Group equity** | **Non-controlling interests** | **Total equity** |
|---|---|---|---|---|---|---|
| Profit / loss for the year | - | - | 317 | 317 | 3 | 320 |
| Group comprehensive income | -70 | -28 | 1 | -97 | -1 | -98 |
| Share based payment | - | - | 4 | 4 | - | 4 |
| Dividends / Group contributions | - | - | -113 | -113 | -4 | -117 |
| **Equity 31 December 2011** | **21** | **-69** | **1,157** | **1,109** | **14** | **1,123** |
| Dividends / Group contributions | - | - | -553 | -553 | -1 | -554 |
| Contribution in kind | - | - | 517 | 517 | - | 517 |
| Debt conversion | - | - | 450 | 450 | - | 450 |
| Reduction due to pooling of interest method (continuity on Group level) | - | - | -1,062 | -1,062 | - | -1,062 |
| Option costs (share based payment) | - | - | 2 | 2 | - | 2 |
| The Group's comprehensive income | 34 | -10 | 139 | 163 | - | 163 |
| **Equity 30 June 2012** | **55** | **-79** | **650** | **626** | **13** | **639** |

1 After tax

## 10.6 Selected additional data and financial measures

| *In NOK million unless otherwise stated* | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| Adjusted EBITA[1] | 283 | 293 | 536 | 289 | 253 |
| Adjusted EBITDA[2] | 387 | 394 | 735 | 489 | 463 |
| Adjusted EBITA margin (*percentage*)[1] | 14.0% | 15.0% | 13.9% | 8.4% | 7.5% |
| Adjusted EBITDA margin (*percentage*)[2] | 19.2% | 20.1% | 19.1% | 14.1% | 13.7% |
| Capital employed (*average*)[3, 4] | 2,781 | 2,649 | 2,625 | 2,569 | 2,673 |
| Return on capital employed (ROCE) (*percentage*)[4] | - | - | 20.4% | 11.3% | 9.5% |

1 Adjusted EBITA is defined as operating profit before amortisation and other income and expenses. Adjusted EBITA is not a measurement of performance under IFRS. See Section 4.2"Presentation of financial and other information". Adjusted EBITA margin is adjusted as a percentage of operating revenues in the respective periods.

2 Adjusted EBITDA is defined as operating profit before depreciation, amortisation and other income and expenses. Adjusted EBITDA is not a measurement of performance under IFRS. See Section 4.2"Presentation of financial and other information". Adjusted EBITDA margin is adjusted as a percentage of operating revenues in the respective periods. The reconciliation of Borregaard's Adjusted EBITA and Adjusted EBITDA is as follows:

| *In NOK million* | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| **Reconciliation against operating profit** | | | | | |
| Operating profit | 236 | 290 | 530 | 305 | 247 |
| Other income and expenses | 44 | 0 | 0 | -22 | 0 |
| Amortisation intangible assets | 3 | 3 | 6 | 6 | 6 |
| Adjusted EBITA | 283 | 293 | 536 | 289 | 253 |
| Depreciation and write-down property, plant and equipment | 104 | 101 | 199 | 200 | 210 |
| Adjusted EBITDA | 387 | 394 | 735 | 489 | 463 |

3 Derived from Company Books.

4 Average capital employed is defined as average net working capital + average tangible assets + average intangible assets at cost – average net pension liabilities – average deferred tax excess value.

5 Return on capital employed is a ratio defined as operating profit before other income and expenses and amortisation (EBITA) divided by average capital employed.

### 10.7 Key financial information and other operational data by segment

The table below sets out key financial information and other operational data by segment for the six-month periods ended 30 June 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009.

| **Key financial information – by segment** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million unless otherwise stated* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| **Operating revenues** | | | | | |
| - Performance Chemicals | 859 | 784 | 1,539 | 1,495 | 1,425 |
| - Specialty Cellulose | 827 | 818 | 1,644 | 1,296 | 1,283 |
| - Other Businesses | 371 | 395 | 749 | 736 | 756 |
| - Eliminations | -40 | -41 | -78 | -66 | -82 |
| **Operating profit** | | | | | |
| - Performance Chemicals | 94 | 137 | 219 | 250 | 237 |
| - Specialty Cellulose | 145 | 137 | 317 | 43 | 10 |
| - Other Businesses[1] | -3 | 16 | -6 | 12 | 0 |

1 Operating profit for Other Businesses includes cost related to HQ and other unallocated costs.

| **Other operating data – by segment** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million unless otherwise stated* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| **Sales revenues**[1] | | | | | |
| - Performance Chemicals | 841 | 769 | 1,508 | 1,458 | 1,377 |
| - Specialty Cellulose | 825 | 817 | 1,641 | 1,293 | 1,282 |
| - Other Businesses | 327 | 339 | 661 | 668 | 679 |
| **Adjusted EBITA**[2] | | | | | |
| - Performance Chemicals | 133 | 140 | 225 | 257 | 243 |
| - Specialty Cellulose | 146 | 137 | 317 | 43 | 10 |
| - Other Businesses | 4 | 16 | -6 | -11 | 0 |
| **Adjusted EBITA margin** (*percentage*)[2] | | | | | |
| - Performance Chemicals | 15.5% | 17.9% | 14.6% | 17.2% | 17.1% |
| - Specialty Cellulose | 17.7% | 16.8% | 19.3% | 3.3% | 0.8% |
| - Other Businesses | 1.1% | 4.1% | -0.8% | -1.5% | 0.0% |
| **Capital employed** (*average*)[1,3] | | | | | |
| - Performance Chemicals | 828 | 798 | 794 | 790 | 818 |
| - Specialty Cellulose | 1,475 | 1,355 | 1,399 | 1,363 | 1,435 |
| - Other Businesses | 479 | 495 | 432 | 416 | 419 |
| **Return on capital employed** (*percentage*)[1,4] | | | | | |
| - Performance Chemicals | - | - | 28.3% | 32.5% | 29.7% |
| - Specialty Cellulose | - | - | 22.6% | 3.2% | 0.7% |
| - Other Businesses | - | - | -1.3% | -2.6% | 0.0% |
| **Performance Chemicals – other operating data**[1] | | | | | |
| - Lignin-products sales volume ('000 mtds)[5] | 255 | 235 | 473 | 453 | 420 |
| - Gross average sales price (NOK/mtds)[5,6] | 3,422 | 3,269 | 3,222 | 3,285 | 3,366 |
| - High-value as a % of total sales volume[5] | - | - | 15% | 16% | 15% |
| - Medium-value as a % of total sales volume[5] | - | - | 69% | 68% | 71% |

| **Other operating data – by segment** | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million unless otherwise stated* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| **Specialty Cellulose – other operating data**[1] | | | | | |
| - Sales revenues - cellulose products | 773 | 775 | 1,554 | 1,223 | 1,188 |
| - Sales revenues – bioethanol products | 52 | 42 | 87 | 70 | 94 |
| - Cellulose sales volume ('000 mt) | 72.2 | 73.0 | 143.9 | 145.9 | 159.5 |
| - Gross average sales price (NOK/mt)[7] | 10,572 | 9,936 | 10,279 | 8,099 | 7,409 |
| - Highly specialised as % of total sales volume | - | - | 85% | 77% | 60% |
| **Other Businesses – other operating data**[1] | | | | | |
| - Sales revenues – Ingredients | 151 | 190 | 360 | 401 | 391 |
| - Sales revenues – Fine Chemicals | 131 | 99 | 193 | 188 | 227 |

1 Derived from Company Books. However, sales revenues for cellulose products, bioethanol products, Ingredients and Fine Chemicals for the full years have been extracted or derived from the Combined Financial Statements.

2 Adjusted EBITA is defined as operating profit before amortisation and other income and expenses. Adjusted EBITA is a measurement of performance under IFRS. See Section 4.2"Presentation of financial and other information". Adjusted EBITA margin is adjusted as a percentage of sales revenues in the respective periods. The reconciliation of Borregaard's Adjusted EBITA by segment is as follows:

| | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| **Reconciliation against operating profit** | | | | | |
| Operating profit | 236 | 290 | 530 | 305 | 247 |
| - Performance Chemicals | 94 | 137 | 219 | 250 | 237 |
| - Specialty Cellulose | 145 | 137 | 317 | 43 | 10 |
| - Other businesses | -3 | 16 | -6 | 12 | 0 |
| Other income and expenses | 44 | 0 | 0 | -22 | 0 |
| Amortisation intangible assets | 3 | 3 | 6 | 6 | 6 |
| Adjusted EBITA | 283 | 293 | 536 | 289 | 253 |

3 Average capital employed is defined as average net working capital + average tangible assets + average intangible assets at cost – average net pension liabilities – average deferred tax excess value.

4 Return on capital employed is a ratio defined as operating profit before other income and expenses and amortisation (EBITA) divided by average capital employed.

5 Since Borregaard has overall sales and marketing responsibility for lignin-based products produced in its joint venture with Sappi in South Africa (in which it owns a 50% interest), volume figures reflect 100% of external sales volume and 100% of external sales revenues and sales volumes of the joint venture have been taken into account in deriving the gross average sales prices shown above. However, being sales on behalf of the 50/50 joint venture, one half of such external sales revenues are excluded from the Financial Information.

6 Gross average sales price in NOK for lignin-based products is based on the average sales price obtained. Sales denominated in currencies other than the legal entities' trading currency have been converted into each legal entity's trading currency using exchange rates on the transaction date. When converting monthly sales data from foreign subsidiaries, the average exchange rate for the period as set out by the Central Bank of Norway has been used.

7 Gross average sales price in NOK for cellulose products is based on the average sales price obtained in NOK (excluding bioethanol). Sales denominated in currencies other than NOK have been converted into NOK using the exchange rates for the day of the individual transaction as set out by the Central Bank of Norway.

### 10.8 Sales revenues by geographic area

The table below sets out Borregaard's sales revenues by geographic area for the years ended 31 December 2011, 2010 and 2009.

| | Combined year ended 31 December | | |
|---|---|---|---|
| *In NOK million* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| **Sales revenues** | **3,810** | **3,419** | **3,338** |
| - Europe | 2,006 | 1,712 | 1,596 |
| - Asia | 976 | 863 | 942 |
| - America | 778 | 798 | 753 |
| - Rest of the world | 50 | 46 | 47 |

### 10.9 Auditor

The Company's auditor is Ernst & Young AS. Ernst & Young AS is a member of the Norwegian Institute of Public Accountants (DnR). Ernst & Young AS has been the Company's auditor since its incorporation on 22 August 2012, and has been the auditor of Borregaard (and the Biorefinery Business currently conducted by Borregaard) as a part of the Orkla group since 1986. Accordingly, no auditor of the Group has resigned, been removed or failed to be re-appointed during the period covered by the historical financial information attached hereto. The auditor's report on the Combined Financial Statements is included together with the Combined Financial Statements in Appendix B. Ernst & Young AS has issued a report on review of interim financial information on the Interim Condensed Financial Information which is included together with the Interim Condensed Financial Information in Appendix C. In addition, for the purpose of this Prospectus, Ernst & Young AS has audited the financial statements of the newly incorporated holding company of the Group, Borregaard ASA, covering the period from its incorporation on 22 August 2012 to 31 August 2012. The auditor's report for these financial statements is included together with Borregaard ASA's financial statements for period 22 August 2012 to 31 August 2012 as included in Appendix D.

Ernst & Young AS has not audited, reviewed or produced any report on any other information provided in this Prospectus.

# 11 OPERATING AND FINANCIAL REVIEW

*This operating and financial review should be read together with Section 10 "Selected financial and other information" and the Combined Financial Statements and Interim Condensed Financial Information and related notes included in Appendix B and Appendix C of this Prospectus, as well as the discussion in Section 15.2 "Overview of the Restructuring". The following discussion contains forward-looking statements. These forward-looking statements are not historical facts, but are rather based on Borregaard's current expectations, estimates, assumptions and projections about the Group's industry, business and future financial results. Actual results could differ materially from the results contemplated by these forward-looking statements because of a number of factors, including those discussed in Section 2 "Risk factors" of this Prospectus and Section 4.3 "Cautionary note regarding forward-looking statements" as well as other sections of this Prospectus.*

## 11.1 Overview

### *11.1.1 Borregaard*

Borregaard is a supplier of specialised biochemicals for a global customer base consisting mainly of specialty chemical companies. Borregaard's main product groups are lignin-based products and specialty cellulose, but its product portfolio also extends to vanillin, fine chemicals and bioethanol. Borregaard's products serve niche end-market applications in a wide range of global end-markets including construction, agriculture, food and beverages, transportation and pharmaceuticals.

### *11.1.2 Reporting segments*

Borregaard has three reporting segments under IFRS being the Performance Chemicals segment, the Specialty Cellulose segment and a third segment including other businesses and central functions, as further described below.

### *11.1.3 Performance Chemicals*

Performance Chemicals develops, produces and sells lignin-based products for use in a wide range of end-market applications, with a particular focus on products within the medium- and high-value categories. (See Section 7.2 "Lignin-based products and markets"). In addition, Performance Chemicals includes some trading activity of relatively limited scale in respect of chemicals that are either linked to lignin-based products (for example, through blending) or have been produced by Borregaard historically, as well as limited income from licences and royalties. Revenues from trading, licenses and royalties are relatively modest and have been in the periods under review.

### *11.1.4 Specialty Cellulose*

Specialty Cellulose develops, produces and sells cellulose products, with a particular focus on specialty cellulose for use in the production of cellulose acetate and cellulose ethers (which Borregaard labels as "highly specialised" grades) (See Section 7.3 "Specialty cellulose products and markets"). The production and sale of second-generation bioethanol also forms part of the Specialty Cellulose business segment.

### *11.1.5 Other Businesses*

The Other Businesses segment mainly includes Borregaard's Ingredients and Fine Chemicals businesses that manufacture, market and sell chemical products to external customers. Within Ingredients, Borregaard produces wood based vanillin using the lignin from the sulphite pulping process as well as petrochemical-based vanillin products for use in the food and beverage and fragrance industries. Within Fine Chemicals, Borregaard is a supplier of fine chemicals for the pharmaceutical industry.

This segment also includes Borregaard's sales of surplus basic chemicals from its chlor-alkali production in Sarpsborg. In addition, Borregaard headquarter costs, corporate functions and utilities (such as water works, incineration facilities and purification plants) and services at the Sarpsborg site are also part of this segment. The cost of Borregaard headquarters and related functions has had an important negative impact on the operating profit of this segment during the periods under review.

## 11.2 Presentation of financial information

The audited Combined Financial Statements as of and for the years ended 31 December 2009, 2010 and 2011 and the unaudited Interim Condensed Financial Information as of and for the six months ended 30 June 2011 and 2012 have been prepared in accordance with IFRS as adopted by the EU. The Combined Financial Statements have been audited by Ernst & Young AS and Ernst & Young AS has issued a report on review on the Interim Condensed Financial Information.

The Company was incorporated as a public limited company on 22 August 2012 to serve as the holding company for the Group. On 17 September 2012, the Company acquired the shares of Borregaard AS from the Selling Shareholder (BRG Holding AS), as described in Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing".

As further explained in Section 15 "The establishment of the current Borregaard Group", prior to 1 April 2012 Orkla operated the businesses currently operated by Borregaard through Borregaard Industries Limited ("**BIL**") and subsidiaries of BIL, and through certain other direct or indirect subsidiaries of Orkla. The Restructuring comprised the transfer of the Biorefinery Business to Borregaard AS through (i) a transfer of all assets and liabilities of BIL related to the Biorefinery Business (other than shares in subsidiaries and related companies) to Borregaard AS on 30 March 2012 and (ii) sale or other transfers by BIL and certain other companies within the Orkla group to Borregaard AS and its subsidiaries of shares in the wholly- and partly-owned subsidiaries and joint venture company which form part of the Biorefinery Business by several separate transactions completed during the period March 2012 to June 2012.

However, a minor part of what was previously reported as part of the chemical segment in Orkla's financial reporting does not form part of the businesses currently operated by Borregaard. Consequently, historical consolidated financial information for the businesses currently operated by Borregaard is not available for any period. The Combined Financial Statements and the Interim Condensed Financial Information have been extracted, or carved-out, from the consolidated financial statements of the Orkla group. Borregaard believes that the assumptions underlying the Combined Financial Statements are reasonable. See Section 2.2.1 "Borregaard does not have an operating history outside of the Orkla group and investors may have difficulty assessing its historical performance and outlook for future revenues and other operating results".

The Financial Information reflects (or, in the case of the Interim Condensed Financial Information, reflects in part) the activities of the Biorefinery Business prior to its transfer to Borregaard AS through the Restructuring (see Section 15.2 "Overview of the Restructuring"). As the transfer of the shares of Borregaard AS to the Company in preparation for the Offering did not, however, occur during the periods covered by the Financial Information, the terms "Borregaard", "Group" or "Borregaard Group" as used in the Financial Information (and any reference in this Prospectus to the Financial Information, or portions thereof, of "Borregaard", "the Group" or the "Borregaard Group") do not include the Company. (See Section 4.2.1 "Financial information" and note 2 to the Combined Financial Statements for additional details in respect of the basis of preparation of the Financial Information).

## 11.3 Key drivers affecting the Company's business and results

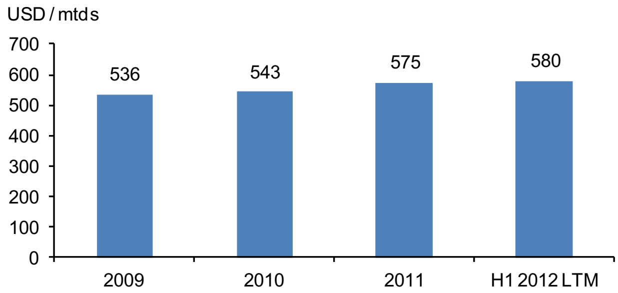
Borregaard's results of operations have been, and will continue to be, affected by a range of factors, many of which are beyond the Group's control. The factors that management believes have had a material effect on the Group's results of operations during the periods under review, as well as those considered likely to have a material effect on its results of operations in the future are described below.

### *11.3.1 Pricing, volumes and product mix*

The gross average sales price Borregaard realises in NOK for its lignin-based products and cellulose products, together with the total volume of lignin-based products and cellulose products sold, invoicing currency and the mix of sales of those products across different market segments, has a significant impact on its results of operation.

Borregaard defines its gross average sales price as the average sales price obtained. Hedging gains and losses are not reflected in the gross average sales price, however, hedging gains and losses are reflected in sales revenues. See Section 11.3.7 "Foreign currency exposure". For lignin-based products, Borregaard targets the medium- and high-value categories, with excess production not absorbed by these categories in a given period generally sold into the low-value category. Although sales into the low-value category will tend to depress the gross average sales price realised, a decrease in gross average sales price for lignin-based products will not necessarily have an adverse effect on Borregaard's results of operations. This is because total production volumes of lignin-based products may vary based on a range of factors (see Section 8.7.2 "Sourcing of the lignin feedstock" and 11.3.3 "Lignin supply and production") and even sales in the low-value category have historically been profitable. The volume of sales that Borregaard achieves across all categories, and in particular its targeted medium- and high-value categories, substantially depends on Borregaard's ability to compete in its targeted end-market applications, not only against similar products manufactured by other lignin-based product suppliers, but also against petrochemical products and other alternative products. Competition may, in certain end-market applications and regions, be based significantly on price, in which case Borregaard may need to respond to price decreases by its competitors. Competitors may reduce prices for a number of reasons, including declines (or perceived future declines) in the price of petrochemical or other inputs, increased manufacturing capacity and declining demand. Often, however, both the competitiveness of a product and the pricing of a product will depend on a range of factors, including general supply and demand factors, product performance and quality, reliability of supply, prices of competing products, availability and pricing of potential substitutes, innovation and technological development (both in respect of the supplier's product offerings and potential substitutes), responsiveness to customer product development goals, customer service and relationships, the cost to customers of shifting to alternative suppliers, the cost of inputs and logistics (including customers' production footprints and supply chain economics), and may change over time. (See 7.2 "Lignin-based products and markets").

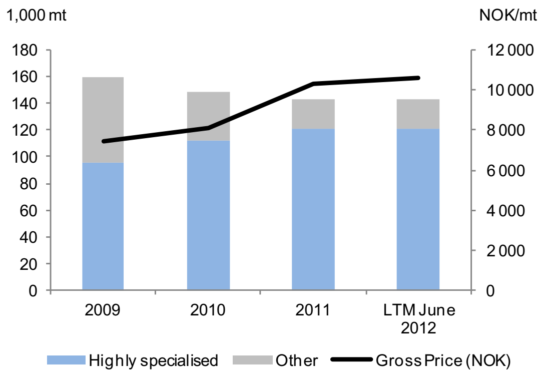
The figure below illustrates the development in gross average sales prices for lignin-based products, in USD per mtds, for the period 2009 to 2011, and the gross average price for the 12 month period ended 30 June 2012.[8] Since Borregaard has overall sales and marketing responsibility for lignin-based products produced in its joint venture with Sappi in South Africa (in which it owns a 50% interest), volume figures reflect 100% of external sales volumes and 100% of external sales revenues and sales volumes of the joint venture have been taken into account in deriving the gross average sales prices shown above. However, being sales on behalf of the 50/50 joint venture, one half of such external sales revenues are excluded from Borregaard's Financial Information.




In the case of cellulose products, the gross average sales price will, by itself, generally be a significant factor impacting results of operation, as sales volumes generally are stable period on period, notwithstanding that production volumes may to some extent vary as a result of scheduled or unscheduled downtime and product mix (see Section 8.8.2 "Production capacity and production facilities". The gross average sales price realised in any period is primarily driven by movements in specialty cellulose prices. As with lignin-based products, the pricing of specialty cellulose also depends on a range of factors, including supply of wood-based specialty cellulose, demand from the relevant end-markets, price and availability of substitute cotton linters pulp, product performance and quality, and linkages with viscose market dynamics, the relative importance of which can also vary across product offerings, end-market applications and geographies and over time (See Section 7.3 "Specialty cellulose products and markets"). Within the Specialty Cellulose segment, the gross average sales price realised may also be affected by viscose-grade cellulose prices to the extent Borregaard makes sales into this segment. Further, notwithstanding that production capacity for cellulose products is limited to Sarpsborg and sales volumes over time will show greater constancy, sales volumes, and results of operations, may nevertheless be affected from period to period (and have been so affected during the periods under review) by short-term changes in sales volumes linked, among other things, to particularly significant changes in production volumes and additions to (or depletions of) inventory.

[8] Gross average sales price in USD for lignin-based products is based on the average sales price obtained in NOK converted to USD using the average exchange rates for each period as set out by the Central Bank of Norway. Sales denominated in currencies other than legal entities' trading currency have been converted into each legal entity's trading currency using exchange rates on the transaction date. When converting monthly sales data from foreign subsidiaries, the average exchange rate for the period as set out by the Central Bank of Norway has been used.

The figure below illustrates the development in product mix (on a volume basis) and gross average sales prices, in NOK per mt, for the period 2009 to 2011, and the gross average sales price for the 12 month period ended 30 June 2012.[9]




In 2011, a sharp increase in the price of viscose grade cellulose was experienced (following strong increases in 2010 also), due to significant imbalance between supply and demand in the textile market. This was caused by high activity and capacity expansion in the Asian viscose textile industry, particularly in China, and a weak cotton harvest in China and India which drove cotton prices to historical highs, both of which resulted in increased demand for viscose grades. This significant price increase in viscose grade cellulose also affected prices of specialty cellulose, due to the potential for specialty cellulose producers to shift opportunistically into viscose grade cellulose production. The high cotton prices and reduced volumes of cotton linters also reduced the competitive pressure within specialty cellulose from producers of cotton linters pulp. The above, combined with high activity within several of the industries to which specialty cellulose is exposed, resulted in a sharp price increase for specialty cellulose in 2011. Prices for viscose-grade cellulose have subsequently fallen back closer to long term averages driven by increased capacity in the supply of viscose grade cellulose and a return to more normal cotton markets. For specialty cellulose, prices in the first half of 2012 remained close to the highs seen in 2011. However, the specialty cellulose industry is facing cyclical end-markets like the construction industry and, in addition, some of Borregaard's largest competitors have announced plans for major investments in specialty cellulose expansions, with increased capacity of approximately 270,000 mt in aggregate expected to come on stream in 2013 and 2014. The factors discussed above may influence the market balance for specialty cellulose products. See Section 11.13 "Trend information".

### *11.3.2 Geographic, product and end-market diversity*

In 2011, 53% of Borregaard's total sales by revenues were to customers located in Europe, 26% in Asia, 20% in the Americas (14% in the United States and Canada and 6% in the rest of the Americas) and 1% to customers located in the rest of the world. Sales towards the construction (for example, for concrete additives, paint, gypsum board and tiles), agriculture (for example, for animal feed, agrochemicals and soil conditioner) and food and pharmaceutical industries accounted for approximately 30%, 15% and 20%, respectively of total sales revenues, with the remaining approximately 35% comprising sales towards the broader chemical industry and other industries.

The diversity of Borregaard's products, the end-market applications for these products, and the geographic regions in which Borregaard operates enables Borregaard to some degree to adjust its product and geographic end-markets depending on local market conditions and end-market trends. For example, in 2009, Borregaard increased its sales to Asia to mitigate the impact of the relatively weak economy in Europe and take advantage of increased demand from customers in Asia.

During the period under review, Borregaard's efforts to broaden its product range and increase the geographic breadth of its operations have been key factors in mitigating risks to its financial performance. (See Section 2.1.2 "The integrated nature of the biorefinery and high cost of production in Norway demands specialisation and successful implementation of productivity programmes to ensure Borregaard's long-term viability").

[9] Gross average sales price in NOK for cellulose products is based on the average sales price obtained in NOK (excluding bioethanol). Sales denominated in currencies other than NOK have been converted into NOK using the exchange rates for the day of the individual transaction as set out by the Central Bank of Norway.

### *11.3.3 Lignin supply and production*

Because of the integrated nature of the Sarpsborg biorefinery, potential production levels for Borregaard's lignin-based products and cellulose products are correlated. It will also, absent unusual circumstances, generally prove less profitable to operate the plant in Sarpsborg at less than full production capacity due to this high degree of integration (which both precludes increasing or decreasing production of lignin-based products or cellulose products in isolation in response to the particular market dynamics of either, and also contributes to relatively high fixed costs). As a result, the Sarpsborg biorefinery will generally produce cellulose and lignin-based products at their respective maximum capacities, and in an essentially unvarying proportion (See Section 8.8 "Production facilities and processes").

The total volume of lignin-based products that Borregaard is able to produce, in particular outside of Sarpsborg, can, however, have a significant impact on its results of operations. This is because, in the Performance Chemicals segment, which has historically been the primary contributor to Borregaard's profitability, even low-value lignin-based products have, historically, contributed to profitability despite primarily serving as an outlet for excess production. Consequently, although pricing and product mix are important to Borregaard's financial performance, they cannot be properly construed in isolation from total volumes (see above"– Pricing and product mix"). As this is the case, the ability to maintain and increase supplies of lignin, through joint venture or third-party supply to its lignin production sites around the world, has been an important factor in Borregaard's financial performance in the periods under review.

Between 2009 and 2011, the volume of lignin-based products sold increased by 53,000 mtds, largely driven by increased capacity utilisation at Borregaard's joint venture plant in South Africa and its plants in the Czech Republic and the United States, notwithstanding significant idle capacity in Germany throughout that time.

At the German site, idle capacity remained the reality in the first half of 2012, due to an inability to obtain cost effective lignin raw material supply from external sources. In April 2012, Cambará, the supplier of lignin to Borregaard's lignin plant in Brazil, stopped its pulp production due to lack of water and profitability. Because Cambará was the sole source of supply of lignin to Borregaard's plant in Brazil, Borregaard's production of lignin-based products at the plant stopped. It is currently uncertain whether, and if so, when, Cambará will recommence its production. As a result, the Brazilian market and other markets that might otherwise have been supplied from the Brazilian plant have in the meanwhile been supplied from alternative Borregaard sources, resulting in additional logistical and others costs in the range of NOK 8 to 10 million for the first six months of 2012. If the current situation ends up becoming more permanent, Borregaard will consider mothballing its Brazilian lignin plant and a possible write-down of fixed assets of up to NOK 10 million may have to be taken. In addition, restructuring costs, including termination and other costs may occur. Further, Borregaard's supply agreement with Biocel, the supplier of lignin to Borregaard's lignin plant in the Czech Republic, expires 31 December 2013. Biocel is currently rebuilding its plant in order to burn lignin to recover its energy value, which may adversely affect lignin supply to the plant. The parties are currently discussing a new agreement.

With these exceptions, the lignin supply network is currently running close to capacity. Since only a limited number of the cellulose pulp producers use the sulphite pulping process that is necessary to produce the lignin required by Borregaard for its lignin-based products, and the number of sulphite mills may decrease in the future, there are a limited number of third-party sources of lignin. Borregaard's joint venture in South Africa has the only significant potential source of additional supply from existing sources and further expansion of the joint venture facility in South Africa is currently being considered by Borregaard and Sappi. Borregaard is currently exploring various other lignin raw material sources. In addition to third-party sources of lignin, the BALI concept, which is described in Section 8.6.3 "The BALI project", is a current research project that will, if successful, allow the extraction of lignin-based products from fast-growing wood and other biomasses (annual plants).

Borregaard expects that its ability or inability to maintain and increase its supply of lignin will continue to be a key driver of its financial performance. (See Section 8.7.2 "Sourcing of the lignin feedstock" and Section 2.1.10 "Borregaard's financial results and prospects could be significantly impacted by the inability to maintain or expand its existing sources of lignin").

### *11.3.4 Variability between quarters in operating profit*

Because Borregaard is subject to seasonality factors affecting production patterns and certain key cost items, Borregaard's results of operations typically vary from quarter to quarter. Borregaard's operating profit typically is comparatively lower in the first and fourth quarters and higher in the second and third quarters. During the periods under review, second and third quarter operating profit has on average been approximately NOK 20 million higher than first and fourth quarter operating profit. This variation was mainly related to payroll accounting, increased costs related to an annual maintenance stop at the Sarpsborg plant and energy costs. In particular, Borregaard's energy costs, a key component of the Group's costs, are higher during the fall and winter due to weather and energy price patterns. Borregaard's payroll costs, also a key component of costs, are lower for Norwegian employees when employees take their vacation in June and July, corresponding with the Norwegian provision for holiday pay in one year being paid out during the summer months the following year. The annual maintenance stop at the Sarpsborg plant occurs in the last quarter of each year (see Section 11.3.5 "Production process"). Although the annual maintenance stop will have limited effects on sales volumes in the fourth quarter (since Borregaard increases sales from inventory during such period), and notwithstanding that major cost elements for the maintenance stops will be capitalized and then depreciated over the subsequent 12 months, Borregaard's operating profit for the quarter and its results of operation for the year will nevertheless be affected by the annual maintenance stop as a result of low production value in the actual month resulting in significant change in inventory.

### *11.3.5 Production process*

The efficiency and quality of the production process at Borregaard's facilities, primarily its facility in Sarpsborg, are key drivers for Borregaard's results of operations. In particular, any downtime in production due to breakdowns or scheduled maintenance or problems in achieving the required quality parameters in the production have a significant negative impact on Borregaard's results of operation. This is in particular due to the integrated nature of production at Sarpsborg, which generally precludes the ability to reduce production of either cellulose and/or lignin-based products in isolation and makes it less profitable to operate the Sarpsborg plant at less than full capacity.

Even though most Borregaard plants have maintenance stops, the key maintenance stop that impacts results of operations is the annual maintenance stop at Sarpsborg (which occurs in addition to minor planned maintenance stops during the year, the impacts of which are more limited). The annual maintenance stop is intended to last five to seven days, is planned in detail well in advance and consists of a range of activities, including changes, repairs and/or cleaning of equipment and process controls. In addition to impacting profitability in the fourth quarter (see Section 11.3.4 "Variability between quarters in operating profit), the annual maintenance stop impacts volumes produced in the fourth quarter. The annual maintenance stop (though necessary to limit potentially greater consequences from more serious unplanned stops), and its resulting impact on production volumes, has a negative impact on Borregaard's results of operations. All segments are affected by the maintenance stop, with the largest impact on the Specialty Cellulose segment.

Borregaard experienced certain production problems in 2010, which resulted in reduced production volumes during certain periods in that year. The production challenges in Sarpsborg during 2010 were mainly caused by downtime in the digester house for cellulose due to equipment failure and particularly low temperatures during the winter of 2010, which resulted in equipment being damaged by freezing. Borregaard has recently invested in a new control centre at its Sarpsborg site, with 15 previous control rooms combined into one new control centre, to improve the quality of its production and minimise production down-time.

### *11.3.6 Key cost items*

Borregaard's input costs are primarily: wood for the Sarpsborg plant, which represented 14%, 12%, 13% of its operating expenses (cost of materials, payroll expenses and other operating expenses) in 2011, 2010 and 2009, respectively; energy, which represented 15%, 14%, 13% of its operating expenses over the same periods; payroll expenses which represented 22%, 23%, 23% of its operating expenses over the same periods and freight costs, which represented 10%, 10%, 9% of its operating expenses over the same periods. The remaining costs primarily relate to the supply of lignin and various chemicals used in production processes, packaging material, maintenance and repair costs, consultants and rental costs, none of which are individually material.

Borregaard's cost of materials reflects the cost of sales (and not production) volumes, as a result of which a build-up of inventories will, if accompanied by a reduction in sales volumes, tend to be reflected in a decrease in cost of materials (as occurred, with significant effect, in 2011), while draw-downs of inventories for sales will tend to be reflected in an increase in cost of materials (as occurred in 2010). Since inventory values include more than the direct cost of the materials (e.g., also include production related costs like payroll, maintenance costs, depreciation), a significant change in inventory will disturb margins and profitability.

Several of Borregaard's costs fluctuate in correlation with oil prices, including the costs of energy, lignin and other production inputs, as well as bunker prices that are included in international shipping freight rates, although that correlation is complex and not direct. During the period under review, oil prices increased significantly, but that increase was more than offset by increases in the gross average sales prices of Borregaard's products and did not have a material adverse impact on its results of operations. In addition, Borregaard believes that high oil prices tend to increase the relative attractiveness of those of its products that are substitutes to oil-based chemicals.

Allocation of input costs across Borregaard's reporting segments is based on actual consumption or activity driven metrics. In general: wood costs relate to the Specialty Cellulose segment only; energy costs are an important cost item for each segment; freight costs are significant to the Performance Chemicals segment and are important, but to a lesser extent, for the Specialty Cellulose segment and Other Businesses; and payroll expenses are allocated to and are an important cost item for each segment. Internal transfer prices within the Sarpsborg site are mainly costs-based. The cost of external lignin raw material supply for Performance Chemicals is based on agreements which vary as to the terms, depending on lignin quality and other relevant factors. In addition, selected lignin feedstock is also purchased on a spot basis or through short-term contracts, predominantly from various Russian sources. At the Sarpsborg site, internal pricing for lignin supply is based on a formula linked to the oil price that, among other things, reflects the energy value of the lignin.

#### 11.3.6.1 Wood

Borregaard sources spruce wood for its plant in Sarpsborg, from a broad supplier base mainly located in Norway and Sweden. Prices are typically fixed on a six-month basis and largely determined by supply and demand, wood mix (including wood quality and whether chips or round wood are purchased), transportation costs and the other factors discussed in Section 8.7.1 "Sarpsborg site sourcing". Borregaard's wood costs are relatively high compared to many of its competitors. This is largely due to the high costs of harvesting and transporting wood from Norwegian and Swedish sources and slow growth in the boreal area (despite the fact that yearly growth exceeds yearly harvesting in Norway). During the period from 2009 to 2011, Borregaard's wood costs (which include transport costs) rose by 18%, which contributed to the increase in its variable costs base. This increase in market prices was largely due to higher pulp production and increased use of wood as an energy source, both of which drove up demand. Wood prices paid by Borregaard have fallen in the first half of 2012, however, due to decreased demand in the south-eastern part of Norway following pulp mill closures, though this has been offset in part by a further reduction of imports. The table below sets forth Borregaard's wood costs for the period 2009 through the first half of 2012:

| | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| Total wood costs[1]................................................... | 219 | 221 | 437 | 370 | 370 |

1 Derived from Company Books.

Borregaard currently expects a further downtrend in wood costs in the second half of 2012, though its extent is uncertain and will depend on, among other things, wood mix, transportation costs and demand for pulp wood and from saw mills.

#### 11.3.6.2 Energy

Borregaard uses electricity and thermal energy in its production processes in Sarpsborg. In the period under review, Borregaard's demand for electricity at Sarpsborg was met by Borregaard Energy, a member of the Orkla group. Beginning in 2013, externally sourced electricity at the Sarpsborg plant will be subject to a long-term power contract with Eidsiva Vannkraft AS with a fixed price model (although subject to adjustment based on the Norwegian consumer price index). The electricity price under the new contract with Eidsiva Vannkraft AS is based on a continuation of the historical price level under Borregaard's contract with Borregaard Energy, with the first indexing of the electricity price to be on 1 January 2013. The base load of thermal energy at Sarpsborg is generated through the biorefinery's production processes with the remainder being supplied by on-site third party waste incineration plants. The on-site waste incineration plant currently owned by Østfold Energi AS will be taken over by Borregaard from 1 January 2013, which will result in a certain cost increase although not significant with respect to total energy cost. In addition, to cover peak-load thermal energy demand, Borregaard has two electric boilers and one oil boiler fuelled by electricity and heavy oil purchased at prevailing market rates. The oil boiler will be replaced by a new multi-fuel boiler based on LNG and gasoil as of the end of 2013, which is not expected to impact the energy cost as increased depreciation is offset by lower maintenance cost and with the LNG cost expected to be at the level of heavy fuel oil. In general, the cost of thermal energy is related to the oil price, the spot market for electricity, the price of natural gas and the cost of waste incineration.

Energy used in the production plants outside Norway is purchased at prevailing market rates.

The significant increase in energy costs experienced during the period under review was primarily caused by higher oil prices over the same period.

The table below sets out total energy costs for the periods under review:

| | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| Total energy costs[1] | 270 | 261 | 478 | 429 | 373 |

1 Derived from Company Books.

### 11.3.6.3 Freight costs

Most of Borregaard's products are sold as delivered to the customer, and freight rates, type of transport, volume and destination are consequently important cost drivers. Borregaard's freight costs, in particular within its Performance Chemicals business, are also impacted by Borregaard's ability to optimise freight costs by optimising from which of its production facilities its global customers are supplied. Borregaard's freight costs during the period under review have mainly been driven by sales volumes, changes in transport patterns, the oil price and the freight market itself.

The increase in outbound freight costs in the period 2009 to 2011 was mainly due to rate restorations by overseas carriers and increased bunker costs in the aftermath of the financial downturn in 2008-2009. During the six-month period ended 30 June 2012, there has been an increase in transport costs, due to increasing bunker prices and the impact of the stop of production at the Brazilian plant, which has resulted in the Brazilian market and other markets that might otherwise have been supplied from the Brazilian plant being supplied from alternative Borregaard sources.

The table below sets out total external freight costs for the periods under review:

| | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| External freight costs[1] | 165 | 155 | 310 | 299 | 276 |

1 Derived from Company Books.

### 11.3.6.4 Payroll expenses and productivity improvement programmes

A key driver of Borregaard's financial performance has historically been, and is expected to remain, its success or lack thereof in implementing meaningful programmes to improve productivity and contain costs.

With most of its workforce based in Sarpsborg, Norway, Borregaard operates in a high and rising cost environment for labour compared to many of its competitors. Borregaard places significant emphasis on the utilisation of advanced production management techniques ("lean manufacturing'') and on its highly skilled workforce to promote efficient operation and control costs. Further, Borregaard has a long tradition in reducing headcount in production. Payroll expenses increased during the period under review due to and in line with general salary increases in the Norwegian labour market and also, in 2011 and to a lesser extent in 2010, in part due to higher bonuses following the strong performance of the business.

Borregaard commenced a productivity improvement programme in 2008. As part of the programme, in December 2010, Borregaard opened a new central control centre, which combined control rooms of 15 plants into one centralised control room and permitted a reduction in the number of operators required in production operations. From 2009 to 2011, this and other efforts undertaken as part of the programme have enabled a reduction in the relevant production organisation of full-time employees by more than 100, which in turn has helped moderate the increase in Borregaard's total labour costs over the period. In 2012 and the years to come a further reduction of full-time production employees is targeted.

The following table illustrates the average number of full-time employees and total payroll expenses.

| | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(unaudited)* | **2010** *(unaudited)* | **2009** *(unaudited)* |
| Total number of full time employees (average full time employees) | 1,055 | 1,062 | 1,061 | 1,083 | 1,124 |
| Total payroll expenses | -356 | -337 | -699 | -674 | -665 |

### *11.3.7 Foreign currency exposure*

Fluctuations in currency exchange rates, particularly exchange rates between the NOK, the USD and the EUR, have had and are likely to continue to have a significant impact on Borregaard's results of operations. In each of 2009 to 2011, more than 90% of Borregaard's sales revenues were denominated in currencies other than the NOK, primarily the USD and the EUR, while close to 50% of its costs were in NOK.

As discussed in Section 11.9 "Foreign exchange exposure and hedging strategy", Borregaard has implemented a hedging policy that aims to delay the effects of currency movements, so as to allow it sufficient time to implement measures to adjust costs and revenues to minimise the impact of currency movements on its margins. Nevertheless, a sustained strengthening of the NOK relative to the USD and the EUR negatively affect Borregaard's ability to compete effectively against competitors that have their cost bases in weaker currencies.

Borregaard's net foreign exchange exposure related to its operating profit in 2012 (before hedging) is estimated at USD 230 million and EUR 100 million, respectively. Realised hedging gains and losses (except in respect of balance sheet items, which are recorded in "Finance Income" or "Finance Costs") are included in Borregaard's sales revenues, and thus also reflected in its operating profit, and relate to derivative instruments used to protect its net currency exposure against fluctuations in currency exchange rates under the hedging policy described above. Borregaard's sales revenues and operating profit since 2010 have been significantly impacted by hedging gains in respect of its hedging activities. As against realised hedging losses of NOK 6 million in 2009, Borregaard reported realised hedging gains in 2010 and 2011 of NOK 50 million and 108 million, respectively. This reflected the strengthening of the NOK versus both USD and EUR during the period. For the six-month period ending 30 June 2012, Borregaard reported realised hedging gains of NOK 12 million compared to NOK 69 million for the six-month period ending 30 June 2011.

Hedging gains or losses are not reflected in the gross average sales prices shown for lignin-based products and cellulose products, which mean that the average prices are influenced by actual currency fluctuations and not by hedging effects.

Borregaard's policy for its wholly owned subsidiaries is to hedge balance sheet items in foreign currency to avoid major net gains or losses on foreign exchange.

## 11.4 Financial review

### *11.4.1 Results of operations for the six-month period ended 30 June 2012 compared to 30 June 2011*

The table below sets out the Group's combined consolidated financial information as of and for the six-month periods ended 30 June 2012 and 30 June 2011.

| *In NOK million* | **Consolidated six months ended 30 June** | | |
|---|---|---|---|
| | **2012** *(unaudited)* | **2011** *(unaudited)* | **% change** |
| Sales revenues | 1,993 | 1,925 | 3.5% |
| Other operating revenues[1] | 24 | 31 | -22.6% |
| **Operating revenues** | **2,017** | **1,956** | 3.1% |
| Cost of materials | -859 | -824 | 4.2% |
| Payroll expenses | -356 | -337 | 5.6% |
| Other operating expenses | -415 | -401 | 3.5% |
| Depreciation and write-down property, plant and equipment | -104 | -101 | 3.0% |
| Amortisation intangible assets | -3 | -3 | 0% |
| Other income and expenses | -44 | 0 | N/A |
| **Operating profit** | **236** | **290** | -18.6% |
| Finance income | 78 | 60 | 30.0% |
| Finance costs | -101 | -90 | 12.2% |
| **Profit / loss before taxes** | **213** | **260** | -18.1% |
| Taxes | -74 | -77 | -3.9% |
| **Profit / loss for the period** | **139** | **183** | -24.0% |

1 Generally includes revenues from licenses and royalties, gains on sale of property, plant and equipment and revenues not related to sale of products.

#### 11.4.1.1 Sales revenues

The Group's sales revenues increased by NOK 68 million, or 3.5%, from NOK 1,925 million for the six-month period ended 30 June 2011 to NOK 1,993 million for the six-month period ended 30 June 2012, which was primarily attributable to increased volumes and prices in the Performance Chemicals segment.

The table below sets out the Group's sales revenues by segment for the six-month periods ended 30 June 2012 and 2011.

| *In NOK million* | **Consolidated six months ended 30 June** | | |
|---|---|---|---|
| | **2012** *(unaudited)* | **2011** *(unaudited)* | **% change** |
| Sales revenues | 1,993 | 1,925 | 3.5% |
| - *Performance Chemicals*[1] | 841 | 769 | 9.4% |
| - *Specialty Cellulose*[1] | 825 | 817 | 1.0% |
| - *Other Businesses*[1] | 327 | 339 | -3.5% |

1 Derived from Company Books.

For Performance Chemicals, sales revenues increased by NOK 72 million, or 9.4%, from NOK 769 million for the six-month period ended 30 June 2011 to NOK 841 million for the six-month period ended 30 June 2012. This increase in sales revenue was primarily attributable to an 8.4% increase in sales volumes of lignin-based products from approximately 235,000 mtds for the six-month period ended 30 June 2011 to approximately 255,000 mtds for the six-month period ended 30 June 2012 and an increase in gross average sales price of 4.6%, from NOK 3,269 per mtds to NOK 3,422 per mtds period-on-period. The volume increased across all categories, but the main volume driver was strong sales within the medium-value categories, in particular to the construction industry in Asia and Latin America, which more than offset decreased sales to customers in Europe, where sales declined due to a slow-down in overall economic activity, that primarily affected deliveries of concrete admixtures used in the construction industry. Increased production volume at several sites compensated for lost production in Brazil. The increase in gross average sales price was principally due to an improvement in product mix and price increases (in sale currency terms) for certain applications and markets. In addition, there was a slight positive impact on the gross average sales price due to strengthening of the USD against the NOK. The contribution to sales revenues from the strengthening of the USD against the NOK (through the aforementioned positive impact on gross average sales price) was more than offset by a reduction of Performance Chemicals related hedging gains.

For Specialty Cellulose, sales revenues increased by NOK 8 million, or 1.0%, from NOK 817 million for the six -month period ended 30 June 2011 to NOK 825 million for the six-month period ended 30 June 2012 amidst relatively constant cellulose product sales volumes. This modest increase was primarily attributable to an increase in sales revenues for bioethanol, driven by both volume and price. The gross average sales price for cellulose products increased by 6.7% from NOK 9,936 per mt for the six-month period ended 30 June 2011 to NOK 10,572 per mt for the six-month period ended 30 June 2012, largely due to the strengthening of the USD against the NOK with pricing (in sale currency terms) stable when compared to the second half of 2011. The contribution to sales revenues from the strengthening of the USD against the NOK (through the aforementioned positive impact on gross average sales price) was more than offset by a weakening of the EUR against the NOK and a reduction of Specialty Cellulose related hedging gains.

For Other Businesses, sales revenues decreased by NOK 12 million, or 3.5%, from NOK 339 million for the six-month period ended 30 June 2011 to NOK 327 million for the six-month period ended 30 June 2012. This decrease was primarily attributable to lower sales volumes of all vanillin products other than blends products amidst slight decreases in prices on average, due to a more competitive environment driven by Chinese competitors, resulting in build-up of inventory. The fine chemical business generated increased sales revenues due to increased sales volume both for $C_3$ aminodiols and custom-made intermediates.

Hedging gains amounted to NOK 12 million for the six-month period ended 30 June 2012 compared to NOK 69 million for the six-month period ended 30 June 2011. The reduction in hedging gains was partly compensated by a strengthening of the USD compared to the NOK. About 50% of the hedging gains for both six-month periods related to Specialty Cellulose, with the rest being split with approximately 25% on each of Performance Chemicals and Other Businesses.

#### 11.4.1.2 Cost of materials

Cost of materials increased by NOK 35 million, or 4.2%, from NOK 824 million for the six-month period ended 30 June 2011 to NOK 859 million for the six-month period ended 30 June 2012. With the exception of the NOK 18 million one-off effect described below, this increase was primarily attributable to higher production volume and, to a more limited extent, an increase in the cost of certain chemicals used to produce lignin-based products. Wood costs, which relate to the Specialty Cellulose segment only, decreased slightly from NOK 221 million for the six-month period ended 30 June 2011 to NOK 219 million for the six-month period ended 30 June 2012, as a decline in wood prices was offset by higher consumption of wood due to higher production volumes. Energy costs increased modestly from NOK 261 million for the six-month period ended 30 June 2011 to NOK 270 million for the six-month period ended 30 June 2012, mainly due to higher costs at the Sarpsborg site. The mothballing of part of the fine chemicals production capacity in mid 2011 also had a positive impact on costs of materials period-on-period.

Following the transfer of the Biorefinery business to Borregaard, internal profit from the hydropower operations which remained with BIL following the Restructuring, and which was previously eliminated at the level of BIL, is now eliminated at a higher level in the Orkla group. This has resulted in a positive one-off effect of NOK 18 million (in increased inventory value) to Borregaard, and affected each segment.

#### 11.4.1.3 Payroll expenses

Payroll expenses increased by NOK 19 million, or 5.6%, from NOK 337 million for the six-month period ended 30 June 2011 to NOK 356 million for the six-month period ended 30 June 2012. This increase was primarily attributable to salary increases in line with the general salary increase in the Norwegian market and additions to the sales force in Performance Chemicals to strengthen its international presence, and only partially offset by the overall reduction of full-time employees of the Group from 1,065 as of 30 June 2011 to 1,049 as of 30 June 2012.

#### 11.4.1.4 Other operating expenses

Other operating expenses increased by NOK 14 million, or 3.5%, from NOK 401 million for the six-month period ended 30 June 2011 to NOK 415 million for the six-month period ended 30 June 2012. This increase was primarily attributable to higher freight costs related to the use of alternative Borregaard sources to supply clients mainly in

Brazil, where production has stopped due to lack of supply of the lignin raw material from Cambará (see Section 8.7.2 "Sourcing of the lignin feedstock"), as well as increased sales volumes within Performance Chemicals. Accruals of NOK 5 million related to demolition costs were also incurred in preparation for the investment in a new multifuel boiler, and also for tearing down certain buildings that had ceased to be useful.

11.4.1.5 Depreciation and amortisation

Depreciation increased by NOK 3 million to 104 million for the six-month period ended 30 June 2012. The increase was mainly due to capitalisation of the pilot plant for the Exilva project. Amortisation of NOK 3 million was unchanged compared to the previous period.

11.4.1.6 Other income and expenses

In the six-month period ended 30 June 2012, Borregaard wrote down intangible assets related to Borregaard's operations in Brazil in the amount of NOK 35 million, reflecting the fact that the plant's lignin supplier, Cambará, stopped its operations, as further discussed above under Section 8.7.2 "Sourcing of the lignin feedstock". Stay-on bonuses granted to management in connection with the restructuring of the Group and the separation from Orkla group, was expensed with NOK 9 million.

11.4.1.7 Operating profit

Operating profit for the Group declined by NOK 54 million, or 18.6%, from NOK 290 million for the six-month period ended 30 June 2011 to NOK 236 million for the six-month period ended 30 June 2012.

The table below sets forth the Group's operating profit by segment for the six-month periods ended 30 June 2012 and 2011.

| | **Consolidated six months ended 30 June** | | |
|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **% change** |
| Operating profit | 236 | 290 | -18.6% |
| - *Performance Chemicals* | 94 | 137 | -31.4% |
| - *Specialty Cellulose* | 145 | 137 | 5.8% |
| - *Other Businesses* | -3 | 16 | N/A |

For Performance Chemicals, operating profit decreased by NOK 43 million, or 31.4%, from NOK 137 million for the six-month period ended 30 June 2011 to NOK 94 million for the six-month period ended 30 June 2012. The majority of the decline was related to a NOK 35 million write-down of intangible assets for the Brazil operation. Operating profit benefitted from increased revenues, driven by volume growth and improvement in product mix, but this was more than offset by increased costs. Raw material costs increased, mainly driven by increasing costs for lignin raw material (including at Sarpsborg where such costs reflect internal transfer price) and energy, both of which to some degree correlate with the oil price, which during the period increased significantly. Payroll expenses increased due to more full-time employees being added to the sales team during 2011.

For Specialty Cellulose, operating profit increased by NOK 8 million, or 5.8%, from NOK 137 million for the six-month period ended 30 June 2011 to NOK 145 million for the six-month period ended 30 June 2012. Wood costs, which relate to the Specialty Cellulose segment only, decreased slightly from NOK 221 million for the six-month period ended 30 June 2011 to NOK 219 million for the six-month period ended 30 June 2012. The decline in wood prices was to a large extent offset by higher consumption of wood due to higher production volume. Both improved quality and increased production volume had a positive impact on the result, and more than offset increases in some raw material prices.

For Other Businesses, operating profit decreased by NOK 19 million from NOK 16 million for the six-month period ended 30 June 2011 to a loss of NOK 3 million ended 30 June 2012. The decline was largely related to stay-on bonuses granted to management in connection with the restructuring of the Group of which NOK 7 million was expensed in Other Businesses (in addition to NOK 1 million in Performance Chemicals and Specialty Cellulose, respectively) in the six-month period ended 30 June 2012 (see Section 12.4 "Remuneration and benefits"). Fine Chemicals experienced an improved cost situation due to the mothballing of part of its production capacity. The cost reduction came about both as a result of workforce reductions and savings in other operating expenses. Ingredients experienced a significant decrease in profitability attributable primarily to lower sales volumes of vanillin products and an increase in cost of materials. The costs associated with corporate functions and unallocated group costs increased slightly in the first half of 2012 as compared to the first half of 2011 mainly due to accruals of NOK 5 million related to demolition costs incurred in preparation for the investment in a new multifuel boiler, and also for tearing down some old buildings that had ceased to be useful.

#### 11.4.1.8 Finance income / Finance costs

Net financial items improved by NOK 7 million, or 23.3%, from a net cost of NOK 30 million for the six-month period ended 30 June 2011 to a net cost of NOK 23 million for the six-month period ended 30 June 2012. This reduction in net finance costs was primarily attributable to reduced losses on foreign exchange hedging transactions linked to balance sheet items.

#### 11.4.1.9 Taxes

Taxes decreased by NOK 3 million, or 3.9%, from NOK 77 million for the six-month period ended 30 June 2011 to NOK 74 million for the six-month period ended 30 June 2012. This reduction was primarily attributable to lower profit before taxes for the six-month period ended 30 June 2012 compared to the six months ended 30 June 2011. The tax rate is, however, 34.7% for the six-month period ended 30 June 2012 as compared to 29.6% for the six-month period ended 30 June 2011, due primarily to a write down of intangible assets for the six-month period ended 30 June 2012, which is not tax deductible. The tax rate is a compilation of the tax rate in the various countries in which Borregaard operates and has taxable income.

### *11.4.2 Results of operations for the year ended 31 December 2011 compared to the year ended 31 December 2010*

The table below sets out the Group's combined consolidated financial information as of and for the year ended 31 December 2011 and 31 December 2010.

| | **Combined year ended 31 December** | | |
|---|---|---|---|
| *In NOK million* | **2011** *(audited)* | **2010** *(audited)* | **% change** |
| Sales revenues | 3,810 | 3,419 | 11.4% |
| Other operating revenues[1] | 44 | 42 | 4.8% |
| **Operating revenues** | **3,854** | **3,461** | **11.4%** |
| Cost of materials | -1,605 | -1,524 | 5.3% |
| Payroll expenses | -699 | -674 | 3.7% |
| Other operating expenses | -815 | -774 | 5.3% |
| Depreciation and write-down property, plant and equipment | -199 | -200 | -0.5% |
| Amortisation intangible assets | -6 | -6 | 0.0% |
| Other income and expenses | 0 | 22 | N/A |
| **Operating profit** | **530** | **305** | **73.8%** |
| Finance income | 160 | 171 | -6.4% |
| Finance costs | -235 | -216 | 8.8% |
| **Profit / loss before taxes** | **455** | **260** | **75.0%** |
| Taxes | -135 | -76 | 77.6% |
| **Profit / loss for the year** | **320** | **184** | **73.9%** |

1 Generally includes revenues from licenses and royalties, gains on sale of property, plant and equipment and revenues not related to sale of products.

11.4.2.1 Sales revenues

The Group's sales revenues increased by NOK 391 million, or 11.4%, from NOK 3,419 million for the year ended 31 December 2010 to NOK 3,810 million for the year ended 31 December 2011.

The table below sets out the Group's sales revenues by segment for the years ended 31 December 2011 and 2010.

| *In NOK million* | **Combined year ended 31 December** | | |
|---|---|---|---|
| | **2011** *(unaudited)* | **2010** *(unaudited)* | **% change** |
| Sales revenues | 3,810 | 3,419 | 11.4% |
| - *Performance Chemicals* | 1,508 | 1,458 | 3.4% |
| - *Specialty Cellulose* | 1,641 | 1,293 | 26.9% |
| - *Other Businesses* | 661 | 668 | -1.0% |

For Performance Chemicals, sales revenues increased by NOK 50 million, or 3.4%, from NOK 1,458 million for the year ended 31 December 2010 to NOK 1,508 million for the year ended 31 December 2011. The increase in sales revenues was primarily driven by a 4.5% increase in sales volume from approximately 453,000 mtds in the year ended 31 December 2010 to approximately 473,000 mtds in the year ended 31 December 2011. The increase in sales volume was principally due to increased production volumes at several sites, and was significantly absorbed by sales of products within the medium-value categories, and in particular sales to customers in the construction industry. Borregaard's sales to customers in Europe declined due to a slow-down in overall economic activity after the financial crisis, primarily affecting deliveries of concrete admixtures used in the construction industry, but this trend was more than offset by increased demand for construction products in Latin America reflecting the growing local economy. The gross average sales price of lignin-based products decreased slightly by 1.9% from NOK 3,285 per mtds in 2010 to NOK 3,222 per mtds in 2011. The primary reason for the decrease in gross average sales price was the negative impact of currency exchange rate fluctuations and in particular a weakened USD compared to the NOK, which more than offset the positive impact of improved product mix, as sales of products within the high-value category increased. Pricing (in sale currency terms) also decreased in some markets due to increased competition, also somewhat affecting gross average sales price. The impact on sales revenues from the weakening of the segment's key sales currencies against the NOK (through the aforementioned negative impact on gross average sales price) was only partially offset by an increase in Performance Chemicals related hedging gains.

For the Specialty Cellulose segment, sales revenues increased by NOK 348 million, or 26.9%, from NOK 1,293 million for the year ended 31 December 2010 to NOK 1,641 million for the year ended 31 December 2011. This increase was primarily attributable to a 26.9% increase in the gross average sales price of cellulose products from NOK 8,099 per mt in 2010 to NOK 10,279 per mt in 2011 amidst relatively constant total volumes. The increase in the gross average sales price in 2011 was primarily due to a supply shortage, caused by both increased demand for highly specialised cellulose and strong demand and historically peak prices for viscose grade cellulose, driven by strong demand in particular from China (see Section 11.3.1 "Pricing, volumes and product mix"). The price increase for viscose grade cellulose impacted the prices (in sale currency terms) for specialty cellulose also, because of the latent potential for producers of speciality cellulose to use viscose grades as an alternative outlet (see Section 7.3 "The specialty cellulose products and markets"). Highly specialised grades (cellulose for the production of cellulose acetates and cellulose ethers) represented 85% of total sales volume for 2011 compared to 77% of the total sales volume for 2010. Sales revenues for bioethanol increased from NOK 70 million for the year ended 31 December 2010 to NOK 87 million for the year ended 31 December 2011, primarily driven by increased sales prices for ethanol grades. The impact on sales revenues from the weakening of the segment's key sales currencies against the NOK (through negative impact on gross average sales price) was only partially offset by an increase in Specialty Cellulose related hedging gains.

For Other Businesses, sales revenues decreased by NOK 7 million, or 1.0%, from NOK 668 million for the year ended 31 December 2010 to NOK 661 million for the year ended 31 December 2011. This was primarily attributable to decreased revenues from the Ingredients business, principally due to lower sales volumes due to a more competitive market situation mainly driven by Chinese competitors, amidst stable prices. Sales revenues within the Fine Chemicals business increased, primarily as a result of regained business with a key customer.

Hedging gains were NOK 108 million in 2011 compared to NOK 50 million in 2010. The increased hedging gains were more than offset by a 5% strengthening of the NOK against Borregaard's key sales currencies (being the USD and the

EUR). About 50% of the hedging gains for both years related to Specialty Cellulose, with the rest being split approximately 25% each between Performance Chemicals and Other Businesses.

11.4.2.2 Cost of materials

Cost of materials increased by NOK 81 million, or 5.3%, from NOK 1,524 million for the year ended 31 December 2010 to NOK 1,605 million for the year ended 31 December 2011. This increase was primarily attributable to increased energy and wood costs and increased volume, in particular, for lignin-based products. Wood costs which relate to the Specialty Cellulose segment only, increased by 18%, due to a number of factors, including increased demand for pulp wood and reduced logging following low activity in lumber mills after the financial crisis. Energy costs increased by 11% due to increased energy consumption and increased energy prices, partly related to colder than average temperatures during the winter. The cost increases for wood and energy were softened by inventory increases (changes in inventory) both in volume (production higher than sales) and value, in particular for specialty cellulose and fine chemicals.

11.4.2.3 Payroll expenses

Payroll expenses increased by NOK 25 million, or 3.7%, from NOK 674 million for the year ended 31 December 2010 to NOK 699 million for the year ended 31 December 2011. This increase was primarily attributable to general salary increases and higher bonus costs as a result of the strong financial performance of Borregaard in 2011. The benefit of reductions in full-time employees at the site in Sarpsborg was offset by the hiring of 20 additional sales people in Performance Chemicals.

11.4.2.4 Other operating expenses

Other operating expenses increased by NOK 41 million, or 5.3%, from NOK 774 million for the year ended 31 December 2010 to NOK 815 million for the year ended 31 December 2011, in particular due to increased freight costs, principally driven by increased sales volume. At the end of 2011, Borregaard decided to demolish the buildings related to the old fine paper facilities in Sarpsborg, and a provision of NOK 8 million was made to cover expected costs.

11.4.2.5 Depreciation and amortisation

Depreciation and amortisation levels remained largely consistent in the year ended 31 December 2011 and the year ended 31 December 2010.

11.4.2.6 Other income and expenses

No other income or expense was recorded in 2011. As a consequence of the statutory termination of the former contractual early retirement scheme (AFP), provisions related to the old AFP scheme were reversed and recognised as income in 2010. In connection with this it was also decided to reverse provisions for gratuity pensions and associated actuarial gains and losses, recognised as expense. The net result of these reversals consequently gave a net income of NOK 22 million in 2010.

11.4.2.7 Operating profit

Operating profit for the Group increased by NOK 225 million, or 73.8%, from NOK 305 million for the year ended 31 December 2010 to NOK 530 million for the year ended 31 December 2011.

The table below sets out the Group's operating profit by segment for the years ended 31 December 2011 and 2010.

| | **Combined year ended 31 December** | | |
|---|---|---|---|
| *In NOK million* | **2011** *(audited)* | **2010** *(audited)* | **% change** |
| Operating profit | 530 | 305 | 73.8% |
| - *Performance Chemicals* | 219 | 250 | -12.4% |
| - *Specialty Cellulose* | 317 | 43 | 637.2% |
| - *Other Businesses* | -6 | 12 | N/A |

For Performance Chemicals, operating profit decreased by NOK 31 million, or 12.4%, from NOK 250 million for the year ended 31 December 2010 to NOK 219 million for the year ended 31 December 2011. In 2011, the increase in sales revenue driven by increased volume was offset by an increase in payroll costs due to 20 new sales positions being added to support future volume growth and higher activity levels in the market. Cost of materials also increased, mainly due to increased costs for lignin raw material (including at Sarpsborg where such costs reflect internal transfer price) and energy, reflecting in part the impact of increased oil prices during the period, but also due to the close to 5% increase in sales volume for lignin-based products in the period.

For Specialty Cellulose, operating profit increased by NOK 274 million from NOK 43 million for the year ended 31 December 2010 to NOK 317 million for the year ended 31 December 2011. Operating profit improved significantly in 2011 primarily due to the 26.9% increase in the gross average sales price for cellulose products, partly offset by the increase in wood costs (which relate to the Specialty Cellulose segment only), increased energy costs and less favourable exchange rates. Production improvements, both in volume and quality, had a positive impact on the result, while increases in some raw material prices, maintenance costs, bonuses and other operating expenses had a negative impact. A scheduled maintenance halt at the Sarpsborg plant in October 2011 resulted in 3-4 days longer downtime than expected, and thus a larger production loss than anticipated. All segments are affected by the maintenance stop, with the largest impact on the Specialty Cellulose segment.

Within the Other Businesses segment, operating profit decreased by NOK 18 million from operating profit of NOK 12 million for the year ended 31 December 2010 to an operating loss of NOK 6 million for the year ended 31 December 2011. The decrease in operating profit was mainly related to the reversal in 2010 of provisions related to the former contractual early retirement scheme which resulted in net income of NOK 22 million being recorded in 2010. The Other Businesses segment operating profit in 2011 compared with 2010 reflected an increased profitability of the Fine Chemicals business, primarily due to regained business from a key customer. The beneficial cost impact of closing idle production capacity in mid 2011 due to low utilisation and reduced customer demand also had a positive effect on the operating results for 2011. The cost reduction came about both as a result of workforce reductions and savings in other operating expenses. By contrast, the profitability of the Ingredients business decreased slightly due to reduced demand and an increase in the cost of caustic soda. The operating profit for Other Businesses was also impacted by approximately NOK 20 million in costs related to a provision for demolishing the buildings related to the old fine paper facilities at the Sarpsborg site and bonus and pension related costs above previous levels.

#### 11.4.2.8 Finance income / Finance costs

Finance income decreased by NOK 11 million, or 6.4%, from NOK 171 million for the year ended 31 December 2010 to NOK 160 million for the year ended 31 December 2011. This reduction was primarily attributable to lower foreign exchange gain, partly offset by higher interest income on deposits due to higher interest rates. Finance costs increased by NOK 19 million, or 8.8%, from NOK 216 million for the year ended 31 December 2010 to NOK 235 million for the year ended 31 December 2011. This increase was primarily attributable to higher interest expense on Orkla loans, both due to higher average loan balance and higher NOK interest rates, and occurred notwithstanding reduced losses on foreign exchange transactions in 2011 as against 2010. A net foreign exchange loss of NOK 3 million in 2010 increased to NOK 6 million in 2011. This foreign exchange loss reflected hedging of balance sheet items in Borregaard and the exchange rate impact in LignoTech South Africa of non-domestic currency USD loan.

#### 11.4.2.9 Taxes

Taxes increased by NOK 59 million, or 77.6%, from NOK 76 million for the year ended 31 December 2010 to NOK 135 million for the year ended 31 December 2011. This increase was primarily attributable to higher profit before tax, while the tax / profit ratio remained virtually unchanged period-on-period within the normal range of 29 to 32%. The tax rate is compiled based on the tax rates in the various countries in which Borregaard has taxable operating profits.

*11.4.3 Results of operations for the year ended 31 December 2010 compared to the year ended 31 December 2009*

The table below sets out the Group's combined consolidated financial information as of and for the years ended 31 December 2010 and 2009.

| In NOK million | Combined year ended 31 December | | |
|---|---|---|---|
| | **2010** *(audited)* | **2009** *(audited)* | **% change** |
| Sales revenues | 3,419 | 3,338 | 2.4% |
| Other operating revenues[1] | 42 | 44 | -4.5% |
| **Operating revenues** | **3,461** | **3,382** | **2.3%** |
| Cost of materials | -1,524 | -1,532 | -0.5% |
| Payroll expenses | -674 | -665 | 1.4% |
| Other operating expenses | -774 | -722 | 7.2% |
| Depreciation and write-down property, plant and equipment | -200 | -210 | -4.8% |
| Amortisation intangible assets | -6 | -6 | -0.0% |
| Other income and expenses | 22 | 0 | N/A |
| **Operating profit** | **305** | **247** | **23.5%** |
| Finance income | 171 | 161 | 6.2% |
| Finance costs | -216 | -197 | 9.6% |
| **Profit / loss before taxes** | **260** | **211** | **23.2%** |
| Taxes | -76 | -67 | 13.4% |
| **Profit / loss for the year** | **184** | **144** | **27.8%** |

1 Generally includes revenues from licenses and royalties, gains on sale of property, plant and equipment and revenues not related to sale of products.

11.4.3.1 Sales revenues

The Group's sales revenues increased by NOK 81 million, or 2.4%, from NOK 3,338 million for the year ended 31 December 2009 to NOK 3,419 million for the year ended 31 December 2010.

The table below sets out the Group's sales revenues by segment for the years ended 31 December 2010 and 2009.

| In NOK million | Combined year ended 31 December | | |
|---|---|---|---|
| | **2010** *(unaudited)* | **2009** *(unaudited)* | **% change** |
| Sales revenues | 3,419 | 3,338 | 2.4% |
| - *Performance Chemicals* | 1,458 | 1,377 | 5.9% |
| - *Specialty Cellulose* | 1,293 | 1,282 | 0.9% |
| - *Other Businesses* | 668 | 679 | -1.6% |

For Performance Chemicals, sales revenues increased by NOK 81 million, or 5.9%, from NOK 1,377 million for the year ended 31 December 2009 to NOK 1.458 million for the year ended 31 December 2010. The increase in sales revenue was driven by a 7.8% increase in sales volumes from approximately 420,000 mtds in 2009 to approximately 453,000 mtds in 2010. Production volumes in 2010 were at the same level as 2009 and the increase in sales volumes was primarily due to inventory build down. Sales volumes increased across all categories. There was growth across several regions, including North America, Asia and the Middle East, while sales decreased in parts of Europe and Africa. Sales revenues were affected by a decline of 2.4% in the gross average sales price from NOK 3,366 per mtds in 2009 to NOK 3,285 per mtds in 2010, itself primarily due to adverse currency movements. In addition, the decline in the gross average sales price in 2010 compared to 2009 reflected weaker markets for the concrete admixtures used in the construction industry, while there was a positive mix effect from the high-value categories. The impact on sales revenues from the weakening of the segment's key sales currencies against the NOK (through the aforementioned negative impact on gross average sales price) was only partially offset by an increase in Performance Chemicals related hedging gains.

For the Specialty Cellulose segment, sales revenues increased by NOK 11 million, or 0.9%, from NOK 1,282 million for the year ended 31 December 2009 to NOK 1,293 million for the year ended 31 December 2010. Sales volumes declined from 159,500 mt in 2009 to 145,900 mt in 2010, principally due to high production volumes in 2009, reduction of extraordinarily high inventory levels at the start of 2009 following the closure of Borregaard's Swiss plant in 2008, as well as production challenges at Sarpsborg in 2010 caused by downtime from equipment failure and particularly low temperatures during the winter of 2010, which resulted in equipment being damaged by freezing. Highly specialised grades (cellulose for the production of cellulose acetates and cellulose ethers) represented approximately 77% of total sales volume for 2010 compared to approximately 60% of the total sales volume for 2009. The gross average sales price increased 9.3% period-on-period from NOK 7,409 per mt in 2009 to NOK 8,099 per mt in 2010, primarily due to improved general economic conditions, stronger demand and a more favourable product mix with increased sales of highly specialised grades. Sales revenues for bioethanol decreased by 25.5% from NOK 94 million for the year ended 31 December 2009 to NOK 70 million for the year ended 31 December 2010, primarily driven by reduced volumes linked to the production challenges noted above. The impact on sales revenues from the weakening of the segment's key sales currencies against the NOK (through negative impact on gross average sales price) was only partially offset by an increase in Specialty Cellulose related hedging gains.

For Other Businesses, sales revenues decreased by NOK 11 million, or 1.6%, from NOK 679 million for the year ended 31 December 2009 to NOK 668 million for the year ended 31 December 2010. This was primarily attributable to a challenging market situation for the Fine Chemicals business, partly due to loss of a key customer (that returned in 2011). This was partially offset by increased sales revenues for vanillin products within the Ingredients business.

Hedging gains were NOK 50 million in 2010 compared to a hedging loss of NOK 6 million in 2009. The increase in net hedging gains was more than offset by a 5% strengthening of the NOK compared to Borregaard's main sales currencies. About 50% of the hedging gains and losses for both years related to Specialty Cellulose, with the rest being split approximately 25% each between Performance Chemicals and Other Businesses.

##### 11.4.3.2 Cost of materials

Cost of materials decreased by NOK 8 million, or 0.5%, from NOK 1,532 million for the year ended 31 December 2009 to NOK 1,524 million for the year ended 31 December 2010. The decrease was primarily related to lower production volumes for specialty cellulose products. However, energy costs increased 15% year-on-year, due to increased oil prices and higher prices for electricity used in thermal energy production at the Sarpsborg site. Wood costs (which relate to the Specialty Cellulose segment only) were similar to 2009.

##### 11.4.3.3 Payroll expenses

Payroll expenses increased by NOK 9 million, or 1.4%, from NOK 665 million for the year ended 31 December 2009 to NOK 674 million for the year ended 31 December 2010. The increase was primarily related to a 3% increase in general salary and wage costs, partially offset by a decrease in the average number of full time employees from 1,124 for the year ended 31 December 2009 to 1,083 for the year ended 31 December 2010, in line with the productivity improvement programme at the Sarpsborg site.

##### 11.4.3.4 Other operating expenses

Other operating expenses increased by NOK 52 million, or 7.2%, from NOK 722 million for the year ended 31 December 2009 to NOK 774 million for the year ended 31 December 2010. Operating expenses were generally reduced during the financial crisis in 2009, and spending returned to more normal levels in 2010. Freight costs increased by 8%, due to increased sales volume for Performance Chemicals and increased freight rates partly due to increased oil prices.

##### 11.4.3.5 Depreciation and amortisation

Depreciation decreased by NOK 10 million in 2010 compared to 2009, due primarily to low investment spending in 2009 due to the financial crisis. Amortisation was unchanged period-on-period.

##### 11.4.3.6 Other income and expenses

As a consequence of the statutory termination of the former contractual early retirement scheme (AFP), provisions related to the old AFP scheme were reversed and recognised as income in 2010. In connection with this, it was also decided to reverse provisions for gratuity pensions and associated actuarial gains and losses as recognised as expenses. The net result of these reversals consequently gave a net income of NOK 22 million in 2010. No other income or expense was recorded in 2009.

#### 11.4.3.7 Operating profit

The Group's operating profit increased by NOK 58 million, or 23.5%, from NOK 247 million for the year ended 31 December 2009 to NOK 305 million for the year ended 31 December 2010.

The table below sets out the Group's operating profit by segment for the years ended 31 December 2010 and 2009.

| | **Combined year ended 31 December** | | |
|---|---|---|---|
| *In NOK million* | **2010** *(audited)* | **2009** *(audited)* | **% change** |
| Operating profit | 305 | 247 | 23.5% |
| - *Performance Chemicals* | 250 | 237 | 5.5% |
| - *Specialty Cellulose* | 43 | 10 | 330.0% |
| - *Other Businesses* | 12 | 0 | N/A |

For Performance Chemicals, operating profit increased by NOK 13 million, or 5.5%, from NOK 237 million for the year ended 31 December 2009 to NOK 250 million for the year ended 31 December 2010. This increase was primarily attributable to a volume-driven increase in sales revenues. This was partially offset by increased costs for lignin raw material (including at Sarpsborg where such costs reflect internal transfer price) and energy, which increased primarily due to the surge in the oil price. Freight costs also increased due to higher sales volumes, increase in the oil price and changes in the geographic mix of sales.

For Specialty Cellulose, operating profit increased by NOK 33 million from NOK 10 million for the year ended 31 December 2009 to NOK 43 million for the year ended 31 December 2010. Positive market conditions, higher selling prices and a more favourable product mix were offset by lower sales volumes and increased thermal energy costs. Wood costs (which relate to the Specialty Cellulose segment only) were similar to 2009. The production challenges in Sarpsborg during 2010 (see above) had a significant negative impact on production volumes and operating expenses both for cellulose products and bioethanol.

For Other Businesses, operating profit increased from nil for the year ended 31 December 2009 to NOK 12 million for the year ended 31 December 2010. The increase in operating profit was mainly related to the reversal of provisions of NOK 22 million related to the previous pension scheme and gratuity pensions and associated actuarial gains and losses in 2010. In addition, the Ingredients business benefitted from both increased demand for all vanillin products and lower cost of materials. The Fine Chemicals business had a challenging market situation and weak profitability, partly due to the loss of a key customer (that returned in 2011).

#### 11.4.3.8 Finance income / Finance costs

Finance income increased by NOK 10 million, or 6.2%, from NOK 161 million for the year ended 31 December 2009 to NOK 171 million for the year ended 31 December 2010. Finance costs increased by NOK 19 million, or 9.6%, from NOK 197 million for the year ended 31 December 2009 to NOK 216 million for the year ended 31 December 2010. On a netted basis, finance costs increased from NOK 36 million in 2009 to NOK 45 million in 2010, primarily due to a net foreign exchange gain of NOK 9 million in 2009 as compared to a net foreign exchange loss of NOK 3 million in 2010. These foreign exchange gains / losses reflected hedging of balance sheet items and the exchange rate impact of a non-domestic currency USD loan in LignoTech South Africa. Interest income was slightly higher in 2010 due to an increase in average bank deposits and other interest-bearing financial assets, while interest expenses paid to Orkla decreased modestly.

#### 11.4.3.9 Taxes

Taxes increased by NOK 9 million, or 13.4%, from NOK 67 million for the year ended 31 December 2009 to NOK 76 million for the year ended 31 December 2010. This increase was primarily attributable to an increase in profit before tax, while the tax / profit ratio remained within the normal range of 29 to 32%.

## 11.5 Liquidity and capital resources

### *11.5.1 Sources of liquidity*

The primary source of Borregaard's liquidity is cash from its operations. As of 30 June 2012, Borregaard had NOK 421 million in cash and cash equivalents, mainly deposited with Orkla under Orkla's cash-pools.

Borregaard historically obtained current and non-current funding through loans from Orkla. Borregaard has also received capital contributions from Orkla when necessary to achieve a desired capital structure. Consequently, prior to the separation from Orkla, several entities in the Borregaard Group had entered into interest-bearing credit facilities with Orkla. As of 30 June 2012, Borregaard had NOK 2,432 million in total indebtedness, of which NOK 2,400 million was outstanding to Orkla, mainly drawn under a NOK 3,200 million intra-group loan facilities agreement with Orkla, entered into on 13 April 2012 as part of the Restructuring. The NOK 3,200 million loan facilities agreement with Orkla contains no financial covenants and any outstanding amount under the facilities will be repaid on, and the facilities cancelled following, the Listing. As of 30 June 2012, Borregaard had approximately NOK 810 million in available credit under Orkla's intra-group loan facilities agreements. In addition, each of LignoTech Iberica S.A. and LignoTech South Africa has entered into separate term-loan agreements with a Nordic bank, with EUR 1.3 million and USD 5.6 million, respectively, outstanding as of 30 June 2012. The term-loans have floating EURIBOR-based and LIBOR-based interest rates, respectively, with final maturity dates in late 2013 and are secured by a pledge either on receivables and inventory or plant and equipment.

On 21 September 2012, Borregaard entered into the Bank Facilities Agreements in an aggregate amount of NOK 1,800 million. The purpose of the Bank Facilities Agreements is to finance the Group's working capital and for general corporate purposes and to refinance the amount outstanding under the existing intra-group loan facilities made available to Borregaard by Orkla. The total facility amount under the Bank Facilities Agreements is split in two tranches: (i) 3-year revolving loan facilities available in the aggregate amount of NOK 600 million from and including the IPO completion date until one month prior to the facility termination date, which will be 36 months after the date of the relevant Bank Facility Agreement; and (ii) 5-year revolving loan facilities in the aggregate amount of NOK 1,200 million available from and including the IPO completion date, until one month prior to the facility termination date, which will be 60 months after the date of the relevant Bank Facility Agreement.

Borregaard intends to make initial drawings under the Bank Facilities Agreements of approximately NOK 1,100 million on or about the first day of Listing, and will use such proceeds (along with approximately NOK 1,000 million in cash from certain capital contributions made to it on 11 September and 17 September 2012, and existing cash) to repay in full its remaining indebtedness to Orkla. See Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing".

Each revolving loan made available to Borregaard under the Bank Facilities Agreements must be repaid on the last day of an interest period selected by Borregaard. 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. See Section 8.9.3 "Material financing agreements" above for further information about the Bank Facilities Agreements.

In addition, Borregaard AS has established a cash-pool and NOK 70 million overdraft facility with a Nordic bank, which will replace Borregaard's current interest-bearing credit facilities with Orkla following the Listing. This facility has a floating NIBOR-based interest rate and expires on or about one year following Listing. In addition, Borregaard is in the process of establishing a predominantly EUR-based cash-pool arrangement with an international bank. See Section 8.9.3 "Material financing agreements".

Borregaard believes that it has a financing structure designed to support further development of the business and distributions to its shareholders.

### *11.5.2 Liquidity policy*

Borregaard is focused on liquidity and current liability management as a means of managing its exposure to liquidity risk and maintains what management believes is a conservative liquidity management policy. As part of this policy, Borregaard carries out cash forecasts on a regular basis, in order to secure financial flexibility and identify future long-term financing needs.

Borregaard will establish guidelines for funding, liquidity management and cash management, using the guidelines and policies currently in force by Orkla, as adopted by Borregaard. Pursuant to such guidelines, Borregaard will establish targets for minimum liquidity reserves and maximum short term borrowing. Non-compliance with these requirements will be used as a trigger for long-term funding considerations. These guidelines will further provide that short-term funding is to be provided by use of overdraft facilities (in connection with cash pool arrangements), amounts available under revolving credit facilities, such as the Bank Facilities Agreements, and / or bilateral borrowings, for instance, from its core banks or loans in the commercial paper market.

Going forward, Borregaard intends to raise all external long-term funding centrally and aims to have access to a variety of funding sources, both in respect of types of funding arrangements and geography. Borregaard expects to maintain a relationship with a core group of Nordic and/or international banks that provide various banking and funding services. Borregaard aims to have a capital structure which would be in line with an investment grade profile and, as such, have an implicit credit rating which falls within the investment grade category. Borregaard will aim to minimise its liabilities on its balance sheet by using its liquid assets to repay short-term debt by investing available liquid assets in order to try to obtain a return on such liquid assets. Borregaard will consider establishing an internal bank to provide central control and efficient management of cash within the Group. Borregaard expects to utilise the overdraft facilities referred to above as a source, among others, that could be used each month in connection with payment of excise and other indirect duties. Positive cash flow will be used each month in connection with repayment of Borregaard's overdraft and other debt.

As the functional currency of Borregaard is NOK and Borregaard's principal obligations and liabilities are largely denominated in NOK, Borregaard expects to focus its currency management on fluctuations in exchange rates against the NOK. Currency management is expected to be centralised at the corporate level and managed by the corporate finance centre. See Section 11.9 "Foreign exchange exposure and hedging strategy".

#### *11.5.3 Cash received from subsidiaries*

Borregaard does not believe that there are significant obstacles or barriers to transfers of funds to it from its subsidiaries that may affect its ability to meet or fulfil its financial or other obligations.

### 11.6 Cash flows

The following table sets out financial information extracted from the combined cash flow statement relating to the Group for the years ended 31 December 2011, 2010 and 2009, and for the six months ended 30 June 2012 and 2011. It has been extracted without material adjustment from, and should be read in conjunction with, Section 10 "Selected financial and other information" above and the Combined Financial Statements including the auditor's reports in respect of the Combined Financial Statements and the Interim Condensed Financial Information.

| | **Consolidated six months ended 30 June** | | **Combined year ended 31 December** | | |
|---|---|---|---|---|---|
| *In NOK million* | **2012** *(unaudited)* | **2011** *(unaudited)* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| Net cash (used in) / from operating activities | 258 | 147 | 536 | 452 | 504 |
| Net cash (used in) / from investing activities | -245 | -88 | -247 | -210 | -133 |
| Net cash (used in) / from financing activities | -81 | -59 | -214 | -148 | -465 |
| Net increase / (decrease) in cash and cash equivalents | -75 | -13 | 69 | 87 | -34 |
| Cash and cash equivalents at the end of the period | 421 | 414 | 496 | 427 | 340 |

#### *11.6.1 Operating activities*

Net cash generated from operating activities was NOK 258 million for the six-month period ended 30 June 2012, compared with net cash generated of NOK 147 million for the six-month period ended 30 June 2011. This increase was primarily due to a reduced increase in net working capital requirements of NOK 26 million for the period compared to an increase of NOK 178 million for the six -month period ended 30 June 2011. In the six months ended 30 June 2011, account receivables and inventories both increased significantly due to higher prices in Specialty Cellulose, increased sales volumes in Performance Chemicals and inventories increasing from a low level at year-end 2010. Borregaard defines net working capital as the cash generated or used by net changes in inventories, accounts payable, accounts receivable and other operational non-interest bearing balance sheet items related to operations (including VAT receivables, accruals and provisions, duties and taxes and holiday pay). Net cash was also modestly affected by lower taxes paid in 2012, with NOK 71 million being paid in the first half of 2012 compared to NOK 39 million for the first half of 2011.

Net cash generated from operating activities was NOK 536 million for the year ended 31 December 2011, compared with net cash generated of NOK 452 million for the year ended 31 December 2010. This increase was due to an increase in operating profit, partly offset by a NOK 75 million increase in net working capital requirements. The increase in net working capital was largely due to inventory levels returning to a more normalised level, rising by NOK 90 million in 2011, as a result of increased production and higher raw material prices. In addition, accounts receivable increased by NOK 91 million in 2011, mainly driven by price increases for specialty cellulose. On the other hand, net changes in accounts payable had a positive impact of NOK 35 million on net working capital in 2011 due to increased investments and higher raw material prices.

Net cash generated from operating activities was NOK 452 million for the year ended 31 December 2010, compared with net cash generated from operating activities of NOK 504 million for the year ended 31 December 2009. Cash flow was supported by an increase in operating profit and a decrease of NOK 17 million in net working capital requirements, from an already low base for net working capital in 2009. The decrease in net working capital in 2010 resulted from lower inventories, due to lower production and a decrease in accounts receivable as a result of stringent credit management policy actions. Net changes in accounts payable contributed NOK 30 million of cash impact in 2010 following increased investments after the financial crisis and focus on payment terms.

#### *11.6.2 Investing activities*

Net cash used in investing activities was NOK 245 million for the six-month period ended 30 June 2012, compared with net cash used of NOK 88 million for the six-month period ended 30 June 2011. Replacement investments in the first half of 2012 were NOK 170 million, which is a higher than normal level, but according to plan. The high spending was primarily a result of expenditure for the new waste water purification plant (see Section 8.8 "Production facilities and processes"). Other larger projects during the first half of 2012 were a multifuel boiler and the upgrade of the chlor-alkali plant. Expansion investments amounted to NOK 71 million and were mainly related to the BALI pilot plant and to some extent the Exilva pilot plant.

Net cash used in investing activities was NOK 247 million for the year ended 31 December 2011, compared with net cash used of NOK 210 million for the year ended 31 December 2010. Out of this, replacement investments were NOK 206 million in 2011, in line with Borregaard's target level of being at or below depreciation. Major projects were the new waste water purification plant and the upgrade of the chlor-alkali plant. Expansion investments amounted to NOK 45 million, mainly related to the BALI and Exilva projects.

Net cash used in investing activities was NOK 210 million for the year ended 31 December 2010, compared with net cash used of NOK 133 million for the year ended 31 December 2009. This increase was primarily a result of replacement investments returning to a normal level after being kept at a minimum level in 2009 in response to the financial crisis. Replacement investments were NOK 195 million in 2010, also in line with Borregaard's target level of being at or below depreciation. The major project in 2010 was the new control centre at the site in Sarpsborg. Expansion investments amounted to NOK 10 million, mainly related to the Exilva project.

#### *11.6.3 Financing activities*

The below discussion relates to financing activities for Borregaard as part of the Orkla group, and with Borregaard during the periods under review having been funded through loans from Orkla. Such funding will be refinanced through the Bank Facilities Agreements on or about the first day of Listing, as described in Section 8.9.3 "Material financing agreements".

Net cash used in financing activities was NOK 81 million for the six-month period ended 30 June 2012, compared with net cash used of NOK 59 million for the six-month period ended 30 June 2011. This increase was primarily due to the restructuring of the businesses now operated by Borregaard. Group contributions and dividends of NOK 714 million were offset by increasing the intercompany loan from Orkla of NOK 633 million.

Net cash used in financing activities was NOK 214 million for the year ended 31 December 2011, compared with net cash used of NOK 148 million for the year ended 31 December 2010. This increase was primarily a result of group contributions and dividend payments and changes in the intercompany loan with Orkla. In 2011, total group contributions and dividends amounted to NOK 149 million compared to NOK 609 million in 2010. In 2011 Borregaard reduced its loan balance by a net of NOK 65 million, while the net loan balance was increased by NOK 461 million in 2010.

Net cash used in financing activities was NOK 148 million for the year ended 31 December 2010, compared with net cash used of NOK 465 million for the year ended 31 December 2009. This increase was primarily a result of group contributions and dividend payments offset by a corresponding increase in mainly the intercompany loan with Orkla. In 2010 total group contributions and dividends amounted to NOK 609 million compared to NOK 214 million in 2009. In 2010, Borregaard's net loan balance was increased by NOK 461 million, compared to a decrease of the net loan balance by NOK 251 million in 2009.

## 11.7 Investments

### *11.7.1 Principal investment in progress and planned principal investments*

Investments, whether in the replacement or expansion category, are financed internally, i.e. from own cash flow or by drawing on available loan facilities, which for the period under review have been loans from Orkla. Borregaard expects principal investments in progress and planned principal investments to be financed from own cash flow. Borregaard has also obtained grants from various government agencies for several large projects. Major ongoing investment projects include the following:

- Borregaard is constructing a waste water purification plant in Sarpsborg in order to comply with new requirements on effluents released into the Glomma River. As of 30 June 2012, NOK 106 million of the estimated total cost of approximately NOK 205 million had been spent on the project. NOK 30 million of the funds for this project have and will come from a grant from Enova. The project is expected to be completed by mid 2013. See Section 8.11.2 "Sarpsborg wastewater discharge issues".

- Borregaard is upgrading its chlor-alkali plant in Sarpsborg, which is intended to reduce the risk of chlorine gas leakage by converting all chlorine to hydrochloric acid. As of 30 June 2012, NOK 41 million of the estimated total cost of approximately NOK 47 million had been spent on the project. The project is expected to be completed during 2012.

- Borregaard is replacing the existing heavy oil boiler in Sarpsborg for the production of peak-load thermal energy (steam) with a new multifuel boiler that is expected to utilise primarily natural gas with gas oil as a backup fuel source. As of 30 June 2012, NOK 12 million of the estimated total cost of approximately NOK 117 million had been spent on the project. NOK 37 million of the funds for this project will come from a grant from the Norwegian NOX fund. The project is expected to be completed during 2013.

- Borregaard is constructing a pilot plant in Sarpsborg for use in developing the BALI process and concepts. As of 30 June 2012, NOK 83 million of the estimated total cost of approximately NOK 130 million had been spent on the project. NOK 58 million of the funds for this project have and will come from a grant from Innovation Norway. The project is expected to be completed during 2012. See Section 8.6.3 "The BALI project".

- Borregaard is constructing a pilot plant in Sarpsborg to develop technology to produce microfibrillar cellulose. As of 30 June 2012, NOK 36 million of the estimated total cost of approximately NOK 47 million had been spent on the project. The project is expected to be completed during 2012. See Section 8.6.4 "The Exilva project".

Additional expansion investments are likely to relate to potential investments for commercial plants for the BALI and Exilva projects, as well as investments to expand the Performance Chemicals business generally.

### 11.7.2 Historical investments

The table below shows the principal historical investments of the Group as of 30 June 2012 and 31 December 2011, 2010 and 2009, including geographic location.

| In NOK million | Consolidated six months ended 30 June | Combined year ended 31 December | | |
|---|---|---|---|---|
| | 2012[1] (unaudited) | 2011 (unaudited) | 2010 (unaudited) | 2009 (unaudited) |
| Norway | 237 | 235 | 190 | 116 |
| Rest of Europe (excluding Norway) | 1 | 2 | 4 | 6 |
| Asia | 0 | 3 | 1 | 1 |
| America | 1 | 8 | 8 | 3 |
| Rest of the world | 1 | 3 | 2 | 2 |
| **Total** | **241** | **251** | **205** | **128** |
| - *Investments relating to replacements* | *170* | *206* | *195* | *120* |
| - *Investments relating to expansions* | *71* | *45* | *10* | *8* |

1 Derived from Company Books.

Most of Borregaard's investments are in Norway, where Borregaard's major production site is located.

For the six-month period ended 30 June 2012, total investments amounted to NOK 241 million, with NOK 170 million in replacement investments (consisting of both maintenance and environmental investments) and NOK 71 million in expansion investments. Borregaard aims to keep maintenance and environmental investments below the level of depreciation in each period, although the maintenance and environmental investments in the first six months of 2012 was above this level due to the investments related to new waste water purification plant and multifuel boiler at its site in Sarpsborg. Significant projects within expansion investments included the BALI pilot plant and the Exilva pilot plant.

For 2011, total investments amounted to NOK 251 million, with NOK 206 million in replacement investments and NOK 45 million in expansion investments. Major projects were the NOK 28 million investments related to the new waste water purification plant, NOK 30 million related to the upgrade of the chlor-alkali plant and NOK 14 million related to the upgrade of the lignin spray dryer plant. The remaining replacement investments consisted of many small projects of less than NOK 5 million each. Expansion investments were mainly related to the BALI and Exilva pilot plants.

For 2010, total investments amounted to NOK 205 million, with NOK 195 million in replacement investments and NOK 10 million in expansion investments. The major project in 2010 was investment of NOK 57 million related to the new control centre. The remaining replacement investments consisted of many small projects, most of them of an amount of less than NOK 5 million each, including an upgrade of the production control systems in several plants. Expansion investments were NOK 10 million, mainly related to the Exilva project

Investments were held back in 2009 due to the financial crisis, with NOK 128 million in total investments, of which NOK 120 million was replacement investments and only NOK 8 million was expansion investments.

## 11.8 Contractual cash obligations and other commitments

The following table sets out Borregaard's future payments of liabilities, including lease payments, with minimum payments within (1) 1 year, (2) 2-5 years, (3) after 5 years, as of 31 December 2011, 2010 and 2009.

| In NOK million | Combined as of 31 December | | |
|---|---|---|---|
| | 2011 (unaudited) | 2010 (unaudited) | 2009 (unaudited) |
| Minimum payment next year | -667 | -514 | -558 |
| Minimum payments 2-5 years | -2,060 | -2,160 | -298 |
| Minimum payments after 5 years | -6 | -18 | -1,408 |

Borregaard has entered into certain operational lease contracts, primarily related to the rental of machinery/plants, property, vehicles and certain other assets with total future minimum payments as of 31 December 2011 being NOK 127 million. See note 30 to the Combined Financial Statements. The above table includes the payment obligations under such operational lease contracts.

On 21 September 2012, Borregaard entered into the new Bank Facilities Agreements under which Borregaard intends to draw approximately NOK 1,100 million (out of the total NOK 1,800 million being made available under the said revolving loan facilities) on or about the first day of Listing, for the purpose of repaying all its outstanding debt to Orkla. Of Borregaard's total outstanding debt of NOK 2,432 million as of 30 June 2012, NOK 2,400 million was outstanding debt to Orkla. Under the Bank Facilities Agreements, the NOK 600 million facilities expires 21 September 2015 (approximately 3 years following the Listing) with the remaining facilities of NOK 1,200 million expiring on 21 September 2017 i.e. just under 5 years following the Listing. See Section 11.5 "Liquidity and capital resources".

### 11.9 Foreign exchange exposure and hedging strategy

The majority of Borregaard's sales are invoiced in USD or EUR while a very significant component of its costs is incurred in NOK. Consequently, Borregaard is exposed to operational currency risk, primarily associated with exchange rate fluctuations between USD, EUR and NOK.

In order to manage foreign currency risk exposure, Borregaard actively implements a hedging policy primarily aimed at increasing the short-term (9 months) predictability of earnings, thus providing a time window for price adjustments and other corrective actions. Subject to certain criteria being met, the hedging horizon may be extended to three years in order to lock in favourable margins. A substantial part of this exposure, defined as estimated net cash flow in major currencies (primarily USD and EUR), is routinely hedged on a rolling basis with a nine-month time horizon.

**Cash flow hedges** are typically based on estimated (projected) future operational net cash flow in major foreign currencies and can be separated into two categories:

- **Base Hedge** – 75% of estimated future net cash flows in major currencies (currently USD, EUR and SEK) on a rolling basis for the first six months and 50% for the subsequent three months. The main purpose of the Base Hedge is to allow sufficient time to implement price adjustments and other corrective actions.
- **Extended Hedge** – if the USD or EUR hedging rates exceed pre-agreed long-term levels, Borregaard hedges up to 75% of the first 24 months' estimated cash flows and up to 50% for the subsequent 12 months.

For cash flow associated with commercial sales or purchase contracts, i.e. legally binding mutual obligations with volume and price clearly defined, 100% of net currency exposure is hedged with a time horizon corresponding, in principle, to the duration of the contract. Such contracts are, however, rarely used for Borregaard sales.

**Balance sheet exposure** is the net value of assets and liabilities where the value is unambiguously denominated in foreign currency, for example, debt to suppliers, loans or other financial assets or liabilities. Since financial assets or liabilities are considered to be firm commitments they should be hedged 100%. This is done primarily using currency forward contracts.

Borregaard's functional and reporting currency is NOK. However, a large part of Borregaard's revenue is generated by operating subsidiaries with a functional currency other than NOK. As a result, any change in exchange rates between the functional currencies of the company's subsidiaries and the NOK affect its reported results of operations and assets and liabilities when the results of those subsidiaries are translated into NOK for reporting purpose. Fluctuations in the value of its subsidiaries' functional currencies against the NOK reduce or increase their contribution to, among other things, the company's revenues and profit and affect the reported amount of balance sheet items.

For additional information, see Section 11.11 "Quantitative and qualitative disclosure about financial risk".

### 11.10 No off-balance sheet arrangements

Borregaard has not entered into and is not party to any off-balance sheet arrangements.

### 11.11 Quantitative and qualitative disclosure about financial risk

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 Borregaard's financial policy.

Historically, responsibility for managing financial risk has been divided between Borregaard, which manage risk related to business processes, and Orkla's Group HQ, which manages risk related to centralised activities like funding, interest-rate management and currency risk management. Financial risk has also been monitored by the Orkla's Chief Risk Officer. Orkla has a central Group Treasury. Its most important tasks are to ensure the Orkla group's financial flexibility in the short and long term, and to monitor and manage financial risk in cooperation with individual operational entities.

Following the Offering, Borregaard intends to implement and manage risks using the guidelines and policies currently in force.

*Currency risk*

The majority of Borregaard's sales are invoiced in USD or EUR, while a very significant component of its costs is incurred in NOK. Consequently, Borregaard is exposed to operational currency risk, primarily associated with exchange rate fluctuations between USD, EUR and NOK. See Section 11.3.7 "Foreign currency exposure" and note 28 (Derivatives and hedging) to the Combined Financial Statements, attached hereto as Appendix B. Borregaard's aggregated outstanding currency hedges of future transactions as of 31 December 2011 are set out in the table below.

*In NOK million*

| Purchase currency | Amount | Sale currency | Amount | Maturity |
|---|---|---|---|---|
| NOK | 567 | USD | 99 | 2012 |
| NOK | 8 | USD | 1 | 2013 |
| NOK | 8 | USD | 1 | 2014 |
| USD | 5 | NOK | 29 | 2012 |
| EUR | 1 | USD | 2 | 2012 |
| NOK | 548 | EUR | 65 | 2012 |
| NOK | 333 | EUR | 39 | 2013 |
| EUR | 14 | NOK | 109 | 2012 |
| EUR | 2 | NOK | 17 | 2013 |
| SEK | 60 | NOK | 51 | 2012 |

Generally, the effect on the equity of financial instruments is expected to offset the effects of the hedged items where currency risk financial instruments are part of a hedging relationship. See note 27 (Financial risk) to the Combined Financial Statements, attached hereto as Appendix B. Borregaard is continuously evaluating its foreign currency exposure and its hedging policy is subject to change.

*Interest rate risk*

Borregaard's interest rate risk mainly arises from long-term borrowings, which historically have consisted of long-term loans from Orkla and with the interest risk being managed at parent level by Orkla. On or about the first day of Listing, Borregaard will have outstanding revolving loans of approximately NOK 1,100 million under the Bank Facilities Agreements, which bear interest at variable rates. The interest rate for the revolving loan facilities under the Bank Facilities Agreements is based on a specified margin for the loan made available for utilisation by Borregaard over an inter-bank interest rate applicable for the currency selected in relation to a loan, subject in each case to a ratchet up or down of the margin levels based on the level of Borregaard's leverage ratio. See Section 8.9.3 "Material financing agreements".

With the NOK 2,037 million of variable rate long-term net debt outstanding as of 30 June 2012, a hypothetical 100 basis point increase in interest rates would have a NOK 20 million unfavourable impact on Borregaard's pre-tax earnings, compared to NOK 10 million based on NOK 1,000 million long-term net debt outstanding following the Listing. The primary interest rate exposures on floating rate debt under the Bank Facilities Agreements are primarily expected to be with respect to NIBOR. Borregaard may consider fixed interest rates for a portion of its long-term debt through the use of derivatives.

*Commodity price risk*

Borregaard is exposed to price risks in respect of a number of raw materials, of which energy and wood are the most substantial. Borregaard has reduced the price risk with respect to energy through the long term energy contract with Eidsiva Vannkraft AS described in Section 11.3.6.2 "Energy".

*Liquidity risk*

Liquidity risk is the risk that Borregaard is not able to meet its payment obligations when due. The purpose of liquidity and current liability management is to make certain that Borregaard has sufficient funds available at all times to cover its financial obligations. Historically, this risk has been managed together with its parent company Orkla. Borregaard management has initiated measures, together with its sole shareholder, deemed necessary to maintain strong liquidity by obtaining current and non-current funding principally through both short-term loans and long-term loans from Orkla. Capital contributions have been made when necessary to achieve a robust and efficient capital structure for the Borregaard entities. Cash flow from operations, which among other factors is affected by changes in working capital, has been managed operationally at group level by Orkla, and has been relatively stable. Borregaard monitors liquidity flows, short- and long-term, through reporting. Due to the above-mentioned measures, Borregaard has had limited liquidity risk. See Section 11.5 "Liquidity and capital resources" for further details regarding Borregaard's liquidity and capital resources. Following the Offering, Borregaard intends to pursue risk management along the guidelines and policy currently in force.

*Credit risk*

Credit risk is the risk that the Borregaard's customers or counterparties will cause Borregaard financial loss by failing to honour their obligations. Credit risk mainly arises from credit exposures with customer accounts receivables and deposits with financial institutions.

The management of credit risk related to accounts receivable and other operating receivables is handled as part of business risk, and is continuously monitored by the operating entities. There is no significant concentration of credit risk in respect of single counterparties. A credit management policy is in place and is being regularly reviewed. 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 the credit risk. With these risk mitigation measures in place, the current credit risk is considered acceptable.

Historically, Borregaard has considered its credit risk related to other financial instruments to be low. Firstly, this is due to the fact that Borregaard has sought to minimise the liquid assets being deposited outside the Orkla group. Secondly, that its sole shareholder Orkla has been the only counterpart for financial hedge transactions. According to Orkla group policy, bank accounts have been mainly held with banks belonging to the group of Orkla relationship banks. For deposits of excess liquidity with other counterparts, Borregaard has requirements relating to the bank's credit rating. Following the Offering, Borregaard intends to pursue risk management along the guidelines and policy currently in force.

*Maximum credit risk*

The maximum credit exposure for Borregaard related to financial instruments corresponds to total gross receivables. In the hypothetical and unlikely event that no receivables are redeemed, this amounted to:

| | Combined year ended 31 December | | |
|---|---|---|---|
| *In NOK million* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| Cash and cash equivalents[1] | 496 | 427 | 340 |
| Accounts receivable | 550 | 459 | 489 |
| Other current receivables | 0 | 0 | 4 |
| Non-current receivables | 22 | 36 | 32 |
| Derivatives | 30 | 130 | 60 |
| **Total** | **1,098** | **1,052** | **925** |

1 Cash equivalents are mainly cash deposited with Orkla under the Orkla group's cash-pools.

## 11.12 Critical accounting policies and estimates

For a description of the key carve-out adjustments made in preparation of the Combined Financial Statements, see Section 11.2 "Presentation of financial information". Borregaard's significant accounting policies are summarised in note 4 to the Combined Financial Statements, attached hereto as Appendix B. Summarised below are those accounting policies that require management to apply judgements which management believes to have the most significant effect on the amounts recognised in the Financial Statements.

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.

### *11.12.1 Property, plant and equipment*

Property, plant and equipment are tangible items 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. The annual maintenance stop, of normally one week, is capitalised as part of property, plant and equipment and depreciated over a period of 12 months. Direct maintenance of assets is 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 are depreciated on a straight line basis over their useful life. Residual value is taken into account and the depreciation plan is 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 development / building of the Groups production facilities / properties are as principle added to the costs of assets if the amount is significant. Borregaard depreciates property, plant and equipment on a straight line basis at the following rates: buildings 2-4%, machinery, fixtures and fittings 5-15%, vehicles 15-25% and EDP equipment 16-33%. 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. 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. When estimating the remaining useful life and residual value, the management has considered expected remaining useful life for the relevant assets on experience / history from key personnel.

### *11.12.2 Goodwill and intangible assets*

Borregaard's goodwill amounting to NOK 55 million as of 31 December 2011 relates to the prior acquisitions of respectively LignoTech Brasil PLL, Brazil (owning lignin plant in Brazil) and Biotech Lignosulfonate Handels GmbH, Austria (owning a lignin plant in the Czech Republic). Goodwill is the residual value consisting of the difference between the purchase price and the capitalised value of an acquired company after a purchase price allocation has been carried out. The concept of goodwill comprises payment for expectations of synergy gains, assets related to employees, other intangible assets that do not qualify for capitalisation as a separate item, future super profit and the fact that deferred tax may not be discounted. Capitalised goodwill derives solely from acquisitions. Goodwill is capitalised based on recognition principles from purchase price allocations. 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. The impairment tests are based on estimates of the value of the cash-generating units to which goodwill has been allocated. The estimates are based on assumptions of anticipated future cash flows based on a selected discount rate. When estimating the net present value of future cash flows, the management considers the updated budget and the prognosis for the business involved.

### *11.12.3 Pension liabilities*

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, i.e. there is no liability to record 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 the reporting period.

Defined benefit pension plans are based on a promise by the company to the employees that they will receive a certain level of pension upon retirement, normally defined as a percentage of final pay. The company is responsible for the amount of the future pension benefit and the financial value of this obligation must be reported in the income statement and statement of financial position. The accrued liability is calculated on a straight-line accruals basis and is measured as the present value of the estimated future pension payments that are vested on the statement of financial position date. The capitalised net liability is the sum of the accrued pension liability minus the fair value of associated pension fund assets, adjusted for any actuarial gains and losses and changes in the plan. Changes in the liability for defined benefit plans due to changes in pension plans are reported in their entirety in the income statement in the case of changes that give rise to an immediate paid-up policy entitlement. Actuarial gains and losses are recognised in the income statement over the estimated average remaining vesting period for the part of the gains and losses that exceeds 10% of the greater of the gross pension liabilities or the gross pension plan assets. Gains and losses on curtailment or settlement of a defined benefit pension plan are recognised at the time of curtailment or settlement.

Borregaard has fixed the discount rate at the rate on high quality corporate bonds with the same lifetime as the pension liabilities (AA-rated corporate bonds). In countries where there is no deep market in such bonds (such as Norway), the market yields on government bonds are used, adjusted for the actual lifetime of the pension liabilities. In the case of Norway, the discount rate has been adjusted to the shorter average pension lifetime. As a rule, parameters such as wage growth, growth in G and inflation are set in accordance with recommendations in the various countries. The mortality estimate is based on up-to-date mortality tables for the various countries (K2005 in Norway).

#### *11.12.4 Research and development*

Research and development expenditure is the expense incurred by Borregaard in conducting research and development, studies of existing or new products, production processes, etc. in order to secure future earnings. Expenditure on research will always be expensed directly, while expenditure on development will be 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 under consideration at all times, but the number of projects that end in capitalisation is small. This is due to the considerable uncertainty throughout the decision-making process and the fact that only some of all projects culminate in commercial products. Furthermore, the 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 that development expenses can be capitalised, and that decision-making point comes at a late stage of the process. Amortisable intangible assets are amortised on a straight line basis at the following rates: Development 20% and other intangible assets 10-15%. Borregaard expensed NOK 56 million in 2011 in research and development costs, NOK 53 million in 2010 and NOK 49 million in 2009.

#### *11.12.5 Impairment of assets*

Borregaard has substantial non-current assets in the form of tangible (property, plant and equipment) and some minor intangible assets. Borregaard routinely monitors assets and if there are indications that the value of an asset is no longer recoverable, an impairment test will immediately 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). Evaluating whether an asset is impaired requires a high degree of judgement and may to a large extent depend upon the selection of key assumptions. Furthermore, estimating recoverable amounts in many cases involves complexity in estimating relevant future cash flows discounted to their present value. Impairment testing requires long-term assumptions to be made concerning a number of often volatile economic factors such as future market prices, currency exchange rates, discount rates and political and country risk among others, in order to establish expected future cash flows. Impairment testing frequently also requires judgement to be applied as regards applicable probabilities and probability distributions as well as levels of sensitivity inherent in the establishment of recoverable amount estimates.

### 11.13 Trend information

During 2012, Borregaard has had a relatively stable production in the overall volumes for specialty cellulose, vanillin and bioethanol products. The reduced production of lignin-based products in Brazil due to the stop of lignin raw material supply from Cambará to its lignin plant in Brazil (see Section 8.7.2 "Sourcing of the lignin feedstock") has been compensated for by increased volumes of lignin-based products produced at Borregaard's other sites. Borregaard's sales of lignin-based products by volume have increased during the year, while sales volumes of cellulose have been stable and sales of vanillin products are in total reduced.

Borregaard has experienced generally good market conditions during the third quarter of 2012. However, it has observed some soft spots and increased competition in the markets for specialty cellulose that have resulted in a weaker product mix, with increased sales of viscose grades. Raw material and energy costs have been reduced compared with the first half of the year.

In the near term, there is an increased uncertainty for the specialty cellulose markets. A generally weaker economic climate together with a weak EUR is expected to have a negative impact on profitability.

The medium to longer term outlook for Borregaard will be driven by, *inter alia*, general economic development, effects from Borregaard's continued specialisation strategy and productivity efforts, as well as demand/supply developments and competitive dynamics for specialty cellulose. As further described in Section 7.3.2 "Markets and applications", Borregaard's strong performance in 2011 was materially influenced by a sharp increase in the price of viscose grade cellulose, caused by significant imbalance between supply and demand in the textile market, high cotton prices, reduced volumes of cotton linters and high activity within several of the industries to which specialty cellulose is exposed, all of which resulted in a sharp price increase for specialty cellulose in 2011. While prices for viscose-grade cellulose subsequently have fallen back closer to long term averages driven by increased capacity in the supply of viscose grade cellulose and a return to more normal cotton markets, prices in the specialty cellulose market in the first half of 2012 remained close to the highs seen in 2011. However, the specialty cellulose industry is facing cyclical end-markets like the construction industry and, in addition, some of Borregaard's largest competitors have announced plans for major investments in specialty cellulose expansions, with increased capacity of approximately 270,000 mt in aggregate expected to come on stream in 2013 and 2014. While far from certain, these factors can be expected to have a negative impact on the results of the specialty cellulose segment in the medium to longer term, which while difficult to quantify, may be material.

Borregaard's objective is to deliver sustainable profitability that supports its strategy and dividend policy and a return on capital above the peer average in specialty chemicals. The peer group has had a return on capital employed through the business cycle in the range 12-15%.

### 11.14 Significant changes

Except for the refinancing of Borregaard and the transfer by the Selling Shareholder of Borregaard AS to Borregaard ASA as described in Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing", there have been no significant changes in the financial or trading position of Borregaard since the date of the Interim Condensed Financial Information, which has been included in this Prospectus.

# 12 BOARD OF DIRECTORS, MANAGEMENT, EMPLOYEES AND CORPORATE GOVERNANCE

## 12.1 Introduction

The General Meeting is the highest authority of the Company. All shareholders in the Company are entitled to attend and vote at General Meetings of the Company and to table draft resolutions for items to be included on the agenda for a General Meeting.

The overall management of Borregaard is vested in the Company's board of directors (the "**Board of Directors**") and Borregaard's senior management team (the "**Management**"). In accordance with Norwegian law, the Board of Directors is responsible for, among other things, supervising the general and day-to-day management of Borregaard's business ensuring proper organisation, preparing plans and budgets for its activities ensuring that Borregaard's activities, accounts and assets management are subject to adequate controls and undertaking investigations necessary to perform its duties.

Borregaard has agreed with its employees not to establish a corporate assembly, a supervisory body contemplated under the Norwegian Public Limited Companies Act for companies with more than 200 employees and which, among other things, elects the Board of Directors. Under Norwegian corporate law, a corporate assembly serves as another layer of oversight over a company, between the board of directors and shareholders. Norwegian law provides that the employees of a Norwegian limited liability company with more than 200 employees and no corporate assembly may elect up to one-third of the members of the board of directors (with a minimum of two members of the board of directors) plus an additional board member or two board observers. As a result of the decision not to have a corporate assembly, the Board of Directors will, in accordance with Norwegian law, be elected at general meetings and will assume all responsibilities otherwise attributable to the corporate assembly. In addition, Borregaard's Norwegian employees will have the right to elect two board members and two observers to the Board of Directors in accordance with Norwegian law (the Regulation Relating to Employee Representation dated 18 December 1998) and subject to the consent by the Norwegian Industrial Democracy Board (*Nw.: Bedriftsdemokratinemnda*). The employee-elected members shall be elected by and among Borregaard's Norwegian employees.

From the first day of Listing, the Board of Directors will have two sub-committees: an audit committee and a remuneration committee. In addition, the Company's Articles of Association provide for a nomination committee.

The Management is responsible for the day-to-day management of Borregaard's operations in accordance with Norwegian law and instructions set out by the Board of Directors. Among other responsibilities, Borregaard's chief executive officer, or CEO, is responsible for keeping Borregaard's accounts in accordance with existing Norwegian legislation and regulations and for managing Borregaard's assets in a responsible manner. In addition, the CEO must according to Norwegian law brief the Board of Directors about Borregaard's activities, financial position and operating results at a minimum of one time per month.

## 12.2 Board of Directors

### *12.2.1 Overview of the Board of Directors*

The Company's Articles of Association provide that the Board of Directors shall consist of a minimum of three and a maximum of ten members ("**Board Members**").

As of the date of this Prospectus, the Company has an interim Board of Directors composed of 3 shareholder-elected members, who will serve as members of the Board of Directors only up to the first day of Listing (the "**Interim Board Members**"). The names and positions of the Interim Board Members are set out in the table below. Terje Andersen and Jan Oksum will continue to serve as Board Members and will, together with the three new independent shareholder-elected Board Members and, subject to the consent of the Norwegian Industrial Democracy Board, the two employee-elected board members and two observers, form the new Board of Directors from the first day of Listing (the "**New Board of Directors**"). The New Board of Directors will thus consist of five shareholder-elected members. In addition, the employees will have the right to elect two board members and two observers having the right to attend but not to vote at board meetings. The five shareholder-elected Board Members have been elected for a term which will expire at the Company's annual General Meeting in 2013.

The composition of the New Board of Directors will, as of the first day of Listing, be in compliance with the independence requirements of the Norwegian Code of Practice for Corporate Governance dated 21 October 2010, as amended, (the "**Corporate Governance Code**"), meaning that (i) the majority of the shareholder elected members of the Board of Directors should be independent of the company's executive management and material business contacts, (ii) at least two of the shareholder elected board members should be independent of the company's main shareholders, and (iii) no members of the Company's executive management should serve on the Board of Directors.

Two of the shareholder-elected Interim Board Members are employed by the Company's indirect sole shareholder, Orkla. All shareholder-elected Board Members, as at the first day of Listing, will be independent of the Company's significant business relations and large shareholders (shareholders holding more than 10% of the Shares in the Company), except for Mr. Terje Andersen who is an employee of Orkla. All of the Board Members are independent from the Management. Management is not represented on the interim Board of Directors or on the New Board of Directors.

The Company's registered business address, Hjalmar Wessels vei 10, 1721 Sarpsborg, Norway, serves as the c/o address for the members of the Board of Directors in relation to their directorship of the Company. As at the date of this Prospectus, none of the Board Members (interim or new) holds any Shares, options or other rights to acquire Shares. Some Board Members may hold shares in Orkla.

All Board Members are eligible to and may participate in the Retail Offering.

### *12.2.2 The interim Board of Directors*

The names and positions of the Interim Board Members are set out in the table below.

| Name | Position | Served since | Term expires[10] |
|---|---|---|---|
| Terje Andersen | Chairman | Incorporation | 2013 |
| Jan Anders Oksum | Board member | Incorporation | 2013 |
| Veronica Skevik | Board member | Incorporation | Day before Listing |

### *12.2.3 Brief biographies of the Interim Board Members*

Set out below are brief biographies of the Interim Board Members, including their relevant management expertise and experience, an indication of any significant principal activities performed by them outside Borregaard and names of companies and partnerships of which an Interim Board Members is or has been a member of the administrative, management or supervisory bodies or partner in the previous five years (not including directorships and executive management positions in subsidiaries of the Company).

**Terje Andersen, Chairman**

Terje Andersen is CFO of Orkla ASA and has served in his present position since 2004. Since 1989, Mr. Andersen has assumed various positions within the Orkla group, including Commercial Director of Lilleborg AS, CFO of Orkla Brands and Senior Vice President of Corporate Finance in Orkla ASA. Prior to joining the Orkla group, Mr. Andersen has experience from Nevi Finans AS and as Management Consultant in Deloitte Touche. Mr. Andersen holds a degree in Business Administration (siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen, Norway.

| | |
|---|---|
| *Current directorships and senior management positions* | Sapa AB (member of the board of directors), Viking Askim AS (chairman of the board of directors), Bremanger Eiendom AS (chairman of the board of directors), Bjølvefossen Eiendom AS (chairman of the board of directors), Prosjektet KT AS (chairman of the board of directors), Meraker Eiendom AS (chairman of the board of directors), Meraker Eiendom Holding AS (chairman of the board of directors), VFOT AS (chairman of the board of directors), Reach Media AS (chairman of the board of directors) KA Mangan Management AS (chairman of the board of directors), ALNO Eiendom AS (chairman of the board of directors), Energi Handel Holding AS (chairman of the board of directors), Industriinvesteringer AS (chairman of the board of directors), Orkla Energi AS (chairman of the board of directors), Orkla Brands AS (member of the board of directors), Storebrand ASA (member of the board of representatives) and Orkla Shared Services AS (chairman of the board of directors). |

[10] In accordance with Section 6-6 of the Norwegian Public Limited Companies Act and related secondary legislation, the term in office of the Company's shareholder-elected and employee-elected board members expires at the conclusion of the ordinary general meeting in the year of which the period in office expires.

| | |
|---|---|
| *Previous directorships and senior management positions last five years* | Trælandsfos Holding AS (chairman of the board of directors), Elkem AS (member of the board of directors) and Elkem Solar AS (member of the board of directors). |

**Jan Anders Oksum, Board member**

Jan Anders Oksum has been a member of the board of directors in BIL since 2007. Mr. Oksum is an independent consultant giving advice to senior managements regarding organisational and leadership development, strategy and project execution at JAAG Consult AS. Mr. Oksum was CEO of Norske Skogindustrier ASA from 2004 to 2006. After joining Norske Skogindustrier ASA in 1979, Mr. Oksum has held various positions including Research Manager, Plant Manager and positions within business and strategy development. He has served as Chairman and Director of various national and international companies, and has extensive experience in the leadership and management of complex global organisations. Mr. Oksum holds a degree in Chemical Engineering from the Norwegian University of Science and Technology in Trondheim, Norway.

| | |
|---|---|
| *Current directorships and senior management positions* | Chemring Nobel AS (member of the board of directors), Norconsult Holding AS (deputy chairman of the board of directors), Norconsult AS (deputy chairman of the board of directors), Hafslund Pellets Holding AS (member of the board of directors), Biowood Norway AS (chairman of the board of directors), JAAG Consult AS (chairman of the board of directors and managing director) and Elopak AS (member of the board of directors. |
| *Previous directorships and senior management positions last five years* | Nuclear Protection Products AS (chairman of the board of directors and managing director), Sødra Cell AB (member of the board of directors), Gulliksen, Holmen & Co AS (Chairman of the board of directors) and Estate Media AS (chairman of the board of directors). |

**Veronica Skevik, Board member**

Veronica Skevik holds the position of Deputy Chief Auditor in Orkla ASA, a position she has held since joining Orkla ASA in 2009. Prior to joining Orkla, Mrs. Skevik worked for KPMG for over ten years holding various positions, including senior auditor, senior associate and manager of audit. Mrs. Skevik was senior manager of audit in her final three years at KPMG. Mrs. Skevik holds a degree in Audit from Trondheim Business School in Trondheim, Norway, as well as a Norwegian State Authorised Public Accountant degree from the Norwegian School of Economics in Bergen, Norway.

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|---|---|
| *Current directorships and senior management positions* | None. |
| *Previous directorships and senior management positions last five years* | None. |

### *12.2.4 The New Board of Directors*

The names and positions of the members of the New Board of Directors are set out in the table below.

| Name | Position | Served since | Term expires[11] |
|---|---|---|---|
| Jan Oksum | TBC | Incorporation | 2013 |
| Terje Andersen | TBC | Incorporation | 2013 |
| Jan Erik Korssjøen | Board member | First day of Listing | 2013 |
| Kristine Ryssdal | Board member | First day of Listing | 2013 |
| Kimberly Lein-Mathiesen | Board member | First day of Listing | 2013 |

### *12.2.5 Brief biographies of the shareholder-elected members of the New Board of Directors*

Set out below are brief biographies of the shareholder-elected members of the New Board of Directors, including their relevant management expertise and experience, an indication of any significant principal activities performed by them outside Borregaard and names of companies and partnerships of which a member of the New Board of Directors is or

[11] In accordance with Section 6-6 of the Norwegian Public Limited Companies Act and related secondary legislation, the term in office of the Company's shareholder-elected and employee-elected board members expires at the conclusion of the ordinary general meeting in the year of which the period in office expires.

has been a member of the administrative, management or supervisory bodies or partner the previous five years (not including directorships and executive management positions in subsidiaries of the Company).

**Jan Oksum,**

See information in Section 12.2.3 "Brief biographies of the Interim Board Members", above.

**Terje Andersen,**

See information in Section 12.2.3 "Brief biographies of the Interim Board Members", above.

**Jan Erik Korssjøen, Board member**

Jan Erik Korssjøen has been a member of the Board of Directors in Cermaq ASA since 2009 and currently also holds the position as Industrial Professor at Buskerud University College. Mr. Korssjøen was CEO of Kongsberg Gruppen from 1999-2008, and has previously held a number of management positions in the Kongsberg Industry and Kongsberg Gruppen. Mr. Korssjøen holds a Masters' degree in Mechanical Engineering from the Norwegian University of Science and Technology in Trondheim.

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|---|---|
| *Current directorships and senior management positions* ................ | Cermaq ASA (member of the board of directors), Aerospace Industrial Maintenance Norway Sf (AIM Norway AS) (member of the board of directors), Kongsberg Utvikling AS (chairman of the board of directors), Plan Norway (chairman of the board of directors) and Oslofjordfondet (member of the board of directors). |
| *Previous directorships and senior management positions last five years* ........................................................................................ | Telenor ASA (chairman of the corporate assembly) and SINTEF (chairman of the board of directors). |

**Kristine Ryssdal, Board member**

Kristine Ryssdal has been with Statoil ASA since 2012, holding the position as VP Legal. Prior to joining Statoil, Ms. Ryssdal served as the Senior Vice President and Chief Legal Officer of Renewable Energy Corporation ASA. Prior to her position at Renewable Energy Corporation, Ms. Ryssdal held various positions including Attorney of the Norwegian Attorney General's Office, Legal Counsel for Norsk Hydro ASA and senior advisor for Commercial and Legal affairs of Norsk Hydro Canada Oil & Gas Inc. Ms. Ryssdal holds a Cand. Jur. degree from the University of Oslo and a Master of Laws from the London School of Economics.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | None. |
| *Previous directorships and senior management positions last five years* ........................................................................................ | REC Wafer Norway AS (member of the board of directors), REC Solar AS (member of the board of directors) and REC Silicon AS (member of the board of directors). |

**Kimberly Lein-Mathisen, Board member**

Kimberly Lein-Mathisen has been with Eli Lilly & CO since 2001, currently as Global Alliance Leader. Prior to becoming the head of Lilly's largest global partnership, Ms. Lein-Mathisen has assumed various positions within Eli Lilly & Co including General Manager in Germany, Managing Director in Norway, Strategic Consultant European Operations, Brand Manager and District Sales Manager, Lilly UK. Previous to Lilly, Ms. Lein-Mathisen worked for Procter & Gamble in the USA in various positions, including Manufacturing Department Manager. Ms. Lein-Mathisen has experience from boards both in Norway and internationally, including serving as a member of the Board of Directors in Dagens Næringsliv AS since 2011 and in Kappa Bioscience AS since 2009. Ms. Lein-Mathisen holds a MBA degree from Harvard Business School and a Bachelor of Science in Engineering from the University of Illinois.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | Dagens Næringsliv AS (member of the board of directors),Kappa Bioscience AS (member of the board of directors) and Advisor FSN Capital. American Chamber of Commerce, Norway (member of the board of directors). |
| *Previous directorships and senior management positions last five years* ........................................................................................ | Lilly Deutschland GmbH (member of the board of directors and General Manager). American Chamber of Commerce, Germany (member of the board of directors). |

## 12.3 Management

### *12.3.1 Overview*

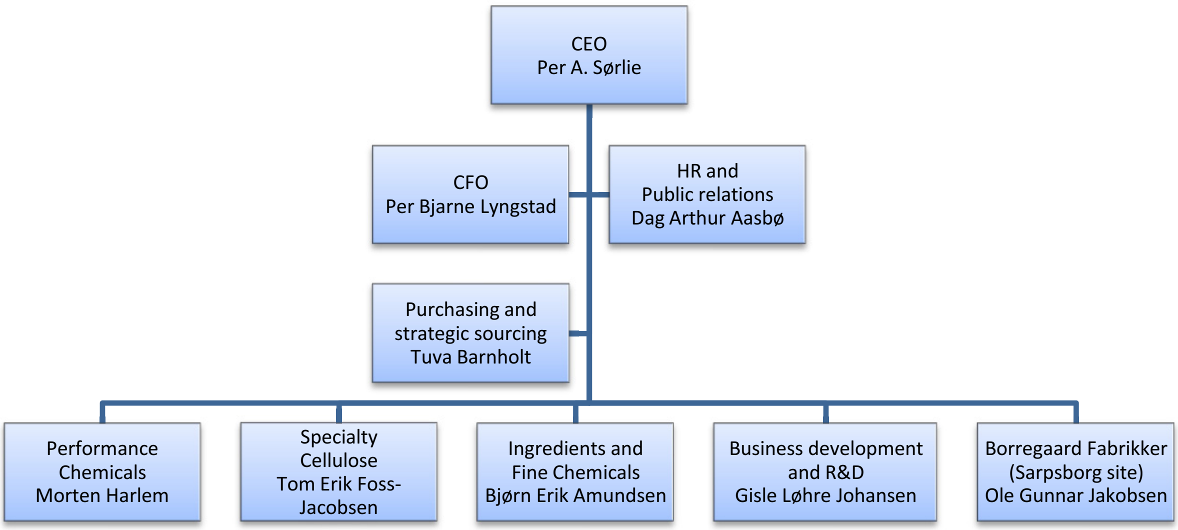
Borregaard's senior management team consists of nine individuals. As of the date of this Prospectus, no member of Management holds any Shares, options or other rights to acquire Shares. Some members of Management may hold shares or rights to acquire shares in Orkla. All members of Management are eligible to and may participate in the Retail Offering.

The names of the members of Management as of the date of this Prospectus, and their respective positions, are presented in the table below:

| Name | Current position within the Group | Employed with the Group since |
|---|---|---|
| Per Arthur Sørlie | Chief Executive Officer | 1990 |
| Per Bjarne Lyngstad | Chief Financial Officer | 1988 |
| Dag Arthur Aasbø | Senior Vice President of HR and Public Relations | 1993 |
| Tuva Barnholt | Senior Vice President of Purchasing and Strategic Sourcing | 1998 |
| Morten Harlem | Executive Vice President, Performance Chemicals (business area) | 1996 |
| Tom Erik Foss-Jacobsen | Executive Vice President, Speciality Cellulose (business area) | 1996 |
| Bjørn Erik Amundsen | Executive Vice President, Ingredients and Fine Chemicals | 1991 |
| Gisle Løhre Johansen | Senior Vice President of Business Development and Research and Development | 1991 |
| Ole Gunnar Jakobsen | Plant Director of Borregaard Fabrikker (Sarpsborg site) | 1995 |

The Company's registered business address, Hjalmar Wessels vei 10, 1721 Sarpsborg, Norway, serves as c/o address for the members of Management in relation to their employment with Borregaard.

The following chart sets out Management's organisational structure:




### *12.3.2 Brief biographies of the members of Management*

Set out below are brief biographies of the members of Management, including their relevant management expertise and experience, an indication of any significant principal activities performed by them outside Borregaard and names of companies and partnerships of which a member of Management is or has been a member of the administrative, management or supervisory bodies or partner the previous five years (not including directorships and executive management positions in subsidiaries of the Company).

**Per Arthur Sørlie, President and Chief Executive Officer**

Per Arthur Sørlie has been with Borregaard since 1990 and was appointed as president and CEO in 1999. Prior to his appointment as president and CEO, he has served Borregaard as CFO (1990–1993), Deputy CEO (1992–1999) and Executive Vice President of the Fine Chemicals division of Borregaard (1993–1999). Previously, Per Arthur Sørlie held positions as CFO at Bjølsen Valsemølle and Hafslund's US operations. Mr. Sørlie holds a degree in Business Administration (siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen, Norway.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | SAMPO Plc (member of the board of directors), Norsk Industri (chairman of the board of directors), Denomega Nutritional Oils AS (member of the board of directors), Inspiria Eiendom AS (member of the board of directors), Inspiria Science Center AS (member of the board of directors) and Inspiria Utvikling AS (member of the board of directors). |
| *Previous directorships and senior management positions last five years* ........................................................................................ | TOMRA ASA (vice chairman of the board of directors), Elkem AS (member of the board of directors), Attisholz Infra AG (member of the board of directors), Mossefossen AS (chairman of the board of directors and managing director) and Øraveien Industripark AS (member of the board of directors). |

**Per Bjarne Lyngstad, Senior Vice President and Chief Financial Officer**

Per Bjarne Lyngstad has been with Borregaard since 1988 and was appointed as CFO and Senior Vice President in 1998. Prior to his appointment as CFO and Senior Vice President, he has assumed various finance and administration roles in Borregaard and LignoTech USA. Mr. Lyngstad holds a Master of Science degree (siviløkonom HAE) from the Norwegian School of Economics and Business Administration in Bergen, Norway.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | None. |
| *Previous directorships and senior management positions last five years* ........................................................................................ | Trælandsfos AS (member of the board of directors), Mossefossen AS (member of the board of directors), Mossefossen Kraftverk ANS (member of the board of directors), Attisholz Infra AG (member of the board of directors), Orkla Shared Services AS (member of the board of directors) and Atisholz AB (previously LignoTech Sweden AB) (member of the board of directors). |

**Dag Arthur Aasbø, Senior Vice President, HR and Public relations**

Dag Arthur Aasbø has been Senior Vice President of HR Public relations since 2008. Since joining Borregaard in 1993, he has assumed roles in Borregaard relating to communications and public affairs. Mr. Aasbø also has experience in editor / communication management roles in various organisations. Mr. Aasbø holds a Bachelor's Degree in Business Administration from the Norwegian Business School (BI) in addition to studies in Communications and Journalism / Religion and Ethics.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | Bever Control AS (member of the board of directors), Borg Næringsutvikling AS (member of the board of directors) and Forum for Miljøteknologi (member of the board of directors). |
| *Previous directorships and senior management positions last five years* ........................................................................................ | NHO Østfold (chairman of the board of directors) and Vekst i Sarpsborg (board member). |

**Tuva Barnholt, Senior Vice President, Purchasing and strategic sourcing**

Tuva Barnholt has been Senior Vice President, Purchasing and Strategic Sourcing since 2005. Since joining Borregaard in 1998, she has assumed various roles 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.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | NSB AS (member of the board of directors), Treforedlingens bransjeforening (chairman of the board of directors) and Confederation of European Paper Industries (member of the board of directors). |
| *Previous directorships and senior management positions last five years* ........................................................................................ | Elkem AS (member of the board of directors), Elkem Solar AS (member of the board of directors) and Mesta AS (member of the board of directors). |

**Morten Harlem, Executive Vice President, Performance Chemicals (business area)**

Morten Harlem has served as Executive Vice President of Borregaard's Performance Chemicals business area since 2003. Since joining Borregaard in 1994, he has assumed various roles in sales and marketing. Previously, Mr. Harlem held positions in various marketing roles with Nutreco. Mr. Harlem holds a Master of Science in Business Administration from the University of Colorado, Boulder.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | None. |
| *Previous directorships and senior management positions last five years* .............. | Atisholz AB (previously LignoTech Sweden AB) (chairman of the board of directors). |

**Tom Erik Foss-Jacobsen, Executive Vice President, Specialty Cellulose (business area)**

Tom Erik Foss-Jacobsen has served as Executive Vice President of Borregaard's Specialty Cellulose business area since 2007. Since joining Borregaard in 1996, he has assumed various roles in sales and marketing. Previously, Mr. Foss-Jacobsen was a product manager for the Coca-Cola products at Borg Bryggerier. Mr. Foss-Jacobsen has a Master of Science Degree in International Marketing and Strategy from the Norwegian Business School (BI) and a Bachelor's Degree in Civil Engineering.

| | |
|---|---|
| *Current directorships and management positions* .......................... | None. |
| *Previous directorships and management positions last five years* ..... | None. |

**Bjørn Erik Amundsen, Executive Vice President, Ingredients and Fine Chemicals**

Bjørn Erik Amundsen has served as Executive Vice President of Borregaard's Ingredients and Fine Chemicals business since 2003. Since joining Borregaard in 1991, he has assumed different positions within finance and management including General Manager for Borregaard's business in Singapore / Asia. Mr. Amundsen holds a degree in Business Administration (siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen, Norway.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | Denomega Nutritional Oils AS (chairman of the board of directors). |
| *Previous directorships and senior management positions last five years* .............. | Borregaard Italia Srl (chairman of the board of directors) and CBM Italia Srl (chairman of the board of directors). |

**Gisle Løhre Johansen, Senior Vice President, Business development and Research & Development**

Gisle Løhre Johansen has served as Senior Vice President, Business development / Research & Development since 2007. Since joining Borregaard in 1991, he has assumed various positions including Site Manager of Borregaard Sarpsborg (1999–2005) and Site Director of Borregaard Switzerland and Sarpsborg (2006–2007). Mr. Johansen holds a Master's Degree in Organic Chemistry from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | Wallenberg Wood Science Center (member of the board of directors) and Norsk Bioenergiforening (NOBIO) (deputy chairman of the board of directors). |
| *Previous directorships and senior management positions last five years* .............. | Uniol AS (member of the board of directors). |

**Ole Gunnar Jakobsen, Plant Director of Borregaard Fabrikker**

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 Degree in Mechanical Engineering and a Master's Degree in Process Engineering from Telemark University College (HiT) in Porsgrunn, Norway.

| | |
|---|---|
| *Current directorships and senior management positions* ................ | None. |
| *Previous directorships and senior management positions last five years* .............. | None. |

## 12.4 Remuneration and benefits

No compensation has been paid or will be paid to the Board Members for the period up to the first day of Listing. Compensation to members of the New Board of Directors for the period from the first day of Listing and up to the date of the annual General Meeting of the Company's shareholders in 2013 will be determined by the shareholders at such meeting and such determination shall have retrospective effect. Thereafter, compensation will be determined on an annual basis by the shareholders at the Company's annual General Meeting.

The members of Management were employed by BIL before being transferred to Borregaard AS in connection with the Restructuring (as defined below in Section 15.2 "Overview of the Restructuring") on 1 April 2012, and maintained their salary and other benefits. Per Arthur Sørlie entered into a new employment contract with Borregaard AS to reflect the transfer of employment from BIL to Borregaard AS.

Members of Management have been granted stay-on bonuses equalling 12 months' salary in connection with the Restructuring which are conditional upon each member of Management's continued employment up to the earlier of the closing of a sale / IPO of Borregaard or 1 March 2013. The stay-on bonuses are payable within two months after the earlier of such dates; however, the CEO's bonus is payable on the earlier of such dates.

Following the Listing, the New Board of Directors will review the remuneration packages for the Management; however, until new remuneration packages are put in place, the remuneration packages for all members of Management will remain the same as those in place immediately prior to Listing. In addition, following the Listing, members of Management may receive cash bonuses and / or share options from Borregaard. For more information, see Section 12.5 "Bonus programme / share incentive schemes for Management".

The remuneration paid to the members of the current Management in 2011 was NOK 20 million. The table below sets out the remuneration of Borregaard's Management (to the CEO and the other members of Management, respectively) in 2011. For further information, see note 9 to the Combined Financial Statements.

| Name | Salary | Share based payments | Pensions costs |
|---|---|---|---|
| CEO (*NOK*) ........................................................ | 3,183,000 | 425,000 | 309,000 |
| Other members of Management (*NOK*)................. | 16,909,000 | 2,289,000 | 977,000 |
| Number of Orkla options to CEO 31 December ....... | 180,000 | - | - |
| Number of Orkla options to other members of Management 31 December ................................. | 970,000 | - | - |

### 12.5 Bonus programme / share incentive schemes for Management

Members of Management will until 31 December 2012 continue to take part in an existing annual bonus programme that rewards improved results. Under this system, a "good performance", which is specifically defined for the various elements (all elements are linked to Borregaard's performance), can result in an annual bonus of 30% of an employee's base salary, while the maximum bonus is 100% of base salary. Bonuses awarded to members of Management under this bonus scheme are paid by Borregaard. Currently, no bonus programme has been implemented for Borregaard for 2013. Following the Listing, the New Board of Directors will determine whether a bonus programme for 2013 shall be implemented and the terms of such programme.

In order to strengthen the common interests between the Management and Borregaard's shareholders after the Listing, the Board of Directors, in consultation with the shareholder-elected members of the New Board of Directors, have determined to offer those members of Management and key employees that currently are part of Orkla's share incentive programme the following share options:

- Members of Management and other key employees (in total 19 persons) will in the aggregate be offered 1,590,000 options for Shares in exchange for the options they currently hold under Orkla's share incentive programme, such options being offered in the same proportion as such employees currently hold options over shares in Orkla. The strike price will be equal to the volume weighted average trading price of the Shares on the first day of trading after announcement of Borregaard's results for third quarter 2012.
- In addition, members of Management will be offered 950,000 new options for Shares at a strike price of NOK 22.50.

The options will be granted on the first day of Listing and will vest 12 months after grant, and may be exercised at any time thereafter in whole or in part up to and including 31 October 2016, provided that the holder at the time of exercise is employed in the Borregaard Group or, if such employment is terminated, the time of exercise is during the agreed post-employment salary period. However, the right of exercise is limited so that the maximum gain, calculated as the difference between the strike price and the market price at the time of exercise, in aggregate under both programmes during the exercise period shall not exceed the aggregate annual base salary in the same period. For the CEO, the maximum gain shall not exceed two times the CEO's aggregate annual base salary in the exercise period.

Members of Management are expected to use 50% of their net proceeds from the exercise of options to purchase Shares until the individual member's holding of Shares has a market value equivalent to a minimum of one year's gross annual salary. Borregaard's CEO is expected to increase his shareholding accordingly until it reaches a market value of a minimum of two years' gross annual salary.

The strike price for the options shall be adjusted in the event that the share capital of the Company or the nominal value of the Shares is changed or if other equity transactions are carried out that have a direct effect on the value of the Shares. The strike price shall also be adjusted for any dividends paid, whether in cash or in kind.

If the Shares are delisted from trading on the Oslo Stock Exchange, the Shares cease to exist or an agreement or agreements are entered into, as a result of which Borregaard becomes owned or controlled by one shareholder or two or more shareholders who can be consolidated with one another, pursuant to section 6-5, first paragraph, of the Norwegian Securities Trading Act, all options (including options that cannot yet be exercised) shall be deemed to have been exercised.

The Board of Directors has been granted an authorisation to issue shares or to acquire treasury shares for the purpose of, *inter alia*, implementing such share incentive programme. See Section 16.6 "Authorisation to increase the share capital and to issue Shares" and Section 16.7 "Authorisation to acquire treasury shares". In addition, as an alternative to physical settlement of options having been exercised, Borregaard has the right to pay out to the relevant holder a cash amount based on the difference between the strike price and the closing price of the Borregaard Share on the date of exercise.

The table below sets out the options granted to members of Management, including their total holding of options:

| Name | Converted Orkla options | New options | Total holdings of options | Exercise period[1] |
|---|---|---|---|---|
| Per Arthur Sørlie | 180,000 | 250,000 | 430,000 | 18 October 2013 - 31 October 2016 |
| Per Bjarne Lyngstad | 105,000 | 100,000 | 205,000 | 18 October 2013 - 31 October 2016 |
| Dag Arthur Aasbø | 110,000 | 75,000 | 185,000 | 18 October 2013 - 31 October 2016 |
| Tuva Barnholt | 115,000 | 75,000 | 190,000 | 18 October 2013 - 31 October 2016 |
| Morten Harlem | 125,000 | 100,000 | 225,000 | 18 October 2013 - 31 October 2016 |
| Tom Erik Foss-Jacobsen | 115,000 | 100,000 | 215,000 | 18 October 2013 - 31 October 2016 |
| Bjørn Erik Amundsen | 110,000 | 100,000 | 210,000 | 18 October 2013 - 31 October 2016 |
| Gisle Løhre Johansen | 110,000 | 75,000 | 185,000 | 18 October 2013 - 31 October 2016 |
| Ole Gunnar Jakobsen | 135,000 | 75,000 | 210,000 | 18 October 2013 - 31 October 2016 |

1 Assuming first day of Listing on 18 October 2012

### 12.6 Benefits upon termination

No employee, including any member of Management, has entered into employment agreements which provide for any special benefits upon termination, except for Per Arthur Sørlie and Gisle Løhre Johansen. Per Arthur Sørlie and Gisle Løhre Johansen have waived their protection against notice in exchange for severance pay corresponding to 18 and 12 months' base salary, respectively, including all agreed benefits in addition to salary in the notice period of six and three months, respectively, if the employment is terminated by Borregaard or, for Mr. Sørlie, if Borregaard and Mr. Sørlie mutually agree to terminate the employment before he reaches the age of 65. If Mr. Sørlie or Mr. Johansen post termination takes up employment or starts a business outside Borregaard, 75% of their income shall be deducted from the severance pay paid by Borregaard.

None of the members of the New Board of Directors, not being employees of Orkla or Borregaard, will have service contracts and none will be entitled to any benefits upon termination of office.

### 12.7 Pensions and retirement benefits

For the year ended 31 December 2011, the cost of pensions for members of Management was NOK 1,286,000. Other than the employee-elected members of the Board of Directors, who are included in Borregaard's benefit pensions plan, Board Members are not entitled to pension payments or related benefits from Borregaard.

For more information regarding pension and retirement benefits, see note 10 to the Combined Financial Statements, included in Appendix B hereto.

### 12.8 Employees

As of the date of this Prospectus, Borregaard has approximately 1,100 employees.

Approximately 60% of all personnel employed by Borregaard are members of a trade union and approximately 70% of Borregaard's employees in Norway are members of a trade union.

The table below shows the development in the numbers of full-time employees over the last three years.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| **Total Group** | **1,062** | **1,064** | **1,104** |
| By geographic region: | | | |
| *- Norway* | *720* | *741* | *772* |
| *- Europe (excluding Norway)* | *115* | *112* | *111* |
| *- Asia* | *44* | *33* | *31* |
| *- Americas* | *136* | *131* | *144* |
| *- Rest of the world[12]* | *47* | *47* | *46* |

### 12.9 Employee share programme

Borregaard intends to establish a share programme for its employees, giving its employees the opportunity to buy a limited number of shares (expected to be of an amount of up to approximately NOK 40,000 per employee before a given discount) at a given discount of up to 30% in relation to the market price of the Share. The Shares will be capable of being freely sold after a one year holding period.

### 12.10 Nomination committee

The Company's Articles of Association provide for a nomination committee composed of three members who are shareholders or representatives of shareholders. The members of the nomination committee will be elected by the shareholders for two-year terms. The nomination committee will be responsible for nominating the shareholder-elected members of the Board of Directors and members of the nomination committee and make recommendations for remuneration to the members of the Boards of Directors and members of the nomination committee. Members of the nomination committee will be elected at an extraordinary general meeting to be held prior to the Company's annual General Meeting in 2013.

### 12.11 Audit committee

The members of the New Board of Directors will on the first day of trading in the Shares on the Oslo Stock Exchange establish an audit committee comprising three Board Members, of which one member will be an employee representative.

The primary purposes of the audit committee shall be to:

- assist the Board of Directors in discharging its duties relating to the safeguarding of assets; the operation of adequate system and internal controls; control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements, corporate governance and accounting standards
- provide support to the Board of Directors on risk profile and risk management.

The audit committee shall report and make recommendations to the Board of Directors, but the Board of Directors retains responsibility for implementing such recommendations. One member will have qualifications within accounting / auditing and all the shareholder-elected members will be independent of Borregaard's operations.

### 12.12 Remuneration committee

The members of the New Board of Directors will on the first day of trading in the Shares on the Oslo Stock Exchange establish a remuneration committee comprising three Board Members; of which one member will be an employee representative.

[12] Includes 50% of the full-time employees at its joint venture company in South Africa.

The primary purpose of the remuneration committee shall be to assist the Board of Directors in discharging its duty relating to determining Management's compensation. The remuneration committee shall report and make recommendations to the Board of Directors, but the Board of Directors retains responsibility for implementing such recommendations.

### 12.13 Corporate governance

The Company has adopted and implemented a corporate governance regime which complies with the Corporate Governance Code, with the following exceptions:

- A nomination committee will be appointed at an extraordinary general meeting to be held prior to the Company's annual General Meeting to be held in 2013.
- The Company will adopt guidelines for Management's remuneration at an extraordinary general meeting to be held prior to the Company's annual General Meeting to be held in 2013.

The Company finds it more prudent to leave these decisions to the General Meeting of the Company's shareholders after the Offering is completed. Other than described above, the Company will aspire to be in compliance with the prevailing Corporate Governance Code. The Company will also on an annual basis provide statements on its compliance with the Corporate Governance Code on a comply-or-explain basis.

### 12.14 Conflicts of interests etc.

During the last five years preceding the date of this Prospectus, none of the Interim Board Members or a member of the New Board of Directors or Management has, or had, as applicable:

- any convictions in relation to indictable offences or convictions in relation to fraudulent offences
- received any official public incrimination and / or sanctions by any statutory or regulatory authorities (including designated professional bodies) or was disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company, or
- been declared bankrupt or been associated with any bankruptcy, receivership or liquidation in his or her capacity as a founder, director or senior manager of a company.

All the shareholder-elected members of the interim Board of Directors, except Mr. Jan Oksum, and one of the shareholder-elected members of the New Board of Directors, Mr. Terje Andersen, are employees of Orkla, the current sole indirect shareholder of the Company.

To the Company's knowledge, there are currently no other actual or potential conflicts of interest between the Company and the private interests or other duties of any of the members of the Management, the interim Board of Directors and the New Board of Directors, including any family relationships between such persons.

# 13 THE SELLING SHAREHOLDER AND ORKLA

## 13.1 Introduction

As of the date of the Prospectus, the Selling Shareholder, a wholly-owned subsidiary of Orkla, is the Company's sole shareholder. The Selling Shareholder is a private limited liability company organised under the laws of Norway and subject to the provisions of the Norwegian Private Limited Liabilities Act. Orkla is a public limited liability company organised under the laws of Norway and subject to the provisions of the Norwegian Public Limited Liabilities Act. The Selling Shareholder's registered address is Karenslyst Allé 6, 0278 Oslo, Norway. Orkla's registered address is Karenslyst Allé 6, 0278 Oslo, Norway.

Orkla is the leading branded consumer goods company in the Nordic region. At present, Orkla operates in the branded consumer goods, aluminium solutions and financial investment sectors. The company's strategic focus is on growth in its branded consumer goods operations. The Group has 30,000 employees in more than 40 countries and a turnover of NOK 61 billion. Orkla is listed on the Oslo Stock Exchange under the ticker symbol "ORK".

Until completion of the Offering, the Company will be a wholly owned subsidiary of the Selling Shareholder. Following completion of the Offering, the Selling Shareholder will own a minimum of 19% of the Shares of the Company, assuming the Joint Bookrunners (on behalf of the Managers) do not exercise their option to purchase Additional Shares, and a minimum of 6.85% if the Joint Bookrunners (on behalf of the Managers) do exercise in full their option to purchase Additional Shares. While the Selling Shareholder will not have different voting rights than other holders of Shares following completion of the Offering, the Selling Shareholder may following completion of the Offering, depending of the number of Offer Shares sold, have a large interest in the Company. See Section 2.2 "Risks relating to the Group's separation from Orkla and its ongoing relationship with Orkla".

The Selling Shareholder will enter into a lock-up agreement with the Joint Bookrunners pursuant to which it will undertake that it will not, during a period ending 180 days after the date of the Purchase Agreement (as defined in Section 19.1 "Overview of the Offering"), make certain dispositions in respect of Shares in the Company without the prior written consent of the Joint Bookrunners (on behalf of the Managers), such consent not to be unreasonably withheld. See Section 19.14 "Lock-up."

For information regarding Orkla's relationship with Borregaard following completion of the Offering, see Section 15 "Establishment of the current Borregaard Group".

## 13.2 Beneficial shareholders following the Offering

The following table sets forth certain information regarding the beneficial ownership in the Shares of Borregaard on the date hereof on an actual basis and as adjusted to give effect to the sale of the Offer Shares in the Offering by the Selling Shareholder. The information is presented on a fully diluted basis. The Company has indicated the holdings of its shareholders upon completion of the Offering and with alternative outcomes based upon whether the Stabilisation Manager (on behalf of the Managers) elects:

- not to exercise the Over-Allotment Option, or
- to exercise the Over-Allotment Option in full, in each case assuming that the maximum number of Sale Shares are sold in the Offering.

| | **Shares beneficially owned prior to the Offering** | | **Shares beneficially owned after the Offering if no exercise of Over-Allotment Option** | | **Shares beneficially owned after the Offering if Over-Allotment Option is exercised in full** | |
|---|---|---|---|---|---|---|
| **Name of Beneficial Owner** | **Number** | **Percent** | **Number** | **Percent** | **Number** | **Percent** |
| BRG Holding AS (Orkla ASA) ................................ | 100,000,000 | 100% | Not less than 19,000,000 | Not less than 19% | Not less than 6,850,000 | Not less than 6.85% |
| New Shareholders............. | - | - | Not more than 81,000,000 | Not more than 81% | Not more than 93,150,000 | Not more than 93.15% |
| **Total ..............................** | **100,000,000** | **100%** | **100,000,000** | **100%** | **100,000,000** | **100%** |

## 14 RELATED PARTY TRANSACTIONS

In the period covered by the historical financial information herein, Borregaard has been owned 100%, directly or indirectly, by Orkla. Borregaard has paid joint expenses to Orkla. Historically, Orkla has provided necessary capital through equity and loans (see note 25 "Capital Management" to the Combined Financial Statements).

The table below sets forth certain related party transactions between Orkla and Borregaard, including finance expenses and joint expenses.

| | Combined as of and for the year ended 31 December | | |
|---|---|---|---|
| *In NOK million* | **2011** *(audited)* | **2010** *(audited)* | **2009** *(audited)* |
| Interest income from Orkla group | 2 | 2 | 2 |
| Interest costs from Orkla group | -83 | -52 | -56 |
| Joint expenses from Orkla | 4 | 4 | 4 |
| Accounts payable | 40 | 15 | 35 |
| Interest bearing liabilities (non-current) | 1,773 | 1,828 | 1,348 |
| Interest bearing liabilities (current) | 0 | 0 | 0 |
| Other liabilities/receivables | 5 | -25 | 22 |

Borregaard also obtains services from Orkla Shared Services AS (IT and payroll), Orkla Insurance Company Ltd (insurance) and BIL (energy), in addition to certain minor sales and purchases to other companies within the Orkla group.

In respect of the transactions between Borregaard and BIL and certain other parties carried out as a part of the Restructuring, as well as certain arrangements that will govern the provision of transitional services by Orkla to Borregaard following the Listing, see Section 15 "Establishment of the current Borregaard Group" as well as note 35 to the Combined Financial Statements and note 7 to the Interim Condensed Financial Statements. All inter-company debt to Orkla will be repaid by Borregaard on or about the first day of Listing, see Section 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing".

Borregaard has ownership interests in a joint venture. This is presented line by line in the Combined Financial Statements based on Borregaard's ownership interest. Borregaard's share of internal balances and transactions relating to the joint venture has been eliminated in the Combined Financial Statements. There are no other material transactions relating to the joint venture.

Internal trading within the Borregaard 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.

There have been no other transactions with related parties. Information regarding Management is disclosed in note 9 to the Combined Financial Statements.

There have not been any material changes in the above in the first half of 2012.

For further information of transactions with related parties, see note 32 to the Combined Financial Statements.

# 15 ESTABLISHMENT OF THE CURRENT BORREGAARD GROUP

## 15.1 Decision to separate the Biorefinery Business

Prior to 1 April 2012, Orkla operated the Biorefinery Business through BIL and subsidiaries of BIL, and through certain other direct or indirect subsidiaries of Orkla.

On 14 September 2011, Orkla announced a strategic decision to allocate capital to its branded goods business. At the same time, it was announced that the assets of the Biorefinery Business were outside the group's future scope of growth and an internal restructuring of BIL would be made to facilitate a structural solution for the Biorefinery Business. The purpose of the restructuring was to separate the Biorefinery Business from BIL's hydropower assets and certain other businesses unrelated to the Biorefinery Business.

## 15.2 Overview of the Restructuring

The restructuring process comprised the transfer of the Biorefinery Business to Borregaard AS (the "**Restructuring**") through the following transactions:

- A transfer of all assets and liabilities of BIL related to the Biorefinery Business (other than shares in subsidiaries and related companies) to Borregaard AS was completed on 30 March 2012.
- Sales or other transfers by BIL and certain other companies within the Orkla group to Borregaard AS and its subsidiaries of shares in the wholly- and partly-owned subsidiaries and joint venture company which form part of the Biorefinery Business took place through several separate transactions during the period March – June 2012.

The transfers were made with limited representations and warranties, generally on an "as is" basis, and have all been completed. However, certain third party consents related to the transfer of assets and liabilities (other than shares in subsidiaries and related companies), none of which are material, remain outstanding.

Borregaard AS was incorporated under the name Borregaard Technologies AS on 6 July 2010 as a subsidiary of Trælandsfos AS, and did not have any activities prior to the transactions set out above. The company name was changed to Borregaard AS on 22 October 2011. The shares of Borregaard AS were transferred to Orkla on 6 November 2011. On 24 April 2012, the shares of Borregaard AS were transferred to the Selling Shareholder.

## 15.3 The Restructuring transactions

### *15.3.1 The Transfer Agreement*

The transfer agreement that effected the transfer of all its directly-held assets and liabilities related to the Biorefinery Business (that is, other than shares in subsidiaries and related companies) to Borregaard AS was entered into between BIL as transferor, Borregaard AS as transferee and Orkla on 19 March 2012 (the "**Transfer Agreement**").

The transfer was made by way of a reduction of the ordinary share capital in BIL on 29 March 2012. The return of capital consequent to this reduction was effected by transferring the said assets and liabilities to Borregaard AS, in consideration for which Borregaard AS issued new share capital to Orkla on 30 March 2012.

The transfer was made with continuity for accounting and tax purposes and will be treated by the parties as a tax free demerger under Norwegian tax rules.

The transfer was made with retroactive financial effect from 1 January 2012, with Borregaard AS assuming the income and costs of the Biorefinery Business assets and liabilities transferred from such date.

The principal terms of the Transfer Agreement are as follows:

- The transfer encompassed all assets specified in the Transfer Agreement and any other operational assets relating to the Biorefinery Business, whether known or unknown and whether accrued before, on or after the 1 January 2012 effective date.
- Assets unrelated to the Biorefinery Business were excluded. In addition, cash received by BIL under an approximately NOK 110 million loan agreement from Orkla was excluded (notwithstanding that related liabilities to Orkla were transferred to minimise the net value of the transferred assets and liabilities), as was certain real property relating to BIL's power production assets in Sarpsborg. Shares in subsidiaries and

the joint venture in South Africa were also excluded and subject to separate transfer (see Section 15.3.2 "Transfer of shares in subsidiaries and associated companies" below).

- The transfer encompassed all liabilities specified in the Transfer Agreement and any other liability primarily relating to the Biorefinery Business, whether known or unknown and whether accrued before, on or after 1 January 2012. This included approximately NOK 1,750 million of BIL's long term debt to Orkla, NOK 450 million of which was converted to equity on 24 April 2012. Liabilities that are primarily related to the business retained by BIL and certain financial indebtedness of BIL were excluded.
- Transfers were made on an "as is" basis. Defaults or defects, hidden or visible cannot generally be used as a basis for claims against BIL or Orkla. Nor can any hidden benefits of the Biorefinery Business form the basis for any claim by BIL or Orkla against Borregaard AS. Borregaard AS has also waived certain legal remedies it may have or otherwise had against BIL and Orkla, including certain rights to terminate or reverse the agreement, reduce the purchase price specified in the agreement or receive damages from Orkla. Consequently, Borregaard AS may have limited or no rights to make claims against Orkla in relation to the Transfer Agreement.
- BIL has agreed to defend and indemnify Borregaard AS and its officers, directors, employees, shareholders, agents and representatives against, and to hold Borregaard AS harmless from, any loss, liability, claim, damage or expense arising from or relating to the assets and liabilities that are retained by BIL or otherwise from the operation of the business that is retained by BIL.
- Borregaard AS has agreed to defend and indemnify BIL and its officers, directors, employees, shareholders, agents and representatives against, and hold harmless from, any loss, liability, claim, damage or expense arising from or relating to the assets and liabilities that are a part of the Biorefinery Business or otherwise from the operation of the Biorefinery Business transferred to it.
- Capital gains tax or any other transfer related taxes that BIL may incur as a result of the transfer of the assets and liabilities that are a part of the Biorefinery Business constitute an excluded liability that will remain with BIL. This does not apply to registration costs in connection with the transfer of title to real property transferred to Borregaard AS, which are for the account of Borregaard AS**.**

Borregaard does not expect that any of the assets and liabilities transferred to it that were unknown at the time of the Transfer Agreement are or will prove to be material.

There were a number of post-closing obligations under the Transfer Agreement, including as concerns registration of intellectual property rights and the division and registration of real property. The post-closing obligations relating to real property were completed in September 2012 and the necessary deeds of conveyance and easements have been registered with the Norwegian Mapping Authorities. Stamp duty relating to such conveyance amounted to NOK 23 million and will be capitalised as part of the cost price for Property, Plant and Equipment (in the Combined Financial Statements the stamp duty is, however, recognised as a contingent liability as a decision to register change of the deeds had not been undertaken as of the date of the Combined Financial Statements). The registration of the transfer of intellectual property rights, however, is a lengthy process that has not been completed as at the time of this Prospectus. Further, certain third party consents and approvals (none of which are material) remain outstanding. These include grant agreements with the EU.

#### *15.3.2 Transfer of shares in subsidiaries and associated companies*

The table below sets out an overview of the share transfers by which the subsidiaries and associated companies that form part of the Biorefinery Business were transferred to Borregaard AS or to subsidiaries of Borregaard AS:

| Company: | Transferor: | Transferee: | Ownership share: |
|---|---|---|---|
| Borregaard UK Ltd. ................................................ | BIL | Borregaard AS | 100% |
| Umkomaas Lignin (Proprietary) Limited t/a Lignotech South Africa............................................ | BIL | Borregaard AS | 50% |
| Borregaard France Sarl........................................... | BIL | Borregaard AS | 100% |
| Borregaard Ibérica S.L.U. ....................................... | BIL | Borregaard AS | 100% |
| Borregaard Poland sp. z.o.o. .................................. | BIL | Borregaard AS | 100% |
| Borregaard S.E.A. Pte Ltd. ...................................... | BIL | Borregaard AS | 100% |
| LignoTech Ibérica S.A............................................ | Atisholz AB (former LignoTech Sweden AB) | Borregaard AS | 60% |
| Biotech Lignosulfonate Handels GmbH...................... | Felix Austria GmbH | Borregaard AS | 100% |
| Borregaard Inc. ..................................................... | BIL | Orkla ASA | 100% |
| Borregaard Inc. ..................................................... | Orkla ASA | Borregaard AS | 100% |

| Company: | Transferor: | Transferee: | Ownership share: |
|---|---|---|---|
| Lignotech Brasil PL.................................................. | Mossefossen AS | Borregaard AS | 0.001% |
| Borregaard Shanghai Co. Ltd. ................................. | BIL | Borregaard S.E.A. Pte. Ltd. | 100% |
| Nutracell AS (owns 99.999 % of Lignotech Brasil PL) .. | BIL | Borregaard AS | 100% |
| Borregaard Deutschland GmbH................................ | Borregaard Deutschland Holding GmbH | Borregaard AS | 100% |

Except for the transfer of the shares of Borregaard Inc. from Orkla to Borregaard AS, which was made by way of a contribution in kind, all of the above transfers were made by way of share sales against cash consideration at their estimated market value. Borregaard AS' loan facility with Orkla was increased on 13 April 2012 in order to enable payment of the cash consideration. A part of Borregaard AS' debt to Orkla was thereafter converted to equity on 24 April 2012. All formalities in respect of the share transfers have been completed.

Representations and warranties from the sellers were limited, with the shares being sold on an "as is" basis.

Prior written approvals from the joint venture partner in Lignotech South Africa and its partner in Lignotech Iberica S.A to transfer the shares in these companies to Borregaard AS were obtained.

### *15.3.3 Agreements related to the Restructuring*

Closing of the transfer took place on 30 March 2012. Currently, Borregaard operates the Biorefinery Business and BIL operates the power production plant at adjacent sites in Sarpsborg which previously constituted one property. To assist the parties in operating their respective businesses in the same manner as prior to the Restructuring, several agreements were entered into between BIL and Borregaard AS, mainly to secure access to basic infrastructure. These agreements relate to:

- operation and maintenance of cables from the power plant
- maintenance and services of the high voltage grid at the property in Sarpsborg
- purchase of certain goods and services (such as the delivery of steam for heating and thawing, sanitary water, renovation and cleaning, switchboard services, etc. by Borregaard AS to BIL, and the leasing of certain storage areas by Borregaard AS from BIL, none of which are material)
- BIL's and Borregaard AS' respective right of access and infrastructure, connection and transfer to the electricity distribution network and electricity delivery for 2012.

In addition, Borregaard AS has secured certain continuous rights to draw on water from the Glomma River, upstream of the power station, for use in its industrial activities. BIL and Borregaard AS have agreed that this constitutes a historical right for the Biorefinery Business and, for that reason, Borregaard will not be obligated to pay any compensation to the owners of the related waterfall rights when drawing water.

Additionally, according to a profit split agreement between BIL and Borregaard AS, Borregaard AS has the obligation to pay certain compensation to BIL if the actual use in whole or in part by Borregaard AS or its successors of certain of its properties, during a period of 20 years after 19 March 2012, is changed as further defined in the agreement or if these areas in whole or in part are sold or leased to a third party. The agreement relates to areas currently regulated as agricultural land and which are not used or expected to be used in Borregaard's business. Its purpose is to give BIL a share in any future gain realized by Borregaard if, in the future, these areas can be developed and sold or leased out to third parties. Potential payments, if any, of this sort are not expected to be material.

## 15.4 Transfer of Borregaard AS to the Company and preparations for Listing

Borregaard ASA (the Company) was incorporated on 22 August 2012. On 28 August 2012, the Company applied for listing of its Shares on the Oslo Stock Exchange. On 25 September 2012, the board of directors of the Oslo Stock Exchange approved the Company's listing application, subject to satisfaction of certain conditions. See Section 19.12 "Conditions for completion of the Offering - Listing and trading of the Offer Shares".

By capital increases resolved on 11 September and 17 September 2012, the Company's equity was increased to NOK 1,000 million through cash contributions by the Selling Shareholder. Of this amount, NOK 300 million was transferred from share capital and share premium reserve to other equity through a share capital reduction in order to create distributable reserves for future dividend payments. Further, on 17 September 2012, the Selling Shareholder transferred its shares in Borregaard AS to the Company by way of contribution in kind which increased the share capital and share premium reserve with a total of NOK 1,158 million. See Section 16.4 "Share capital and share capital history". Subsequent to these transactions, the Company's equity (parent company figures only) is NOK 2,158 million, consisting of NOK 100 million share capital, NOK 1,758 million share premium reserve and NOK 300 million other equity.

The share capital of the Company and the legal structure of Borregaard following completion of the Restructuring and the Listing are described in Section 16.4 "Share capital and share capital history" and 16.2 "Legal structure", respectively".

As of 30 September 2012, Borregaard had NOK 2,397 million in outstanding interest bearing debt to Orkla and NOK 422 million in cash and cash equivalents deposited with Orkla under Orkla's cash-pools and separate deposit agreements. All inter-company debt to Orkla will be repaid by Borregaard on or about the first day of Listing, by using approximately NOK 1,000 million in cash from the capital increases resolved on 11 September and 17 September 2012, by using approximately NOK 1,100 million to be drawn under the Bank Facilities Agreements entered into on 21 September 2012, and the remainder by using existing cash. Borregaard expects that following the Listing it will have approximately NOK 1,100 in interest-bearing debt, approximately NOK 100 million in cash and cash equivalents and an equity ratio of approximately 46%.

Historically, and up to the Listing, Borregaard has participated in Orkla's cash-pool structures, with international and Scandinavian banks, either directly under Orkla parent accounts, or as part of a sub-account structure under Borregaard AS and ultimately Orkla.

As part of the Listing, Borregaard AS' sub-account cash-pool structure, currently under Orkla, with an international bank, will be transferred to Borregaard AS on or about first day of Listing. In addition, Borregaard AS has established a cash-pool and overdraft facility with a Nordic bank. The overdraft facility has a limit of NOK 70 million, with a guarantee from the Company and with a covenant structure similar to the Bank Facilities Agreements.

### 15.5 Insurance, IT services and other relationships with Orkla

Borregaard has historically relied on Orkla to provide certain operational services, including services related to certain information and communication technology, legal, tax, finance and treasury. Orkla and Borregaard have agreed in certain transitional service agreements (the "**Transitional Service Agreements**") that Borregaard, during a transitional period of one to two years after the Listing, (the "**Transitional Period**") shall receive, and Orkla shall render, the same services as those that were provided prior to the Listing subject to substantially the same terms and conditions, with only such modifications (none of which are material) as are necessary to reflect the fact that the service provider and the receiver of the services will be two separate listed entities.

According to the Transitional Service Agreements, to be entered into by Orkla and Borregaard prior to the first day of Listing, Orkla shall continue to provide Borregaard with the following services during the Transitional Period:

- IT- and payroll services
- treasury services
- accounting
- certain legal and tax services.

However, under the terms of the Transitional Service Agreements, Borregaard has the right to terminate any of the Transitional Service Agreements by giving three to six months' notice, except for key IT-services, which will have a twelve months' notice period. In addition, if further services are identified as necessary in order to carry on Borregaard's business as it was conducted prior to the Listing, the parties have agreed to negotiate in good faith the terms of further agreements for delivery of such services in line with the principles and terms and conditions of the Transitional Service Agreements. For example, the parties have agreed that Borregaard may use Orkla's "whistle blowing" system (managed by Orkla's internal audit department) to the end of 2012, when Borregaard intends to have organised its own systems. Existing currency future contracts entered into between Orkla and Borregaard will continue to be in place until they mature.

By the end of the Transitional Period, Borregaard intends to either have developed the internal capabilities, or made arrangements with third-party service providers, to provide the operational services for which it currently relies on Orkla.

### 15.6 Certain regulatory considerations

Borregaard is currently engaging local authorities in Brazil, and landowners adjacent to its Brazilian production facility, to ensure that certain restrictions under local law on the acquisition of rural real property will not be implicated by the Listing and the Offering. Although Borregaard does not believe that such restrictions are implicated, it is nevertheless considering a range of options to achieve greater certainty in this respect. It is possible that certain such options would result in increased tax or other costs being borne by it. Although it is not currently possible to precisely quantify such potentially increased costs, these are not currently expected to be material. With that exception, Borregaard's ability to conduct its operations following the Restructuring, or the Listing and the Offering, in substantially the same manner as it was conducted prior thereto is not expected to require any regulatory approvals or other actions that have not already been obtained or taken.

## 16 CORPORATE INFORMATION AND DESCRIPTION OF SHARE CAPITAL

*The following is a summary of certain corporate information and material information relating to the Shares and share capital of the Company and certain other shareholder matters, including summaries of certain provisions of the Company's Articles of Association and applicable Norwegian law in effect as of the date of this Prospectus. The summary does not purport to be complete and is qualified in its entirety by the Company's Articles of Association and applicable law.*

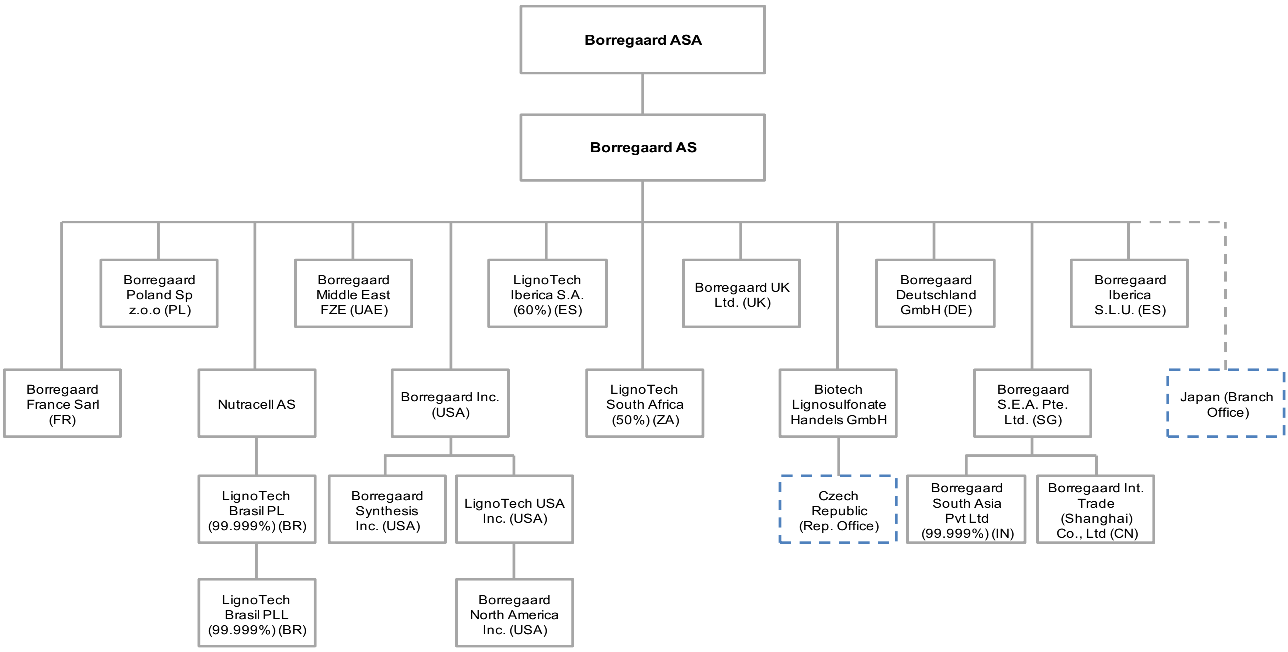
### 16.1 Company corporate information

The Company's registered name is Borregaard ASA. The Company is a public limited liability company organised and existing under the laws of Norway pursuant to the Norwegian Public Limited Companies Act. Borregaard's registered office is in the municipality of Sarpsborg, Norway. The Company was incorporated in Norway on 22 August 2012 by the Selling Shareholder for the purpose of being the listed holding company for the Group. The Company's organisation number in the Norwegian Register of Business Enterprises is 998 753 562, and the Shares are registered in book-entry form with VPS under ISIN NO 001 0657505. The Company's register of shareholders in VPS will be administrated by DnB NOR Bank ASA, Registrars Department, 0021 Oslo, Norway. The Company's registered office is located at Hjalmar Wessels vei 10, 1721 Sarpsborg, Norway and the Company's main telephone number at that address is +47 69 11 80 00. The Company's website can be found at www.borregaard.com. Neither the content of www.borregaard.com nor of the Group's other websites, is incorporated by reference into or otherwise forms part of this Prospectus.

### 16.2 Legal structure

The Company is the holding company of the Group, holding 100% of Borregaard AS. Borregaard AS is the Group's main operating company, which owns and operates the Group's biorefinery facility in Sarpsborg, and is the holding company for the other subsidiaries and the joint venture company that form part of the Group. Borregaard AS has the following ten directly wholly-owned subsidiaries: Borregaard Iberica S.L.U. (sales office), incorporated in Spain; Borregaard France Sarl (sales office), incorporated in France; Borregaard Poland Sp z.o.o. (sales office), incorporated in Poland; Nutracell AS (indirect owner of LignoTech Brasil PLL, the Group's lignin plant in Brazil), incorporated in Norway; Borregaard Inc. (indirect owner of a sales office and LignoTech USA Inc., the Group's lignin plant in the U.S.), incorporated in the U.S.; Borregaard UK Ltd. (the Group's lignin plant in the UK), incorporated in the UK; Biotech Lignosulfonate Handels GmbH (the Group's lignin plant in the Czech Republic), incorporated in Austria; Borregaard Deutschland GmbH (the Group's lignin plant in Germany), incorporated in Germany; Borregaard S.E.A Pte. Ltd (sales offices in Asia), incorporated in Singapore; and Borregaard Middle East FZE (sales office), incorporated in the United Arab Emirates.

In addition, Borregaard holds a 60% ownership interest in LignoTech Iberica S.A. (the Group's lignin plant in Spain), incorporated in Spain; and a 50% ownership in LignoTech South Africa (the Group's lignin plant in South Africa), incorporated in South Africa. The following chart sets out Borregaard's legal group structure.



### 16.3 Admission to trading

On 28 August 2012, the Company applied for admission to trading of its Shares on the Oslo Stock Exchange.

On 25 September 2012, the board of directors of the Oslo Stock Exchange resolved to approve the Company's listing application subject to satisfaction of certain conditions. See Section 19.12 "Conditions for completion of the Offering - Listing and trading of the Offer Shares".

Borregaard currently expects commencement of trading in the Shares on the Oslo Stock Exchange on an "if delivered basis" on or around 18 October 2012, and on an ordinary basis on or around 23 October 2012. Borregaard has not applied for admission to trading of the Shares on any other stock exchange or regulated market.

### 16.4 Share capital and share capital history

As of the date of this Prospectus, the Company's share capital is NOK 100,000,000 divided into 100,000,000 Shares with each Share having a par value of NOK 1. All the Shares have been created under the Norwegian Public Limited Companies Act, and are validly issued and fully paid.

The Company has one class of shares. There are no share options or other rights to subscribe or acquire Shares issued by the Company. Neither the Company nor any of its subsidiaries directly or indirectly owns shares in the Company.

The table below shows the development in the Company's share capital for the period from its incorporation to the date hereof:

| Date of resolution | Type of change | Change in share capital (NOK) | Par value (NOK) | New number of shares | New share capital (NOK) |
|---|---|---|---|---|---|
| 22 August 2012 | Incorporation | 1,000,000 | 10 | 100,000 | 1,000,000 |
| 11 September 2012 | Capital increase (an increase of the nominal value of the shares against cash contribution) | 49,000,000 | 500 | 100,000 | 50,000,000 |
| 17 September 2012 | Reduction of share capital to zero by transfer to distributable reserves | -50,000,000 | 0 | 0 | 0 |
| 17 September 2012 | Capital increase (issuance of new shares against cash contribution) | 50,000,000 | 0,5 | 100,000,000 | 50,000,000 |
| 17 September 2012 | Capital increase (increase of the nominal value of the shares by contribution in kind of all the shares of Borregaard AS) | 50,000,000 | 1 | 100,000,000 | 100,000,000 |

On 17 September 2012, the share capital of the Company was increased by NOK 50 million from NOK 50 million to NOK 100 million by contribution in kind. Consequently, 50 % of the Company's share capital has been issued against contribution in kind.

### 16.5 Ownership structure

As of the date of this Prospectus, the Company has only one shareholder, the Selling Shareholder, which owns 100% of its outstanding Shares.

### 16.6 Authorisation to increase the share capital and to issue Shares

The Board of Directors has been granted an authorisation to increase the share capital by up to NOK 3 million, corresponding to 3% of the Company's current share capital to be used in connection with any share based incentive programme for Borregaard's employees. In addition, the Board of Directors has been granted an authorisation to increase the share capital by up to NOK 10 million, corresponding to 10% of the Company's current share capital to be used in connection with acquisitions and raising new equity. The authorisations are valid until the Company's annual general meeting in 2013, but no longer than to 30 June 2013. The preferential rights of the existing shareholders to subscribe for the new shares pursuant to Section 10-4 of the Norwegian Limited Liability Companies Act may be deviated from. The authorisations do comprise potential share capital increases against contribution in kind, but do not comprise share capital increases in connection with mergers.

## 16.7 Authorisation to acquire treasury shares

The board of directors has been granted authorisation to repurchase the Company's own shares within a total nominal value of NOK 10 million, corresponding to 10% of the Company's current share capital. The authorisation is valid until the Company's annual general meeting in 2013, but no longer than to 30 June 2013. The authorisation may only be used in connection with any share based incentive programme for Borregaard's employees and to repurchase shares for cancellation.

## 16.8 Other financial instruments

Neither the Company nor any of its subsidiaries has issued any options, warrants, convertible loans or other instruments that would entitle a holder of any such instrument to subscribe for any shares in the Company or its subsidiaries. Furthermore, neither the Company nor any of its subsidiaries has issued subordinated debt or transferable securities other than the Shares and the shares in its subsidiaries which will be held, directly or indirectly, by the Company or, in the case of LignoTech Iberica S.A. and LignoTech South Africa, by it and its partners.

## 16.9 Shareholder rights

The Company has one class of Shares in issue, and in accordance with the Norwegian Public Limited Companies Act, all Shares in that class provide equal rights in the Company. Each of the Company's Shares carries one vote. The rights attaching to the Shares are described in Section 16.10.2 "The Articles of Association and certain aspects of Norwegian law".

## 16.10 The Articles of Association and certain aspects of Norwegian law

### *16.10.1 The Articles of Association*

The Company's Articles of Association are set out in Appendix A to this Prospectus. Below is a summary of provisions of the Articles of Association.

*Objective of the Company*

The objective of the Company is development, production and sale of specialty cellulose and, in addition, a number of other chemicals, letting of real property and other naturally related activities. The business can also be conducted through participation in or in cooperation with other companies. The Company's objective can be found in Article 3 of its Articles of Association.

*Registered office*

The Company's registered office is in the municipality of Sarpsborg, Norway.

*Share capital and par value*

The Company's share capital is NOK 100,000,000 divided into 100,000,000 Shares, each Share with a par value of NOK 1. The Shares are registered with the Norwegian Central Securities Depository (VPS).

*Board of Directors*

The Company's Board of Directors shall consist of a minimum of three and a maximum of ten members.

*Restrictions on transfer of Shares*

The Articles of Association do not provide for any restrictions on the transfer of Shares, or a right of first refusal for the Company. Share transfers are not subject to approval by the Board of Directors.

*General meetings*

Documents relating to matters to be dealt with by the Company's general meeting, including documents which by law shall be included in or attached to the notice of the general meeting, do not need to be sent to the shareholders if such documents have been made available on the Company's internet site. A shareholder may nevertheless request that documents which relate to matters to be dealt with at the general meeting are sent to him/her.

The shareholders may cast their votes in writing, including through electronic communication, in a period prior to the general meeting. The board of directors can establish specific guidelines for such advance voting. It must be stated in the notice of the general meeting which guidelines have been set. The general meetings of the Company may be held in Oslo. Shareholders who want to participate in the general meeting must, in accordance with further resolutions by the Board of Directors, notify the Company thereof no later than three days before the general meeting is held.

*Nomination committee*

The Company shall have a nomination committee. See Section 12 "Board of Directors, Management, Employees and Corporate Governance".

*16.10.2 Certain aspects of Norwegian corporate law*

*General meetings*

Through the general meeting, shareholders exercise supreme authority in a Norwegian company. In accordance with Norwegian law, the annual general meeting of shareholders is required to be held each year on or prior to 30 June. Norwegian law requires that written notice of annual general meetings setting forth the time of, the venue for and the agenda of the meeting be sent to all shareholders with a known address no later than 21 days before the annual general meeting of Norwegian private limited liability company listed on stock exchange or regulated market shall be held, unless the articles of association stipulate a longer deadline, which is not currently the case for the Company.

A shareholder may vote at the general meeting either in person or by proxy appointed at their own discretion. Although Norwegian law does not require the Company to send proxy forms to its shareholders for general meetings, the Company plans to include a proxy form with notices of general meetings. All of the Company's shareholders who are registered in the register of shareholders maintained with the VPS as of the date of the general meeting, or who have otherwise reported and documented ownership to Shares, are entitled to participate at general meetings, without any requirement of pre-registration. The Company's Articles of Association do however include a provision requiring shareholders to pre-register in order to participate at general meetings.

Apart from the annual general meeting, extraordinary general meetings of shareholders may be held if the Board of Directors considers it necessary. An extraordinary general meeting of shareholders must also be convened if, in order to discuss a specified matter, the auditor who audits the company's annual accounts or shareholders representing at least five percent of the share capital demands this in writing. The requirements for notice and admission to the annual general meeting also apply to extraordinary general meetings. However, the annual general meeting of a Norwegian public limited liability company may with a majority of at least two-thirds of the aggregate number of votes cast as well as at least two-thirds of the share capital represented at a general meeting resolve that extraordinary general meetings may be convened with a fourteen days notice period until the next annual general meeting provided the company has procedures in place allowing shareholders to vote electronically. The Company's Articles of Association permit electronic voting and extraordinary general meetings may accordingly be convened with a fourteen days notice period, provided that the Company has established procedures for voting electronically at such meetings.

*Voting rights–amendments to the Articles of Association*

Each of the Company's Shares carries one vote. In general, decisions that shareholders are entitled to make under Norwegian law or The Company's Articles of Association may be made by a simple majority of the votes cast. In the case of elections or appointments, the person(s) who receive(s) the greatest number of votes cast are elected. However, as required under Norwegian law, certain decisions, including resolutions to waive preferential rights to subscribe in connection with any share issue in the Company, to approve a merger or demerger of the Company, to amend Articles of Association, to authorise an increase or reduction in the share capital, to authorise an issuance of convertible loans or warrants by the Company or to authorise the Board of Directors to purchase the Shares and hold them as treasury shares or to dissolve the Company, must receive the approval of at least two-thirds of the aggregate number of votes cast as well as at least two-thirds of the share capital represented at a general meeting. Norwegian law further requires that certain decisions, which have the effect of substantially altering the rights and preferences of any shares or class of shares, receive the approval by the holders of such shares or class of shares as well as the majority required for amending the Articles of Association.

Decisions that (i) would reduce the rights of some or all of the Company's shareholders in respect of dividend payments or other rights to assets or (ii) restrict the transferability of the Shares, require that at least 90% of the share capital represented at the general meeting in question vote in favour of the resolution, as well as the majority required for amending the Articles of Association. Certain types of changes in the rights of shareholders require the consent of all shareholders affected thereby as well as the majority required for amending the Articles of Association.

In general, only a shareholder registered in the VPS is entitled to vote for such Shares. Beneficial owners of the Shares that are registered in the name of a nominee are generally not entitled to vote under Norwegian law, nor is any person who is designated in the VPS register as the holder of such Shares as nominees. Investors should note that there are varying opinions as to the interpretation of the right to vote on nominee registered shares. In the Company's view, a nominee may not meet or vote for Shares registered on a nominee account (NOM-account). A shareholder must, in order to be eligible to register, meet and vote for such Shares at the general meeting, transfer the Shares from such

NOM-account to an account in the shareholder's name. Such registration must appear from a transcript from the VPS at the latest at the date of the general meeting.

There are no quorum requirements that apply to the general meetings.

*Additional issuances and preferential rights*

If the Company issues any new Shares, including bonus share issues, the Company's Articles of Association must be amended, which requires the same vote as other amendments to its Articles of Association. In addition, under Norwegian law, the Company's shareholders have a preferential right to subscribe for new Shares issued by the Company. Preferential rights may be derogated from by resolution in a general meeting passed by the same vote required to approve amending the Articles of Association. A derogation of the shareholders' preferential rights in respect of bonus issues requires the approval of all outstanding Shares.

The general meeting may, by the same vote as is required for amending the Articles of Association, authorise the Board of Directors to issue new Shares, and to derogate from the preferential rights of shareholders in connection with such issuances. Such authorisation may be effective for a maximum of two years, and the par value of the Shares to be issued may not exceed 50% of the registered nominal share capital when the authorisation is registered with the Norwegian Register of Business Enterprises.

Under Norwegian law, the Company may increase its share capital by a bonus share issue, subject to approval by the Company's shareholders, by transfer from the Company's distributable equity or from the Company's share premium reserve and thus the share capital increase does not require any payment of a subscription price by the shareholders. Any bonus issues may be effected either by issuing new shares to the Company's existing shareholders or by increasing the par value of the Company's outstanding Shares.

Issuance of new Shares to shareholders who are citizens or residents of the United States upon the exercise of preferential rights may require the Company to file a registration statement in the United States under United States securities laws. Should the Company in such a situation decide not to file a registration statement, the Company's U.S. shareholders may not be able to exercise their preferential rights. If a U.S. shareholder is ineligible to participate in a rights offering, such shareholder would not receive the rights at all and the rights would be sold on the shareholder's behalf by the Company.

*Minority rights*

Norwegian law sets forth a number of protections for minority shareholders of the Company, including but not limited to those described in this paragraph and the description of general meetings as set out above. Any of the Company's shareholders may petition Norwegian courts to have a decision of the Board of Directors or the Company's shareholders made at the general meeting declared invalid on the grounds that it unreasonably favours certain shareholders or third parties to the detriment of other shareholders or the Company itself. The Company's shareholders may also petition the courts to dissolve the Company as a result of such decisions to the extent particularly strong reasons are considered by the court to make necessary dissolution of the Company.

Minority shareholders holding five percent or more of the Company's share capital have a right to demand in writing that the Company's Board of Directors convene an extraordinary general meeting to discuss or resolve specific matters. In addition, any of the Company's shareholders may in writing demand that the Company place an item on the agenda for any general meeting as long as the Company is notified in time for such item to be included in the notice of the meeting. If the notice has been issued when such a written demand is presented, a renewed notice must be issued if the deadline for issuing notice of the general meeting has not expired.

*Rights of redemption and repurchase of Shares*

The share capital of the Company may be reduced by reducing the par value of the Shares or by cancelling Shares. Such a decision requires the approval of at least two-thirds of the aggregate number of votes cast and at least two-thirds of the share capital represented at a general meeting. Redemption of individual Shares requires the consent of the holders of the Shares to be redeemed.

The Company may purchase its own Shares provided that the Board of Directors has been granted an authorisation to do so by a general meeting with the approval of at least two-thirds of the aggregate number of votes cast and at least two-thirds of the share capital represented at the meeting. The aggregate par value of treasury shares so acquired, and held by the Company must not exceed 10% of the Company's share capital, and treasury shares may only be acquired if the Company's distributable equity, according to the latest adopted balance sheet, exceeds the consideration to be paid for the shares. The authorisation by the General Meeting of the Company's shareholders cannot be granted for a period exceeding 18 months.

*Shareholder vote on certain reorganisations*

A decision of the Company's shareholders to merge with another company or to demerge requires a resolution by the general meeting of the shareholders passed by at least two-thirds of the aggregate votes cast and at least two-thirds of the share capital represented at the general meeting. A merger plan, or demerger plan signed by the Board of Directors along with certain other required documentation, would have to be sent to all the Company's shareholders, or if the Articles of Association stipulate that, made available to the shareholders on the company's website, at least one month prior to the general meeting to pass upon the matter.

*Liability of Directors*

Members of the Board of Directors owe a fiduciary duty to the Company and its shareholders. Such fiduciary duty requires that the Board Members act in the best interests of the Company when exercising their functions and exercise a general duty of loyalty and care towards the Company. Their principal task is to safeguard the interests of the Company.

Members of the Board of Directors may each be held liable for any damage they negligently or wilfully cause the Company. Norwegian law permits the general meeting to discharge any such person from liability, but such discharge is not binding on the Company if substantially correct and complete information was not provided at the general meeting of the Company's shareholders passing upon the matter. If a resolution to discharge the Company's directors from liability or not to pursue claims against such a person has been passed by a general meeting with a smaller majority than that required to amend the Company's Articles of Association, shareholders representing more than 10% of the share capital or, if there are more than 100 shareholders, more than 10% of the shareholders may pursue the claim on the Company's behalf and in its name. The cost of any such action is not the Company's responsibility but can be recovered from any proceeds the Company receives as a result of the action. If the decision to discharge any of the Company's directors from liability or not to pursue claims against the Company's directors is made by such a majority as is necessary to amend the Articles of Association, the minority shareholders of the Company cannot pursue such claim in the Company's name.

*Indemnification of Directors*

Neither Norwegian law nor the Articles of Association contains any provision concerning indemnification by the Company of the Board of Directors. The Company is permitted to purchase insurance for the Company's directors against certain liabilities that they may incur in their capacity as such.

*Distribution of assets on liquidation*

Under Norwegian law, the Company may be wound-up by a resolution of the Company's shareholders at the general meeting passed by at least two-thirds of the aggregate votes cast and at least two-thirds of the share capital represented at the meeting. In the event of liquidation, the Shares rank equally in the event of a return on capital.

#### *16.10.3 Shareholder agreements*

There are no shareholders' agreements related to the Shares.

# 17 SECURITIES TRADING IN NORWAY

## 17.1 Introduction

The Oslo Stock Exchange was established in 1819 and is the principal market in which shares, bonds and other financial instruments are traded in Norway. As of 30 July 2012, the total capitalisation of companies listed on the Oslo Stock Exchange amounted to approximately NOK 1,598 billion. Shareholdings of non-Norwegian investors as a percentage of total market capitalisation on 30 July 2012 amounted to approximately 36.5%.

The Oslo Stock Exchange has entered into a strategic cooperation with the London Stock Exchange group with regards to, *inter alia*, trading systems for equities, fixed income and derivatives.

## 17.2 Trading and settlement

Trading of equities on the Oslo Stock Exchange is carried out in the electronic trading system TradElect. This trading system was developed by the London Stock Exchange and is in use by all markets operated by the London Stock Exchange as well as by the Borsa Italiana and the Johannesburg Stock Exchange.

Official trading on the Oslo Stock Exchange takes place between 09:00 hours (CET) and 16.20 hours (CET) each trading day, with pre-trade period between 08:15 hours (CET) and 09:00 hours (CET), closing auction from 16:20 hours (CET) to 16:30 hours (CET). Reporting of after exchange trades can be done until 17:30 hours (CET).

The settlement period for trading on the Oslo Stock Exchange is three trading days (T+3).

Oslo Clearing ASA, a wholly-owned subsidiary of Oslo Børs VPS Holding ASA, has a license from the Norwegian FSA to act as a central clearing service, and has from 18 June 2010 offered clearing and counterparty services for equity trading on the Oslo Stock Exchange.

Investment services in Norway may only be provided by Norwegian investment firms holding a license under the Norwegian Securities Trading Act, branches of investment firms from an EEA member state or investment firms from outside the EEA that have been licensed to operate in Norway. Investment firms in an EEA member state may also provide cross-border investment services into Norway.

It is possible for investment firms to undertake market-making activities in shares listed in Norway if they have a license to this effect under the Norwegian Securities Trading Act, or in the case of investment firms in an EEA member state, a license to carry out market-making activities in their home jurisdiction. Such market-making activities will be governed by the regulations of the Norwegian Securities Trading Act relating to brokers' trading for their own account. However, such market-making activities do not as such require notification to the Norwegian FSA or the Oslo Stock Exchange except for the general obligation of investment firms that are members of the Oslo Stock Exchange to report all trades in stock exchange listed securities.

## 17.3 Information, control and surveillance

Under Norwegian law, the Oslo Stock Exchange is required to perform a number of surveillance and control functions. The Surveillance and Corporate Control unit of the Oslo Stock Exchange monitors all market activity on a continuous basis. Market surveillance systems are largely automated, promptly warning department personnel of abnormal market developments.

The Norwegian FSA controls the issuance of securities in both the equity and bond markets in Norway and evaluates whether the issuance documentation contains the required information and whether it would otherwise be unlawful to carry out the issuance.

Under Norwegian law, a company that is listed on a Norwegian regulated market, or has applied for listing on such market, must promptly release any inside information directly concerning the company (i.e. precise information about financial instruments, the issuer thereof or other matters which are likely to have a significant effect on the price of the relevant financial instruments or related financial instruments, and which are not publicly available or commonly known in the market). A company may, however, delay the release of such information in order not to prejudice its legitimate interests, provided that it is able to ensure the confidentiality of the information and that the delayed release would not be likely to mislead the public. The Oslo Stock Exchange may levy fines on companies violating these requirements.

### 17.4 The VPS and transfer of shares

The Company's principal share register is operated through the VPS. The VPS is the Norwegian paperless centralised securities register. It is a computerised book-keeping system in which the ownership of, and all transactions relating to, Norwegian listed shares must be recorded. The VPS and the Oslo Stock Exchange are both wholly-owned by Oslo Børs VPS Holding ASA.

All transactions relating to securities registered with the VPS are made through computerised book entries. No physical share certificates are, or may be, issued. The VPS confirms each entry by sending a transcript to the registered shareholder irrespective of any beneficial ownership. To give effect to such entries, the individual shareholder must establish a share account with a Norwegian account agent. Norwegian banks, Norges Bank (being, Norway's central bank), authorised securities brokers in Norway and Norwegian branches of credit institutions established within the EEA are allowed to act as account agents.

As a matter of Norwegian law, the entry of a transaction in the VPS is *prima facie* evidence in determining the legal rights of parties as against the issuing company or any third party claiming an interest in the given security. A transferee or assignee of shares may not exercise the rights of a shareholder with respect to such shares unless such transferee or assignee has registered such shareholding or has reported and shown evidence of such share acquisition, and the acquisition is not prevented by law, the relevant company's Bye-laws or otherwise.

The VPS is liable for any loss suffered as a result of faulty registration or an amendment to, or deletion of, rights in respect of registered securities unless the error is caused by matters outside the VPS' control which the VPS could not reasonably be expected to avoid or overcome the consequences of. Damages payable by the VPS may, however, be reduced in the event of contributory negligence by the aggrieved party.

The VPS must provide information to the Norwegian FSA on an ongoing basis, as well as any information that the Norwegian FSA requests. Further, Norwegian tax authorities may require certain information from the VPS regarding any individual's holdings of securities, including information about dividends and interest payments.

### 17.5 Shareholder register – Norwegian law

Under Norwegian law, shares are registered in the name of the beneficial owner of the shares. As a general rule, there are no arrangements for nominee registration and Norwegian shareholders are not allowed to register their shares in VPS through a nominee. However, foreign shareholders may register their shares in the VPS in the name of a nominee (bank or other nominee) approved by the Norwegian FSA. An approved and registered nominee has a duty to provide information on demand about beneficial shareholders to the company and to the Norwegian authorities. In case of registration by nominees, the registration in the VPS must show that the registered owner is a nominee. A registered nominee has the right to receive dividends and other distributions, but cannot vote in general meetings on behalf of the beneficial owners.

### 17.6 Foreign investment in shares listed in Norway

Foreign investors may trade shares listed on the Oslo Stock Exchange through any broker that is a member of the Oslo Stock Exchange, whether Norwegian or foreign.

### 17.7 Disclosure obligations

If a person's, entity's or consolidated group's proportion of the total issued shares and / or rights to shares in a company listed on a regulated market in Norway (with Norway as its home state, which will be the case for the Company) reaches, exceeds or falls below the respective thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, 2/3 or 90% of the share capital or the voting rights of that company, the person, entity or group in question has an obligation under the Norwegian Securities Trading Act to notify the Oslo Stock Exchange and the issuer immediately. The same applies if the disclosure thresholds are passed due to other circumstances, such as a change in the company's share capital.

### 17.8 Insider trading

According to Norwegian law, subscription for, purchase, sale or exchange of financial instruments that are listed, or subject to the application for listing, on a Norwegian regulated market, or incitement to such dispositions, must not be undertaken by anyone who has inside information, as defined in Section 3-2 of the Norwegian Securities Trading Act. The same applies to the entry into, purchase, sale or exchange of options or futures / forward contracts or equivalent rights whose value is connected to such financial instruments or incitement to such dispositions.

### 17.9 Mandatory offer requirement

The Norwegian Securities Trading Act requires any person, entity or consolidated group that becomes the owner of shares representing more than one-third of the voting rights of a Norwegian company listed on a Norwegian regulated market to, within four weeks, make an unconditional general offer for the purchase of the remaining shares in that company. A mandatory offer obligation may also be triggered where a party acquires the right to become the owner of shares that, together with the party's own shareholding, represent more than one-third of the voting rights in the company and the Oslo Stock Exchange decides that this is regarded as an effective acquisition of the shares in question.

The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares that exceeds the relevant threshold within four weeks of the date on which the mandatory offer obligation was triggered.

When a mandatory offer obligation is triggered, the person subject to the obligation is required to immediately notify the Oslo Stock Exchange and the company in question accordingly. The notification is required to state whether an offer will be made to acquire the remaining shares in the company or whether a sale will take place. As a rule, a notification to the effect that an offer will be made cannot be retracted. The offer and the offer document required are subject to approval by the Oslo Stock Exchange before the offer is submitted to the shareholders or made public.

The offer price per share must be at least as high as the highest price paid or agreed by the offeror for the shares in the six-month period prior to the date the threshold was exceeded. If the acquirer acquires or agrees to acquire additional shares at a higher price prior to the expiration of the mandatory offer period, the acquirer is obliged to restate its offer at such higher price. A mandatory offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered.

In case of failure to make a mandatory offer or to sell the portion of the shares that exceeds the relevant threshold within four weeks, the Oslo Stock Exchange may force the acquirer to sell the shares exceeding the threshold by public auction. Moreover, a shareholder who fails to make an offer may not, as long as the mandatory offer obligation remains in force, exercise rights in the company, such as voting in a general meeting, without the consent of a majority of the remaining shareholders. The shareholder may, however, exercise his / her / its rights to dividends and pre-emption rights in the event of a share capital increase. If the shareholder neglects his / her / its duty to make a mandatory offer, the Oslo Stock Exchange may impose a cumulative daily fine that runs until the circumstance has been rectified.

Any person, entity or consolidated group that owns shares representing more than one-third of the votes in a Norwegian company listed on a Norwegian regulated market is obliged to make an offer to purchase the remaining shares of the company (repeated offer obligation) if the person, entity or consolidated group through acquisition becomes the owner of shares representing 40%, or more of the votes in the company. The same applies correspondingly if the person, entity or consolidated group through acquisition becomes the owner of shares representing 50% or more of the votes in the company. The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares which exceeds the relevant threshold within four weeks of the date on which the mandatory offer obligation was triggered.

Any person, entity or consolidated group that has passed any of the above mentioned thresholds in such a way as not to trigger the mandatory bid obligation, and has therefore not previously made an offer for the remaining shares in the company in accordance with the mandatory offer rules is, as a main rule, obliged to make a mandatory offer in the event of a subsequent acquisition of shares in the company.

### 17.10 Compulsory acquisition

Pursuant to the Norwegian Public Limited Companies Act and the Norwegian Securities Trading Act, a shareholder who, directly or through subsidiaries, acquires shares representing 90% or more of the total number of issued shares in a Norwegian public limited liability company, as well as 90% or more of the total voting rights, has a right, and each remaining minority shareholder of the company has a right to require such majority shareholder, to effect a compulsory acquisition for cash of the shares not already owned by such majority shareholder. Through such compulsory acquisition the majority shareholder becomes the owner of the remaining shares with immediate effect.

If a shareholder acquires shares representing more than 90% of the total number of issued shares, as well as more than 90% of the total voting rights, through a voluntary offer in accordance with the Securities Trading Act, a compulsory acquisition can, subject to the following conditions, be carried out without such shareholder being obliged to make a mandatory offer: (i) the compulsory acquisition is commenced no later than four weeks after the acquisition of shares through the voluntary offer, (ii) the price offered per share is equal to or higher than what the offer price would have been in a mandatory offer, and (iii) the settlement is guaranteed by a financial institution authorised to provide such guarantees in Norway.

A majority shareholder who effects a compulsory acquisition is required to offer the minority shareholders a specific price per share, the determination of which is at the discretion of the majority shareholder. However, where the offeror, after making a mandatory or voluntary offer, has acquired more than 90% of the voting shares of a company and a corresponding proportion of the votes that can be cast at the general meeting, and the offeror pursuant to Section 4-25 of the Public Limited Companies Act completes a compulsory acquisition of the remaining shares within three months after the expiry of the offer period, it follows from the Norwegian Securities Trading Act that the redemption price shall be determined on the basis of the offer price for the mandatory / voluntary offer unless specific reasons indicate another price.

Should any minority shareholder not accept the offered price, such minority shareholder may, within a specified deadline of not less than two months, request that the price be set by a Norwegian court. The cost of such court procedure will, as a general rule, be the responsibility of the majority shareholder, and the relevant court will have full discretion in determining the consideration to be paid to the minority shareholder as a result of the compulsory acquisition.

Absent a request for a Norwegian court to set the price or any other objection to the price being offered, the minority shareholders would be deemed to have accepted the offered price after the expiry of the specified deadline.

### 17.11 Foreign exchange controls

There are currently no foreign exchange control restrictions in Norway that would potentially restrict the payment of dividends to a shareholder outside Norway, and there are currently no restrictions that would affect the right of shareholders of a company that has its shares registered with the VPS who are not residents in Norway to dispose of their shares and receive the proceeds from a disposal outside Norway. There is no maximum transferable amount either to or from Norway, although transferring banks are required to submit reports on foreign currency exchange transactions into and out of Norway into a central data register maintained by the Norwegian customs and excise authorities. The Norwegian police, tax authorities, customs and excise authorities, the National Insurance Administration and the Norwegian FSA have electronic access to the data in this register.

# 18 TAXATION

*Set out below is a summary of certain Norwegian and U.S. tax matters related to the purchase, holding and disposal of the Offer Shares. The statements below regarding Norwegian and U.S. taxation are based on the laws in force in Norway and the United States as of the date of this Prospectus, which may be subject to any changes in law occurring after such date. Such changes could possibly be made on a retrospective basis.*

*The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the shares in the Company. Shareholders who wish to clarify their own tax situation should consult with and rely upon their own tax advisors. Shareholders resident in jurisdictions other than Norway and shareholders who cease to be resident in Norway for tax purposes (due to domestic tax law or tax treaty) should specifically consult with and rely upon their own tax advisors with respect to the tax position in their country of residence and the tax consequences related to ceasing to be resident in Norway for tax purposes.*

*Please note that for the purpose of the summary below, a reference to a Norwegian or non-Norwegian shareholder refers to the tax residency rather than the nationality of the shareholder.*

## 18.1 Norwegian taxation

### *18.1.1 Norwegian shareholders*

#### 18.1.1.1 Taxation of dividends

**Norwegian Personal Shareholders**

Dividends received by shareholders who are individuals resident in Norway for tax purposes ("**Norwegian Personal Shareholders**") are taxable as ordinary income for such shareholders at a flat rate of 28% to the extent the dividend exceeds a tax-free allowance.

The allowance is calculated on a share-by-share basis. The allowance for each share is equal to the cost price of the share multiplied by a determined risk-free interest rate based on the effective rate after tax of interest on treasury bills (*Nw.: "statskasseveksler*") with three months maturity. The allowance is calculated for each calendar year, and is allocated solely to Norwegian Personal Shareholders holding shares at the expiration of the relevant calendar year. Norwegian Personal Shareholders who transfer shares will thus not be entitled to deduct any calculated allowance related to the year of transfer. Any part of the calculated allowance one year exceeding the dividend distributed on the share ("*excess allowance*") may be carried forward and set off against future dividends received on the same share. Any excess allowance will also be included in the basis for calculating the allowance on the same share the following years.

**Norwegian Corporate Shareholders**

Dividends distributed from the Company to shareholders who are limited liability companies (and certain similar entities) resident in Norway for tax purposes ("**Norwegian Corporate Shareholders**"), are effectively taxed at rate of 0.84% (3% of dividend income from such shares is included in the calculation of ordinary income for Norwegian Corporate Shareholders and ordinary income is subject to tax at a flat rate of 28%).

#### 18.1.1.2 Taxation of capital gains on realisation of shares

**Norwegian Personal Shareholders**

Sale, redemption or other disposal of shares is considered a realisation for Norwegian tax purposes. A capital gain or loss generated by a Norwegian Personal Shareholder through a disposal of shares is taxable or tax deductible in Norway. Such capital gain or loss is included in or deducted from the basis for computation of general income in the year of disposal. Ordinary income is taxable at a rate of 28%. The gain is subject to tax and the loss is tax deductible irrespective of the duration of the ownership and the number of shares disposed of.

The taxable gain / deductible loss is calculated per share, as the difference between the consideration for the share and the Norwegian Personal Shareholder's cost price of the share, including any costs incurred in relation to the acquisition or realisation of the share. From this capital gain, Norwegian Personal Shareholders are entitled to deduct a calculated allowance, provided that such allowance has not already been used to reduce taxable dividend income. See Section 18.1.1.1 "Taxation of dividends" above for a description of the calculation of the allowance. The allowance may only be deducted in order to reduce a taxable gain, and cannot increase or produce a deductible loss, i.e. any unused allowance exceeding the capital gain upon the realisation of a share will be annulled.

If the shareholder owns shares acquired at different points in time, the shares that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

**Norwegian Corporate Shareholders**

Norwegian Corporate Shareholders are exempt from tax on capital gains derived from the realisation of shares qualifying for participation exemption. Losses upon the realisation and costs incurred in connection with the purchase and realisation of such shares are not deductible for tax purposes.

18.1.1.3 Net wealth tax

The value of shares is included in the basis for the computation of wealth tax imposed on Norwegian Personal Shareholders. Currently, the marginal wealth tax rate is 1.1% of the value assessed. The value for assessment purposes for shares listed on the Oslo Stock Exchange is equal to the listed value as of 1 January in the year of assessment (i.e. the year following the relevant fiscal year).

Norwegian Corporate Shareholders are not subject to net wealth tax.

*18.1.2 Non-Norwegian shareholders*

18.1.2.1 Taxation of dividends

**Non-Norwegian Personal Shareholders**

Dividends distributed to shareholders who are individuals not resident in Norway for tax purposes ("**Non-Norwegian Personal Shareholders**"), are as a general rule subject to withholding tax at a rate of 25%. The withholding tax rate of 25% is normally reduced through tax treaties between Norway and the country in which the shareholder is resident. The withholding obligation lies with the company distributing the dividends and the Company assumes this obligation.

Non-Norwegian Personal Shareholders resident within the EEA for tax purposes may apply individually to Norwegian tax authorities for a refund of an amount corresponding to the calculated tax-free allowance on each individual share (see above).

If a Non-Norwegian Personal Shareholder is carrying on business activities in Norway and the shares are effectively connected with such activities, the shareholder will be subject to the same taxation of dividends as a Norwegian Personal Shareholder, as described above.

Non-Norwegian Personal Shareholders who have suffered a higher withholding tax than set out in an applicable tax treaty may apply to the Norwegian tax authorities for a refund of the excess withholding tax deducted.

**Non-Norwegian Corporate Shareholders**

Dividends distributed to shareholders who are limited liability companies (and certain other entities) not resident in Norway for tax purposes ("**Non-Norwegian Corporate Shareholders**"), are as a general rule subject to withholding tax at a rate of 25%. The withholding tax rate of 25% is normally reduced through tax treaties between Norway and the country in which the shareholder is resident.

Dividends distributed to Non-Norwegian Corporate Shareholders resident within the EEA for tax purposes are exempt from Norwegian withholding tax provided that the shareholder is the beneficial owner of the shares and that the shareholder is genuinely established and performs genuine economic business activities within the relevant EEA jurisdiction.

If a Non-Norwegian Corporate Shareholder is carrying on business activities in Norway and the shares are effectively connected with such activities, the shareholder will be subject to the same taxation of dividends as a Norwegian Corporate Shareholder, as described above.

Non-Norwegian Corporate Shareholders who have suffered a higher withholding tax than set out in an applicable tax treaty may apply to the Norwegian tax authorities for a refund of the excess withholding tax deducted.

Nominee registered shares will be subject to withholding tax at a rate of 25% unless the nominee has obtained approval from the Norwegian Tax Directorate for the dividend to be subject to a lower withholding tax rate. To obtain such approval the nominee is required to file a summary to the tax authorities including all beneficial owners that are subject to withholding tax at a reduced rate.

The withholding obligation in respect of dividends distributed to Non-Norwegian Corporate Shareholders and on nominee registered shares lies with the company distributing the dividends and the Company assumes this obligation.

18.1.2.2 Capital gains tax

**Non-Norwegian Personal Shareholders**

Gains from the sale or other disposal of shares by a Non-Norwegian Personal Shareholder will not be subject to taxation in Norway unless the Non-Norwegian Personal Shareholder holds the shares in connection with business activities carried out or managed from Norway.

**Non-Norwegian Corporate Shareholders**

Capital gains derived by the sale or other realisation of shares by Non-Norwegian Corporate Shareholders are not subject to taxation in Norway.

18.1.2.3 Net wealth tax

Shareholders not resident in Norway for tax purposes are not subject to Norwegian net wealth tax. Non-Norwegian Personal Shareholders can, however, be taxable if the shareholding is effectively connected to the conduct of trade or business in Norway.

*18.1.3 Inheritance Tax*

When shares are transferred by way of inheritance or gift, such transfer may give rise to inheritance or gift tax in Norway if the decedent, at the time of death, or the donor, at the time of the gift, is a resident or citizen of Norway, or if the shares are effectively connected with a business carried out through a permanent establishment in Norway. However, in the case of inheritance tax, if the decedent was a citizen but not a resident of Norway, Norwegian inheritance tax will not be levied if inheritance tax or a similar tax is levied by the decedent's country of residence. Irrespectively of residence or citizenship, Norwegian inheritance tax may be levied if the shares are held in connection with the conduct of a trade or business in Norway.

Inheritance tax will be applicable to gifts if the donor is a citizen of Norway at the time the gift was given. However, for taxes paid in the donor's country of residence a credit will be given in the Norwegian gift taxes.

The basis for the computation of inheritance tax is the market value at the time the transfer takes place. The rate is progressive from 0 to 15%. For inheritance and gifts from parents to children, the maximum rate is 10%.

*18.1.4 Duties on transfer of shares*

No VAT, stamp or similar duties are currently imposed in Norway on the transfer of shares in Norwegian companies.

## 18.2 United States federal income tax considerations

**TO COMPLY WITH INTERNAL REVENUE SERVICE CIRCULAR 230, TAXPAYERS ARE HEREBY NOTIFIED THAT: (A) THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE INTERNAL REVENUE CODE; (B) THIS PROSPECTUS IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) A TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (defined below) under present law of an investment in the Offer Shares. This summary applies only to U.S. Holders that acquire Offer Shares in the Offering, hold Offer Shares as capital assets and that have the U.S. Dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this Prospectus and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this Prospectus, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. This summary does not address any estate or gift tax consequences or any state, local, or non-U.S. tax consequences.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks
- certain financial institutions
- regulated investment companies
- insurance companies
- broker dealers
- traders that elect to mark to market
- tax-exempt entities
- persons liable for alternative minimum tax
- U.S. expatriates
- persons holding the Offer Shares as part of a straddle, hedging, constructive sale, conversion or integrated transaction
- persons that actually or constructively own 10% or more of the Company's voting stock;
- persons that are resident or ordinarily resident in or have a permanent establishment in a jurisdiction outside the U.S.
- persons who acquired the Offer Shares pursuant to the exercise of any employee share option or otherwise as compensation, or
- persons holding the Offer Shares through partnerships or other pass-through entities.

**PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE OFFER SHARES.**

The discussion below of the U.S. federal income tax consequences to "U.S. Holders" applies to a holder that is a beneficial owner of the Offer Shares and is, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States
- a corporation (or other entity taxable as a corporation) organised under the laws of the United States, any State or the District of Columbia
- an estate whose income is subject to U.S. federal income taxation regardless of its source, or
- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The tax treatment of a partner in a partnership or other entity taxable as a partnership for U.S. federal income tax purposes that holds the Offer Shares generally will depend on such partner's status and the activities of the partnership.

**Dividends**

Subject to the passive foreign investment company rules discussed below, the gross amount of distributions made by the Company with respect to the Offer Shares (including the amount of any Norwegian taxes withheld therefrom, if any) generally will be includable in a U.S. Holder's gross income in the year received as dividend income, but only to the extent that such distributions are paid out of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. The Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, and, accordingly, a U.S. Holder should therefore expect to treat all cash distributions as dividends for such purposes. The dividends will generally be foreign source and non-U.S. taxes withheld therefrom, if any, may be creditable against the U.S. Holder's U.S. federal income tax liability subject to applicable limitations. The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. Dividends received by non-corporate U.S. Holders in taxable years beginning before January 1, 2013 may be "qualified dividend income", which is taxed at the lower applicable capital gains rate provided that (1) the Company is eligible for the benefits of the tax treaty between the United States and Norway (the "Treaty"), (2) the Company is not a passive foreign investment company (as discussed below) for either the taxable year in which the dividend was paid or the preceding taxable year, (3) the U.S. Holder satisfies certain holding period requirements, and (4) the U.S. Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property. We believe we are currently eligible for the benefits of the Treaty. As discussed in more detail below, we do not expect to be treated as a passive foreign investment company for U.S. federal income tax purposes for the current taxable year or in the foreseeable future. U.S. Holders should consult their own tax advisors regarding the availability of the lower rate for dividends paid with respect to the Offer Shares.

The amount of any distribution paid in foreign currency will be equal to the U.S. Dollar value of such currency on the date such distribution is includible in income by the recipient, regardless of whether the payment is in fact converted into U.S. Dollars at that time. Any gain or loss on a subsequent conversion or other disposition of the currency for a different U.S. Dollar amount will be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

**Sale or Other Disposition of the Offer Shares**

Subject to the passive foreign investment company rules discussed below, upon a sale or other disposition of the Offer Shares, a U.S. Holder will recognise a capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realised and the U.S. Holder's tax basis in such Offer Shares. Any such gain or loss generally will be U.S. source gain or loss and will be treated as long term capital gain or loss if the U.S. Holder's holding period in the Offer Shares exceeds one year. Non-corporate U.S. Holders (including individuals) generally will be subject to U.S. federal income tax on long-term capital gain at preferential rates. The deductibility of capital losses is subject to significant limitations. Gain, if any, realized by a U.S. Holder on the sale or other disposition of the Offer Shares generally will be treated as U.S. source income for U.S. foreign tax credit purposes.

If the consideration received upon the sale or other disposition the Offer Shares is paid in foreign currency, the amount realised will be the U.S. Dollar value of the payment received. A U.S. Holder may realise additional gain or loss upon the subsequent sale or disposition of such currency, which will generally be treated as U.S. source ordinary income or loss. If the Offer Shares are treated as traded on an established securities market and the relevant holder is either a cash basis taxpayer or an accrual basis taxpayer who has made a special election (which must be applied consistently from year to year and cannot be changed without the consent of the Internal Revenue Service), such holder will determine the U.S. Dollar value of the amount realised in a foreign currency by translating the amount received at the spot rate of exchange on the settlement date of the sale. If a U.S. Holder is an accrual basis taxpayer that is not eligible to or does not elect to determine the amount realised using the spot rate on the settlement date, it will recognise foreign currency gain or loss to the extent of any difference between the U.S. Dollar amount realised on the date of disposition and the U.S. Dollar value of the currency received at the spot rate on the settlement date.

A U.S. Holder's initial tax basis in the Offer Shares generally will equal the cost of such Offer Shares. If a U.S. Holder used foreign currency to purchase the Offer Shares, the cost of the Offer Shares will be the U.S. Dollar value of the foreign currency purchase price on the date of purchase. If the Offer Shares are treated as traded on an established securities market and the relevant U.S. Holder is either a cash basis taxpayer or an accrual basis taxpayer who has made the special election described above, such holder will determine the U.S. Dollar value of the cost of such Offer Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase.

**Passive Foreign Investment Company**

The Company would be classified as a passive foreign investment company (a "PFIC"), for any taxable year if either: (a) at least 75% of its gross income is "passive income" for purposes of the PFIC rules, or (b) at least 50% of the value of its assets (determined on the basis of a quarterly average) produce or are held for the production of passive income. For this purpose, the Company will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock. Under the PFIC rules, if we were considered a PFIC at any time that a U.S. Holder holds the Offer Shares, we would continue to be treated as a PFIC with respect to such holder's investment unless (i) we cease to be a PFIC and (ii) the U.S. Holder has made a "deemed sale" election under the PFIC rules.

Based on the anticipated market price of the Offer Shares in this Offer and expected price of the Offer Shares following this Offering, and the composition of our income, assets and operations, we do not expect to be treated as a PFIC, for U.S. federal income tax purposes for the current taxable year or in the foreseeable future. This is a factual determination, however, that must be made annually after the close of each taxable year. Therefore there can be no assurance that the Company will not be classified as a PFIC for the current taxable year or for any future taxable year.

If we are considered a PFIC at any time that a U.S. Holder holds Offer Shares, any gain recognized by the U.S. Holder on a sale or other disposition of the Offer Shares, as well as the amount of any "excess distribution" (defined below) received by the U.S. Holder, would be allocated ratably over the U.S. Holder's holding period for the Offer Shares. The amounts allocated to the taxable year of the sale or other disposition (or the taxable year of receipt, in the case of an excess distribution) and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed. For the purposes of these rules, an excess distribution is the amount by which any distribution received by a U.S. Holder on its Offer Shares exceeds 125% of the average of the annual distributions on the Offer Shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the Offer Shares. If we are treated as a PFIC with respect to a U.S. Holder for any taxable year, the U.S. Holder will be deemed to own shares in any of our subsidiaries that are also PFICs. However, an election for mark-to-market treatment would likely not be available with respect to any such subsidiaries. If we are considered a PFIC, a U.S. Holder will also be subject to annual information reporting requirements. U.S. Holders should consult their own tax advisors about the potential application of the PFIC rules to an investment in the Offer Shares.

**U.S. Information Reporting and Backup Withholding**

Dividend payments with respect to the Offer Shares and proceeds from the sale, exchange or redemption of the Offer Shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status may be required to provide such certification on Internal Revenue Service Form W 9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, and such holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

**Information with respect to foreign financial assets**

Individuals that own "specified foreign financial assets" with an aggregate value in excess of US$50,000 are generally required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non U.S. persons, (ii) financial instruments and contracts held for investment that have non U.S. issuers or counterparties, and (iii) interests in foreign entities. The Offer Shares may be subject to these rules if they are held by a U.S. Holder directly. U.S. Holders that are individuals are urged to consult their tax advisers regarding the application of this requirement to their ownership of the Offer Shares.

**Transfer Reporting Requirements**

A U.S. Holder (including a U.S. tax-exempt entity) that transfers cash in exchange for equity of a newly created non-U.S. corporation may be required to file a Form 926 or a similar form with the Internal Revenue Service if (i) such person owned, directly or by attribution, immediately after the transfer at least 10% by vote or value of the corporation or (ii) if the transferred cash, when aggregated with all transfers made by such person (or any related person) within the preceding 12 month period, exceeds USD 100,000. U.S. Holders should consult their tax advisors regarding the applicability of this requirement to their acquisition of Offer Shares.

**THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO YOU. EACH PROSPECTIVE PURCHASER SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE GDRS UNDER THE INVESTOR'S OWN CIRCUMSTANCES.**

# 19 TERMS OF THE OFFERING

## 19.1 Overview of the Offering

The Offering consists of up to 81,000,000 Sale Shares, all of which are existing, validly issued and fully paid-up registered Shares with a par value of NOK 1, offered by the Selling Shareholder. The Sale Shares represent, and will upon completion of the Offering represent, up to 81% of the Shares in issue in the Company. In addition, the Joint Bookrunners may elect to over-allot a number of Additional Shares equalling up to 15% of the number of Sale Shares. The Selling Shareholder has granted UBS Limited, on behalf of the Managers, an Over-Allotment Option to purchase a corresponding number of Additional Shares to cover any such over-allotments. Assuming the Over-Allotment Option is exercised in full, the Offering will amount to up to 93,150,000 Shares, representing 93.15% of the Shares.

The Offering consists of:

- An Institutional Offering, in which Offer Shares are being offered (a) to institutional and professional investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from the prospectus requirements, and (c) in the United States to QIBs, as defined in, and in reliance on Rule 144A of the U.S. Securities Act. The Institutional Offering is subject to a lower limit per application of NOK 1,000,000.
- A Retail Offering, in which Offer Shares are being offered to the public in Norway subject to a lower limit per application of an amount of NOK 10,500 and an upper limit per application of NOK 999,999 for each investor. Each investor subscribing for an amount of NOK 10,500 or more in the Retail Offering will receive a discount of NOK 1,500 on the aggregate Offer Price for the Offer Shares allocated to such investor. Investors who intend to place an order in excess of NOK 999,999 must do so in the Institutional Offering.

All offers and sales outside the United States will be made in compliance with Regulation S.

This Prospectus does not constitute an offer of, or an invitation to purchase, the Offer Shares in any jurisdiction in which such offer or sale would be unlawful. For further details, see "Important Notice" and Section 20 "Selling and Transfer Restrictions".

The Bookbuilding Period for the Institutional Offering will take place from 3 October 2012 at 09:00 hours (CET) to 17 October 2012 at 15:00 hours (CET). The Application Period for the Retail Offering will take place from 3 October 2012 at 09:00 hours (CET) to 17 October 2012 at 12:00 hours (CET). The Selling Shareholder, together with the Managers, reserves the right to extend the Bookbuilding Period at any time. Any extension of the Bookbuilding Period will be announced through the Oslo Stock Exchange's information system on or before 09:00 hours (CET) on the first business day following the then prevailing expiration date of the Bookbuilding Period. An extension of the Bookbuilding Period can be made one or several times, provided, however in no event will the Bookbuilding Period be extended beyond 16:30 hours (CET) on 26 October 2012. In the event of extension of the Bookbuilding Period, the allocation date, the payment dates and the dates of delivery of Offer Shares will be changed accordingly, but the date of Listing and commencement of trading on the Oslo Stock Exchange may not necessarily be changed.

Extension of the Bookbuilding Period will lead to a similar extension of the expiry date under the Application Period.

The Selling Shareholder has, together with the Managers, set an indicative price range for the Offering from NOK 20 to NOK 25 per Offer Share (the "**Indicative Price Range**"). Assuming that the Offer Price is set at the mid-point of this range and all Offer Shares are sold in the Offering (excluding any over-allotments), the aggregate gross amount of the Offering will be approximately NOK 1,823 million. The Selling Shareholder will determine the number of Offer Shares and the Offer Price on the basis of the bookbuilding process in the Institutional Offering and the number of applications received in the Retail Offering. The bookbuilding process, which will form the basis for the final determination of the number of Offer Shares and the Offer Price, will be conducted only in connection with the Institutional Offering. The Indicative Price Range may be amended during the Bookbuilding Period. Any such amendments to the Indicative Price Range will be announced through the information system of the Oslo Stock Exchange.

The Company expects that it will, on or about 17 October 2012, together with Orkla and the Selling Shareholder, enter into a purchase agreement (the "**Purchase Agreement**") with the Joint Bookrunners (as representatives of the Managers) with respect to the Offering of the Offer Shares. On the terms and subject to the conditions set forth in the Purchase Agreement and provided that the Offering has not been terminated prior thereto, the Managers are expected to agree severally and not jointly, to purchase as initial purchasers the Sale Shares being sold by the Selling Shareholder in the Offering. The purchase commitments of each of the Managers will be determined in conjunction with determination of the final Offer Price and number of Offer Shares to be sold in the Offering, which is expected to take place on 17 October 2012.

In addition, the Selling Shareholder has granted the Stabilisation Manager (UBS Limited), on behalf of the Managers, the Over-Allotment Option to purchase a number of Additional Shares equalling up to 15% of the final number of Sale Shares at the Offer Price exercisable, in whole or in part, within a 30-day period commencing at the date of announcement of the final offer price expected to be made on 18 October 2012. The Over-Allotment Option is granted to cover over-allotments, if any, made in connection with the Offering on the terms and subject to the conditions described in this Prospectus. In order to permit delivery in respect of over-allotments made, if any, the Selling Shareholder will, pursuant to the Purchase Agreement, grant to the Stabilisation Manager an option (the "**Lending Option**") to require the Selling Shareholder to lend to the Stabilisation Manager, on behalf of the Managers, up to a number of Shares equal to the number of Additional Shares. See Section 19.8 "Over-allotment and stabilisation activities" below for further details.

The Selling Shareholder, Orkla and the Company will make certain representations and warranties and will agree to certain undertakings in the Purchase Agreement. The Company, to the fullest extent permitted by Norwegian law, the Selling Shareholder and Orkla will undertake, subject to certain conditions and limitations, to indemnify the Managers against certain liabilities in connection with the Offering, including liabilities under applicable securities laws. Orkla's and the Selling Shareholder's aggregate payments pursuant to the indemnity and aggregate liability for damages in respect of any breach of the representations, warranties and other statements of Orkla and the Selling Shareholder in the Purchase Agreement shall not exceed the net proceeds received by the Selling Shareholder in the Offering.

Through the Purchase Agreement, the Selling Shareholder, Orkla and the Company will give an undertaking that will restrict their ability to issue, sell or transfer Shares for 180 days after the date of the Purchase Agreement. For more information about these restrictions, please see Section 19.14 "Lock-up" below.

The Purchase Agreement is expected to provide that the Managers may terminate the Purchase Agreement (and thus the Managers' obligation to purchase the Offer Shares) if prior to 07:30 hours (CET) on first day of Listing on an "if delivered" basis (expected to take place on or about 18 October 2012 as described below) there has been any material adverse change or any development involving a prospective material adverse change in the business, properties, management, financial condition or results of operations of the Group, which would, in the judgment of the Joint Bookrunners, acting in good faith, make it impracticable or inadvisable to proceed with the Offering on the terms and in the manner contemplated in the Prospectus. In addition, the Purchase Agreement is expected to provide that the Managers may terminate the Purchase Agreement (and thus the Managers' obligation to purchase the Offer Shares) if prior to 18:00 hours (CET) on 22 October 2012 one of the following events (each a "**force majeure**" event) occurs:

(i) a suspension or material limitation of trading in securities generally on the Oslo Stock Exchange, the New York Stock Exchange or the London Stock Exchange; (ii) a general moratorium on commercial banking activities declared by the federal, state or local regulatory authorities of Norway, the United States, the United Kingdom or any original member state of the European Union or a material disruption in commercial banking or securities settlement or clearance services in Norway, the United States, the United Kingdom or any original member state of the European Union; (iii) an outbreak or escalation of hostilities or acts of terrorism involving Norway, the United States, the United Kingdom or any original member state of the European Union or a declaration by Norway, the United States, the United Kingdom or any member state of the European Union of a national emergency or war; or (iv) any other calamity or crisis or any material adverse change in financial, political or economic conditions in Norway, the United States, the United Kingdom or any original member state of the European Union or elsewhere, if the effect of any such event specified in clauses (i) through (iv) makes it impracticable or inadvisable, in the judgment of the Joint Bookrunners, acting in good faith, to proceed with the Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in this Prospectus.

Further, the Purchase Agreement may terminate if prior to 18:00 hours (CET) on 22 October 2012, a Manager (or Managers) defaults in its obligation to purchase the number of Sale Shares it has agreed to purchase under the Purchase Agreement, and the aggregate number of such Sale Shares exceeds 10% of the total number of Sale Shares which all Managers are obligated to purchase under the Purchase Agreement and neither the non-defaulting Managers nor the Selling Shareholders shall have made arrangements for the purchase or subscription by another party or other parties of such Sale Shares.

Unless the Purchase Agreement has been terminated, delivery of the Offer Shares to investors being allocated Offer Shares in the Offering is expected to take place on or about 22 October 2012 for the Retail Offering and subject to due payment for allocated Offer Shares having been received from investors, and 23 October 2012 for the Institutional Offering (on a delivery versus payment basis).

**The Offer Shares allocated in the Offering are expected to be traded on the Oslo Stock Exchange on a conditional "if delivered" basis from and including 18 October 2012 to and including 22 October 2012. Trades during this period will, in accordance with the ordinary settlement cycle for trades over the Oslo Stock Exchange, be settled on T+3 (T being the trade date). Thus, any trade made on 18 October 2012 will be settled on 23 October 2012. Should any of the termination events described above occur in the period from commencement of conditional trading (expected to take place on 18 October 2012) to commencement of unconditional trading in the Shares (expected to take place on 23 October 2012 as described below), or such earlier time when it has become impossible to stop the transfer of Offer Shares through VPS, and the Purchase Agreement is terminated, no trades that have occurred in the Shares will be settled, and investors will have no right to compensation for any loss suffered as a result of such cancellation.**

Depending on the policy of their respective bank or investment firm, investors wanting to trade their allocated Offer Shares through an internet account prior to commencement of unconditional trading in the Shares on 23 October 2012, may be prevented from such trading. Investors wanting to trade their allocated Offer Shares through an internet account prior to commencement of unconditional trading are therefore urged to confirm the possibility of this with their own account operator.

Completion of the Offering is conditional upon, among other conditions, the Company satisfying the listing conditions and being listed on the Oslo Stock Exchange, see Section 19.12 "Conditions for completion of the Offering" below.

## 19.2 Timetable

The timetable set out below provides certain indicative key dates for the Offering (subject to extension):

| | |
|---|---|
| Bookbuilding Period commences | 3 October 2012 at 09:00 hours (CET) |
| Bookbuilding Period ends | 17 October 2012 at 15:00 hours (CET) |
| Application Period commences | 3 October 2012 at 09:00 hours (CET) |
| Application Period ends | 17 October 2012 at 12:00 hours (CET) |
| Allocation of the Offer Shares | On or about 17 October 2012 |
| Publication of the results of the Offering | On or about 18 October 2012 |
| Distribution of allocation letters | On or about 18 October 2012 |
| Listing and commencement of conditional trading in the Shares | On or about 18 October 2012 |
| Accounts from which payment will be debited in the Retail Offering to be sufficiently funded | On or about 19 October 2012 |
| Payment date in the Retail Offering | On or about 22 October 2012 |
| Delivery of the Offer Shares in the Retail Offering | On or about 22 October 2012 |
| Payment date in the Institutional Offering | On or about 23 October 2012 |
| Delivery of the Offer Shares in the Institutional Offering | On or about 23 October 2012 |
| Commencement of unconditional trading in the Shares | On or about 23 October 2012 |

Note that the Selling Shareholder, together with the Managers, reserves the right to extend the Bookbuilding Period and the Application Period. In that event, the dates presented above are expected to change accordingly.

## 19.3 The Institutional Offering

### *19.3.1 Determination of the number of Offer Shares and the Offer Price*

The Selling Shareholder has, together with the Managers, set an Indicative Price Range for the Offering from NOK 20 to NOK 25 per Offer Share. The Selling Shareholder will determine the number of Offer Shares and the Offer Price on the basis of the applications received and not withdrawn in the Institutional Offering during the Bookbuilding Period and the number of applications received in the Retail Offering. The Offer Price will be determined on or about 17 October 2012. The Offer Price may be set within, below or above the Indicative Price Range. Investors' applications for Offer Shares in the Institutional Offering will, after the end of the Bookbuilding Period, be irrevocable and binding regardless of whether the Offer Price is set within, above or below the Indicative Price Range. The final Offer Price is expected to be announced by the Company through the Oslo Stock Exchange's information system on or about 18 October 2012 under the ticker code "BRG".

*19.3.2 Bookbuilding Period*

The Bookbuilding Period for the Institutional Offering will last from 3 October 2012 at 09:00 hours (CET) to 17 October 2012 at 15:00 hours (CET), unless extended.

*19.3.3 Minimum application*

The Institutional Offering is subject to a minimum application of NOK 1,000,000 per application. Investors in Norway who intend to place an application for less than NOK 1,000,000 must do so in the Retail Offering.

*19.3.4 Application procedure*

Applications for Offer Shares in the Institutional Offering must be made during the Bookbuilding Period by informing one of the Managers shown below of the number of Offer Shares that the investor wishes to order, and the price per share that the investor is offering to pay for such Offer Shares.

ABG Sundal Collier
Munkedamsveien 45E
0115 Oslo
Norway

UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

DNB Markets
Stranden 21
0021 Oslo
Norway

Handelsbanken Capital Markets
Tjuvholmen Allé 11
0110 Oslo
Norway

SEB Enskilda
Filipstad Brygge 1
0123 Oslo
Norway

All applications in the Institutional Offering will be treated in the same manner regardless of which Manager the applicant chooses to place the application with. Any orally placed application in the Institutional Offering will be binding upon the investor and subject to the same terms and conditions as a written application. The Managers can, at any time and in their sole discretion, require the investor to confirm any orally placed application in writing. Applications made may be withdrawn or amended by the investor at any time up to the end of the Bookbuilding Period. At the close of the Bookbuilding Period, all applications that have not been withdrawn or amended are irrevocable and binding upon the investor.

*19.3.5 Allocation, payment for and delivery of Offer Shares*

The Managers expect to issue notifications of allocation of Offer Shares in the Institutional Offering on or about 18 October 2012, by issuing contract notes to the applicants by mail or otherwise.

Payment by applicants in the Institutional Offering will take place against delivery of Offer Shares. Delivery and payment for Offer Shares is expected to take place on or about 23 October 2012 (the "**Institutional Closing Date**").

For late payment, interest will accrue on the amount due at a rate equal to the prevailing interest rate under the Norwegian Act on Overdue Payment of 17 December 1976, no. 100, which, at the date of this Prospectus, is 8.50% per annum. Should payment not be made when due, the Offer Shares allocated will not be delivered to the applicants, and the Managers reserve the right, at the risk and cost of the applicant (and the applicant will not be entitled to any profit there from), to cancel the application and to re-allot or otherwise dispose of the allocated Offer Shares on such terms and in such manner as the Managers may decide. The original applicant remains liable for payment for the Offer Shares allocated to the applicant, together with any interest, cost, charges and expenses accrued, or the Managers may enforce payment for any such amount outstanding.

## 19.4 The Retail Offering

*19.4.1 Offer Price*

The price for the Offer Shares offered in the Retail Offering will be the same as in the Institutional Offering, see Section 19.3.1 "Determination of the number of Offer Shares and the Offer Price" above, however, each investor subscribing for an amount of NOK 10,500 or more in the Retail Offering will receive an discount of NOK 1,500 on the aggregate Offer Price for the Offer Shares allocated to such investor. Multiple applications from one investor will be treated as one application with respect to the maximum application level and discount.

Each applicant in the Retail Offering will be permitted, but not required, to indicate when ordering through the VPS online subscription system or on the application form to be used to apply for Offer Shares in the Retail Offering, attached to this Prospectus as Appendix E and Appendix F (the "**Retail Application Form**"), that the applicant does not wish to be allocated Offer Shares should the Offer Price be set higher than the highest price in the Indicative Price

Range. If the applicant does so, the applicant will not be allocated any Offer Shares in the event that the Offer Price is set higher than the highest price in the Indicative Price Range. If the applicant does not expressly stipulate such reservation when ordering through the VPS online subscription system or on the Retail Application Form, the application will be binding regardless of whether the Offer Price is set within or above (or below) the Indicative Price Range, so long as the Offer Price has been determined on the basis of orders placed during the bookbuilding process described above.

*19.4.2 Application Period*

The Application Period during which applications for Offer Shares in the Retail Offering will be accepted will last from 3 October 2012 at 09:00 hours (CET) to 17 October 2012 at 12:00 hours (CET), unless extended. An extension of the Bookbuilding Period, see Section 19.1 "Overview of the Offering" will lead to a similar extension of the Application Period in the Retail Offering.

*19.4.3 Minimum and maximum application*

The Retail Offering is subject to a minimum application amount of NOK 10,500 and a maximum application amount of NOK 999,999 for each applicant.

Multiple applications are allowed. One or multiple applications from the same applicant in the Retail Offering with a total application amount in excess of NOK 999,999 will be adjusted downwards to an application amount of NOK 999,999. If two or more identical application forms are received from the same investor in the same offering, the application form will only be counted once unless otherwise explicitly stated on one of the application forms. In the case of multiple applications through the online application system or applications made both on a physical application form and through the online application system, all applications will be counted. Investors who intend to place an order in excess of NOK 999,999 must do so in the Institutional Offering.

*19.4.4 Application procedure and application offices*

Norwegian applicants in the Retail Offering who are residents of Norway with a Norwegian personal identification number are recommended to apply for Offer Shares through the VPS online application system by following the link to such online application system on the following internet pages: www.abgsc.no, www.dnb.no/emisjoner, www.handelsbanken.no/aktiviteter and www.sebenskilda.no. Applicants in the Retail Offering not having access to the Internet for electronic application must apply using the Retail Application Form attached to this Prospectus as Appendix E "Application Form for the Retail Offering" in English or as Appendix F "Application Form for the Retail Offering" in Norwegian. Retail Application Forms, together with this Prospectus, can be obtained from the Company, the Company's web page www.borregaard.com, the Managers' web pages listed above or the application offices set out below. Applications made through the VPS online application system must be duly registered during the Application Period.

The application offices for physical applications in the Retail Offering are:

ABG Sundal Collier
Munkedamsveien 45E
0115 Oslo
Norway
Tel: +47 22 01 60 00
Fax: +47 22 01 60 60

DNB Markets
Stranden 21
0021 Oslo
Norway
Tel: +47 23 26 81 01
Fax: +47 22 48 29 80

Handelsbanken Capital Markets
Tjuvholmen Allé 11
0110 Oslo
Norway
Tel: +47 22 39 70 00
Fax: +47 22 39 70 68

SEB Enskilda
Filipstad Brygge 1
0123 Oslo
Norway
Tel: +47 21 00 85 00
Fax: +47 21 00 89 06

All applications in the Retail Offering will be treated in the same manner regardless of which Manager the applications are placed with. Further, all applications in the Retail Offering will be treated in the same manner regardless of whether they are submitted by delivery of a Retail Application Form or through the VPS online application system.

Retail Application Forms that are incomplete or incorrectly completed, electronically or physically, or that are received after the expiry of the Application Period, may be disregarded without further notice to the applicant. Subject to an extension of the Application Period, properly completed Retail Application Forms must be received by one of the application offices listed above or registered electronically through the VPS application system by 12:00 hours (CET) on 17 October 2012. Neither the Selling Shareholder nor any of the Managers may be held responsible for postal delays, unavailable fax lines, internet lines or servers or other logistical or technical matters that may result in applications not being received in time or at all by any application office.

Subject to Section 19.4.1 "Offer Price" above, all applications made in the Retail Offering will be irrevocable and binding upon receipt of a duly completed Retail Application Form, or in the case of applications through the VPS online application system, upon registration of the application, irrespective of any extension of the Application Period, and cannot be withdrawn, cancelled or modified by the applicant after having been received by the application office, or in the case of applications through the VPS online application system, upon registration of the application.

#### *19.4.5 Allocation, payment for and delivery of Offer Shares*

DNB Markets, acting as settlement agent for the Retail Offering, expects to issue notifications of allocation of Offer Shares in the Retail Offering on or about 18 October 2012, by issuing allocation notes to the applicants by mail or otherwise. Any applicant wishing to know the precise number of Offer Shares allocated to it, may contact one of the application offices on or about 18 October 2012 during business hours. Applicants who have access to investor services through an institution that operates the applicant's account with the VPS for the registration of holdings of securities ("**VPS account**") should be able to see how many Offer Shares they have been allocated from on or about 18 October 2012.

In registering an application through the VPS online application system or completing a Retail Application Form, each applicant in the Retail Offering will authorise DNB Markets (on behalf of the Managers) to debit the applicant's Norwegian bank account for the total amount due for the Offer Shares allocated to the applicant. The applicant's bank account number must be stipulated on the VPS online application or on the Retail Application Form. Accounts will be debited on or about 22 October 2012 (the "**Payment Date**"), and there must be sufficient funds in the stated bank account from and including 19 October 2012. Applicants who do not have a Norwegian bank account must ensure that payment for the allocated Offer Shares is made on or before the Payment Date (22 October 2012).

Further details and instructions will be set out in the allocation notes to the applicant to be issued on or about 18 October 2012, or can be obtained by contacting DNB Markets at + 47 23 26 81 01.

Should any applicant have insufficient funds on his or her account, or should payment be delayed for any reason, or if it is not possible to debit the account, interest will accrue on the amount due at a rate equal to the prevailing interest rate under the Norwegian Act on Interest on Overdue Payments of 17 December 1976, No. 100, which at the date of this Prospectus is 8.50% per annum. DNB Markets (on behalf of the Managers) reserves the right (but has no obligation) to make up to three debit attempts through 26 October 2012 if there are insufficient funds on the account on the Payment Date. Should payment not be made when due, the Offer Shares allocated will not be delivered to the applicant, and the Managers reserve the right, at the risk and cost of the applicant (and that the applicant will not be entitled to any profit there from), to at any time cancel the application and to re-allot or otherwise dispose of the allocated Offer Shares, on such terms and in such manner as the Managers may decide. The original applicant will remain liable for payment of the Offer Price for the Offer Shares allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Selling Shareholder or the Managers may enforce payment for any such amount outstanding.

Subject to timely payment by the applicant, delivery of the Offer Shares allocated in the Retail Offering is expected to take place on or about 22 October 2012.

### 19.5 Mechanism of allocation

It has been provisionally assumed that approximately 90% of the Offering will be allocated in the Institutional Offering and that approximately 10% of the Offering will be allocated in the Retail Offering. The final determination of the number of Offer Shares allocated to the Institutional Offering and the Retail Offering will only be decided, however, following the completion of the bookbuilding process for the Institutional Offering, based on the level of orders or applications received from each of the categories of investors relative to the level of applications or orders received in the Retail Offering. The Selling Shareholder and the Managers reserve the right to deviate from the provisionally assumed allocation between tranches without further notice and at their sole discretion.

No Offer Shares have been reserved for any specific national market.

In the Institutional Offering, the Selling Shareholder together with the Managers will determine the allocation of Offer Shares. An important aspect of the allocation principles is the desire to create an appropriate long-term shareholder structure for the Company. The allocation principles will, in accordance with normal practice for institutional placements, include factors such as premarketing and management road-show participation and feedback, timeliness of the order, price level, relative order size, sector knowledge, investment history, perceived investor quality and investment horizon. The Selling Shareholder and the Managers further reserve the right, at their sole discretion, to take into account the creditworthiness of any applicant. The Selling Shareholder and the Managers may also set a maximum allocation, or decide to make no allocation to any applicant.

In the Retail Offering, no allocations will be made for a number of Offer Shares representing an aggregate value of less than NOK 10,500 per applicant, however, all allocations will be rounded down to the nearest number of whole Offer Shares and the payable amount will hence be adjusted accordingly. One or multiple orders from the same applicant in the Retail Offering with a total application amount in excess of NOK 999,999 will be adjusted downwards to an application amount of NOK 999,999. In the Retail Offering, allocation will be made solely on a pro rata basis using the VPS' automated simulation procedures. However, the Company will aim to, and reserves its right to, give a higher allocation percentage to applicants who were (i) shareholders of Orkla as of 2 October 2012, and (ii) employees of Borregaard in Norway as of 2 October 2012. For the purposes of determining who were shareholders of Orkla as of 2 October 2012, reliance will be made on Orkla's register of shareholders with the VPS as of 5 October 2012. Hence, shareholders of Orkla as of 2 October 2012 will be deemed to be those shareholders appearing as such in Orkla's register of shareholders with the VPS as of 5 October 2012 unless otherwise determined at the sole discretion of the Selling Shareholder. The Selling Shareholder reserves the right to limit the total number of applicants to whom Offer Shares are allocated if the Selling Shareholder deems this to be necessary in order to keep the number of shareholders in the Company at an appropriate level and such limitation does not have the effect that any conditions for the Listing regarding number of shareholders will not be satisfied. If the Selling Shareholder should decide to limit the total number of applicants to whom Offer Shares are allocated, the applicants to whom Offer Shares are allocated will be determined on a random basis by using the VPS automated simulation procedures and / or other random allocation mechanism.

### 19.6 VPS account

To participate in the Offering, each applicant must have a VPS account. The VPS account number must be stated when registering an application through the VPS online application system or on the Retail Application Form for the Retail Offering. VPS accounts can be established with authorised VPS registrars, which can be Norwegian banks, authorised investment firms in Norway and Norwegian branches of credit institutions established within the EEA. However, non-Norwegian investors may use nominee VPS accounts registered in the name of a nominee. The nominee must be authorised by the Norwegian Ministry of Finance. Establishment of VPS accounts requires verification of identification by the relevant VPS registrar in accordance with the Norwegian anti-money laundering legislation (see Section 19.7 "Mandatory anti-money laundering procedures" below).

### 19.7 Mandatory anti-money laundering procedures

The Offering is subject to applicable anti-money laundering legislation, including the Norwegian Money Laundering Act of 6 March 2009 No. 11 and the Norwegian Money Laundering Regulations of 13 March 2009 No. 302 (collectively, the "**Anti-Money Laundering Legislation**").

Applicants who are not registered as existing customers of any of the Managers must verify their identity to the Manager in which the order is placed in accordance with the requirements of the Anti-Money Laundering Legislation, unless an exemption is available. Applicants who have designated an existing Norwegian bank account and an existing VPS account on the Retail Application Form are exempted, unless verification of identity is requested by any of the Managers. Applicants who have not completed the required verification of identity prior to the expiry of the Application Period may not be allocated Offer Shares.

### 19.8 Over-allotment and stabilisation activities

#### *19.8.1 Over-allotment of Additional Shares*

In connection with the Offering, the Joint Bookrunners may elect to over-allot a number of Additional Shares equalling up to 15% of the number of Sale Shares and, in order to permit the delivery in respect of over-allotments made, the Stabilisation Manager may, pursuant to the Lending Option, require the Selling Shareholder to lend to the Stabilisation Manager, on behalf of the Managers, up to a number of Shares equal to the number of Additional Shares. Further, pursuant to the Over-Allotment Option, the Selling Shareholder has granted the Stabilisation Manager, on behalf of the Managers, an option to purchase a number of Additional Shares equal to up to 15% of the number of Sale Shares at a price equal to the final Offer Price in the Offering, as may be necessary to cover over-allotments, if any, made in connection with the Offering. To the extent that the Managers have over-allotted Shares in the Offering, the Managers have created a short position in the Shares. The Stabilisation Manager may close out this short position by buying Shares in the open market through stabilisation activities and/or by exercising the Over-Allotment Option.

A stock exchange notice will be made on 18 October 2012 announcing whether the Managers have over-alloted Shares in connection with the Offering. Any exercise of the Over-Allotment Option will be promptly announced by the Stabilisation Manager through the information system of the Oslo Stock Exchange.

#### *19.8.2 Price stabilisation*

The Stabilisation Manager (UBS Limited) may, upon exercise of the Lending Option, effect transactions with a view to supporting the market price of the Shares at a level higher than what might otherwise prevail, through buying Shares in the open market at prices equal to or lower than the Offering Price. There is no obligation on the Stabilisation Manager to conduct stabilisation activities and there is no assurance that stabilisation activities will be undertaken. Such stabilising activities, if commenced, may be discontinued at any time, and will be brought to an end at the latest 30 calendar days after first day of Listing. It should be noted that stabilisation activities might result in market prices that are higher than would otherwise prevail.

Any stabilisation activities will be conducted in accordance with Section 3-12 of the Norwegian Securities Trading Act and the EC Commission Regulation 2273/2003 regarding buy-back programmes and stabilisation of financial instruments.

The Selling Shareholder and the Joint Bookrunners have agreed that 50% of the net profit, if any, resulting from stabilisation activities conducted by the Stabilisation Manager, on behalf of the Managers, will be for the account of the Selling Shareholder while the remaining 50% will be for the account of the Managers.

Within one week after the expiry of the 30 calendar day period of price stabilisation, the Stabilisation Manager will publish information as to whether or not price stabilisation activities were undertaken. If stabilisation activities were undertaken, the statement will also include information about: (i) the total amount of Shares sold and purchased; (ii) the dates on which the stabilisation period began and ended; (iii) the price range between which stabilisation was carried out, as well as the highest, lowest and average price paid during the stabilisation period; and (iv) the date at which stabilisation activities last occurred.

### 19.9 Publication of information in respect to the Offering

In addition to press releases which will be posted on the Company's website, the Company will use the Oslo Stock Exchange’s information system to publish information relating to the Offering, such as amendments of the Bookbuilding Period and Application Period if any, the final Offer Price, number of Offer Shares and total amount of the Offering, allotment percentages, and first day of trading.

The final determination of the Offer Price, the number of Offer Shares and the total amount of the Offering is expected to be published on or about 18 October 2012.

### 19.10 The rights conferred by the Offer Shares

The Offer Shares will in all respects carry full shareholders’ rights in the Company on an equal basis as any other Shares in the Company, including the right to any dividends. For a description of rights attached to the Shares in the Company, see Section 16 “Corporate information and description of Share Capital”.

### 19.11 VPS registration

The Shares, including the Offer Shares, have been created under the Norwegian Public Limited Liability Companies Act. The Offer Shares are registered in book-entry form with the VPS and have ISIN NO 001 0657505. The Company’s register of shareholders with the VPS is administrated by DNB Bank ASA, Registrars Department, 0021 Oslo, Norway.

### 19.12 Conditions for completion of the Offering - Listing and trading of the Offer Shares

The Company has on 28 August 2012 applied for listing of its Shares on the Oslo Stock Exchange.

On 25 September 2012, the board of directors of the Oslo Stock Exchange approved the Company’s listing application, subject to satisfaction of the following outstanding conditions:

- The Company having in excess of 500 shareholders, each holding Shares with a value of more than NOK 10,000.
- There being a minimum free float of the Shares of 25%.
- The publication of this Prospectus.

The Company expects that these conditions will be fulfilled through the Offering.

Completion of the Offering on the terms set forth in this Prospectus is expressly conditioned upon the satisfaction of the conditions for admission to trading set by the Oslo Stock Exchange, and the Offering will be cancelled in the event that the conditions are not satisfied. There can be no assurance that the Company will satisfy these conditions.

Completion of the Offering on the terms set forth in this Prospectus is otherwise only conditional on (i) the Selling Shareholder, in consultation with the Managers having approved the Offer Price and the allocation of the Offer Shares to eligible investors following the bookbuilding process, (ii) the Company, Orkla and the Selling Shareholder and the Joint Bookrunners (as representatives of the Managers) having entered into the Purchase Agreement and satisfaction of the conditions for the closing of the Purchase Agreement, (iii) the Purchase Agreement not having been terminated by the Managers due to force majeure, and (iv) the Purchase Agreement not having been terminated due to default by a Manager or the Managers to purchase the number of Offer Shares it is or they are obligated to purchase under the Purchase Agreement (see Section 19.1 "Overview of the Offering"). There can be no assurance that these conditions will be satisfied.

Assuming that the conditions are satisfied, the first day of trading on an "if delivered basis" of the Shares, including the Offer Shares, on the Oslo Stock Exchange is expected to be on or about 18 October 2012. The Shares are expected to trade under the ticker code "BRG".

Applicants in the Retail Offering selling Offer Shares prior to delivery must ensure that payment for such Offer Shares is made on or prior to the Payment Date, by ensuring the stated bank account is sufficiently funded on 19 October 2012 or otherwise. Applicants in the Institutional Offering selling Offer Shares prior to delivery must ensure that payment for such Offer Shares is made on or prior to Institutional Closing Date. Accordingly, an applicant who wishes to sell his Offer Shares, following confirmed allocation of Offer Shares, but before delivery must ensure that payment is made in order for such Offer Shares to be delivered in time to the applicant.

Prior to the Listing and the Offering, the Shares are not listed on any stock exchange or authorised market place, and no application has been filed for listing on any other stock exchanges or regulated market places other than the Oslo Stock Exchange.

### 19.13 Expenses of the Offering and the Listing

The Selling Shareholder will pay to the Managers commissions of 2.00% of the aggregate Offer Price of the Sale Shares and Additional Shares purchased pursuant to the Purchase Agreement. In addition, the Selling Shareholder may, at its sole discretion pay to the Managers an additional incentive commission of up to 0.75% of the aggregate Offer Price of the Sale Shares and Additional Shares purchased pursuant to the Purchase Agreement, which will be determined by the end of the stabilisation period. The total costs and expenses of, and incidental to, the Listing and the Offering are estimated to amount to NOK 87 million (including VAT) if all Sale Shares and Additional Shares are sold by the Selling Shareholder and the Selling Shareholder decides to pay the incentive fee in full (based on a price of NOK 22.50 per Share – which is the mid-point of the Indicative Price Range). The total costs and expenses will be borne by the Selling Shareholder, except that the Company will pay the fees to the Oslo Stock Exchange (relating to the Listing) and the Norwegian FSA (relating to the approval of this Prospectus).

### 19.14 Lock-up

Pursuant to the Purchase Agreement, neither the Company nor its subsidiaries will (i) issue, sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares, or warrants or other rights to purchase Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any securities convertible into or exercisable or exchangeable for Shares, or warrants or other rights to purchase Shares, whether any such transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise, or (iii) publicly announce an intention to effect any transaction specified in clause (i) or (ii), for a period of 180 days after the date of the Purchase Agreement (expected to be 17 October 2012), without the prior written consent of the Joint Bookrunners, except for grants of Shares and employee stock options for Shares and issuances of Shares upon such grants of Shares or upon exercise of such options pursuant to any Company employee incentive program and, subject to prior consultation with the Joint Bookrunners, any issuance of Shares which is legally required to comply with section 3-4 of the Norwegian Public Limited Companies Act.

Pursuant to the Purchase Agreement, the Selling Shareholder and Orkla will undertake that, without the prior written consent of the Joint Bookrunners, they will not, during a period ending 180 days after the date of the Purchase Agreement: (i) sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly any Shares or any securities convertible into or exercisable or exchangeable for Shares, or warrants or other rights to purchase Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any securities convertible into or exercisable or exchangeable for Shares, or warrants or other rights to purchase Shares, whether any such transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise, or (iii) publicly announce an intention to effect any transaction specified in clause (i) or (ii), except for sales to the Managers pursuant to the Purchase Agreement.

### 19.15 Interests of natural and legal persons involved in the Offering

The Managers or their affiliates have provided from time to time, and may provide in the future, investment and commercial banking services to the Company and its affiliates in the ordinary course of business, for which they may have received and may continue to receive customary fees and commissions. The Managers do not intend to disclose the extent of any such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Selling Shareholder will receive the proceeds of the Offering.

Beyond the abovementioned, the Company is not known with any interest of natural and legal persons involved in the Offering.

### 19.16 Participation of members of the Company's Management and Board of Directors in the Offering

The Company is not aware of whether any members of the Company's Management or Board of Directors intend to subscribe for Offer Shares in the Offering, or whether any person intends to subscribe for more than 5% of the Offer Shares.

### 19.17 Governing law and jurisdiction

This Prospectus, the Retail Application Form and the terms and conditions of the Offering shall be governed by and construed in accordance with Norwegian law. The Shares (including the Offer Shares) are issued in accordance with the provisions of the Norwegian Public Limited Liability Companies Act. Any dispute arising out of, or in connection with, this Prospectus, the Retail Application Form or the Offering shall be subject to the exclusive jurisdiction of the courts of Norway, with Oslo District Court as legal venue.

# 20 SELLING AND TRANSFER RESTRICTIONS

## 20.1 General

As a consequence of the following restrictions, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Shares offered hereby.

Other than in Norway, the Company is not taking any action to permit a public offering of the Shares in any jurisdiction. Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this Prospectus is for information only and should not be copied or redistributed. Except as otherwise disclosed in this Prospectus, if an investor receives a copy of this Prospectus in any jurisdiction other than Norway, the investor may not treat this Prospectus as constituting an invitation or offer to it, nor should the investor in any event deal in the Shares, unless, in the relevant jurisdiction, such an invitation or offer could lawfully be made to that investor, or the Shares could lawfully be dealt in without contravention of any unfulfilled registration or other legal requirements. Accordingly, if an investor receives a copy of this Prospectus, the investor should not distribute or send the same, or transfer Shares, to any person or in or into any jurisdiction where to do so would or might contravene local securities laws or regulations.

## 20.2 Selling restrictions

### *20.2.1 United States*

The Offer Shares have not been and will not be registered under the U.S. Securities Act, and may not be offered or sold except: (i) within the United States to QIBs in reliance on Rule 144A; or (ii) to certain persons in offshore transactions compliance with Regulation S under the U.S. Securities Act, and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any of the Offer Shares as part of its allocation at any time other than to QIBs in the United States in accordance with Rule 144A or outside of the United States in compliance with Rule 903 of Regulation S. Transfer of the Offer Shares will be restricted and each purchaser of the Offer Shares in the United States will be required to make certain acknowledgements, representations and agreements, as described under Section 20.3.1 "United States".

Any offer or sale in the United States will be made by affiliates of the Managers who are broker-dealers registered under the U.S. Exchange Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by a dealer, whether or not participating in the Offering, may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A of the U.S. Securities Act and in connection with any applicable state securities laws.

### *20.2.2 United Kingdom*

Each Manager has represented, warranted and agreed that:

a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Offer Shares in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

b) it has complied and will comply with all applicable provisions of the FSMA with respect to everything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

### *20.2.3 European Economic Area*

In relation to each Relevant Member State, with effect from and including the Relevant Implementation Date, an offer to the public of any Offer Shares which are the subject of the offering contemplated by this Prospectus may not be made in that Relevant Member State, other than the offering in Norway as described in this Prospectus, once the Prospectus has been approved by the competent authority in Norway and published in accordance with the EU Prospectus Directive as implemented in Norway, except that an offer to the public in that Relevant Member State of any Offer Shares may be made at any time with effect from and including the Relevant Implementation Date under the following exemptions under the EU Prospectus Directive, if they have been implemented in that Relevant Member State:

a) to legal entities which are qualified investors as defined in the EU Prospectus Directive

b) to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive), as permitted under the EU Prospectus Directive, subject to obtaining the prior consent of the Joint Bookrunners for any such offer, or

c) in any other circumstances falling within Article 3(2) of the EU Prospectus Directive;

provided that no such offer of Offer Shares shall require the Company, the Selling Shareholder or any Manager to publish a prospectus pursuant to Article 3 of the EU Prospectus Directive or supplement a prospectus pursuant to Article 16 of the EU Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase any Offer Shares, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State the expression "EU Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

This EEA selling restriction is in addition to any other selling restrictions set out in this Prospectus.

*20.2.4 Additional jurisdictions*

**Australia**

This Prospectus has not been lodged with the Australian Securities and Investments Commission as a disclosure document under Chapter 6D of the Corporations Act 2001 (Cwth) of Australia (the "Corporations Act") and is only directed to certain categories of exempt persons. Accordingly, if you receive this Prospectus in Australia:

a) you confirm and warrant that you are either:

   (i) a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act

   (ii) a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate pursuant to the section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made

   (iii) a person associated with the Company under section 708(12) of the Corporations Act, or

   (iv) a "professional investor" within the meaning of section 708(11)(a) or (b) of the Corporations Act,

   and, to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act, any offer made to you under this document is void and incapable of acceptance; and

b) you warrant and agree that you will not offer any of the Offer Shares sold to you pursuant to this Prospectus for resale in Australia within 12 months of those Offer Shares being sold unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

**Canada**

This Prospectus is not, and under no circumstance is to be construed as, a prospectus, an advertisement or a public offering of the Offer Shares in Canada or any province or territory thereof. Any offer or sale of the Offer Shares in Canada will be made only pursuant to an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable provincial securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made.

**Hong Kong**

No Offer Shares have been offered or sold, or will be offered or sold, in Hong Kong by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. In addition, no advertisement, invitation or document relating to the

Offer Shares has been issued or has been in the possession of any person for the purposes of issue, nor will any such advertisement, invitation or document be issued or be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Offer Shares that are, or are intended to be, disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

**Japan**

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the "FIEL"). This Prospectus is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise.

## 20.3 Transfer restrictions

### *20.3.1 United States*

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Terms defined in Rule 144A or Regulation S shall have the same meaning when used in this section.

Each purchaser of the Offer Shares outside the United States pursuant to Regulation S will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed decision and that:

- The purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations.
- The purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority or any state of the United States, and are subject to significant restrictions on transfer.
- The purchaser is, and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares to any person in the United States.
- The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of such Shares.
- The purchaser is aware of the restrictions on the offer and sale of the Offer Shares pursuant to Regulation S described in this Prospectus.
- The Offer Shares have not been offered to it by means of any "directed selling efforts" as defined in Regulation S.
- The Company shall not recognise any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above restrictions.
- The purchaser acknowledges that the Company, the Selling Shareholder, the Managers and their respective advisers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of the Offer Shares within the United States pursuant to Rule 144A will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- The purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations.

- The purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions to transfer.
- The purchaser (i) is a QIB (as defined in Rule 144A), (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Offer Shares for its own account or for the account of a QIB, in each case for investment and not with a view to any resale or distribution to the Offer Shares, as the case may be.
- The purchaser is aware that the Offer Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act.
- If, in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, as the case may be, such Shares may be offered, sold, pledged or otherwise transferred only (i) to a person whom the beneficial owner and / or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) in accordance with Regulation S, (iii) in accordance with Rule 144 (if available), (iv) pursuant to any other exemption from the registration requirements of the U.S. Securities Act, subject to the receipt by the Company of an opinion of counsel or such other evidence that the Company may reasonably require that such sale or transfer is in compliance with the U.S. Securities Act or (v) pursuant to an effective registration statement under the U.S. Securities Act, in each case in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction.
- The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of such Shares.
- The Offer Shares are "restricted securities" within the meaning of Rule 144(a) (3) and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Offer Shares, as the case may be.
- The Company shall not recognise any offer, sale pledge or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions.
- The purchaser acknowledges that the Company, the Selling Shareholder, the Managers and their respective advisers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

# 21 ADDITIONAL INFORMATION

## 21.1 Auditor and advisors

The Company's auditor is Ernst & Young AS with company registration number 976 389 387, and business address Dronning Eufemias gate 6, N-0191 Oslo, Norway. Ernst & Young AS is a member of Den Norske Revisorforening (The Norwegian Institute of Public Accountants).

ABG Sundal Collier (Munkedamsveien 45 E, Vika Atrium, 0115 Oslo, Norway) and UBS Limited (1 Finsbury Avenue, London EC2M 2PP, United Kingdom) are acting as Joint Global Coordinators and Joint Bookrunners for the Offering. DNB Markets (Stranden 21, 0021 Oslo, Norway), Handelsbanken Capital Markets (Tjuvholmen Allé 11, 0110 Oslo, Norway) and SEB Enskilda (Filipstad Brygge 1, 0123 Oslo, Norway) are acting as Co-Lead Managers for the Offering.

Certain legal matters in connection with the Offering will be passed upon by Advokatfirmaet Thommessen AS (Haakon VII's gate 10, 0161 Oslo, Norway) acting as Norwegian legal counsel to the Company and the Selling Shareholder, and by Latham & Watkins (London) LLP (99 Bishopsgate, London EC2M 3XF, United Kingdom), acting as international counsel to the Company and the Selling Shareholder.

Advokatfirmaet Schjødt AS (Munkedamsveien 45A, 0250 Oslo, Norway) is acting as Norwegian counsel to the Managers, and Cleary Gottlieb Steen Hamilton (City Place House, 55 Basinghall Street, London EC2V 5EH, United Kingdom) acting as international counsel to the Managers.

## 21.2 Documents on display

Copies of the following documents will be available for inspection at the Company's offices at Hjalmar Wessels vei 10 in Sarpsborg, during normal business hours from Monday to Friday each week (except public holidays) for a period of twelve months from the date of this Prospectus:

- The Company's Articles of Association and Certificate of Incorporation.
- The Group's combined financial statements and the Company's subsidiaries' financial statements as of, and for years ended, 31 December 2011, and 2010 and 2009, the Group's interim condensed consolidated financial information as of, and for six months ended, 30 June 2012 and 2011, and Borregaard ASA's financial statements for the period from its incorporation on 22 August 2012 to 31 August 2012.
- This Prospectus.

## 22 NORWEGIAN SUMMARY (NORSK SAMMENDRAG)

*This Norwegian summary has been prepared for the Norwegian securities market in connection with the Offering and the Listing in the Company. The information provided in this Section is a summary of information provided in the rest of the Prospectus, and does not contain any additional information. The information is thus only provided in the Norwegian language.*

Dette norske sammendraget er utarbeidet for det norske verdipapirmarkedet i forbindelse med tilbudet av aksjer ("**Tilbudet**") i Borregaard ASA ("**Selskapet**", og sammen med sine konsoliderte datterselskaper og joint venture, "**Borregaard**" eller "**Konsernet**") og noteringen av aksjene i Selskapet ("**Aksjene**") på Oslo Børs.

Sammendraget utgjør en del av det engelskspråklige "Prospectus" ("**Prospektet**"). Investeringsgrunnlaget for det norske verdipapirmarkedet består således ikke kun av det norske sammendraget, men av hele Prospektet. Investorer oppfordres til å lese hele Prospektet nøye før en investeringsbeslutning eventuelt treffes. Ved eventuell motstrid mellom det norske sammendraget og de deler av Prospektet som er skrevet på engelsk, skal den engelske delen av Prospektet gå foran.

Dette norske sammendraget er en oversettelse av Prospektets Kapittel 1 "Summary".

Prospektet har blitt forelagt Finanstilsynet for kontroll og godkjennelse i henhold til verdipapirhandelloven § 7–7.

Enhver ny vesentlig omstendighet og enhver vesentlig unøyaktighet i Prospektet som kan få betydning for vurderingen av Aksjene, og som oppstår eller oppdages mellom tidspunktet for godkjennelse av Prospektet og tidspunkt for noteringen av Aksjene på Oslo Børs, vil bli offentliggjort og fremlagt så raskt som mulig i form av et tillegg til Prospektet i samsvar med verdipapirhandelloven § 7–15.

## 22.1 Sammendrag

*Dette sammendraget må leses som en innledning til Prospektet som helhet, og informasjonen som fremgår her fremgår i en mer utførlig beskrivelse andre steder i Prospektet, samt i Prospektets vedlegg. Sammendraget er ikke uttømmende og inneholder ikke all den informasjon som bør overveies før det investeres i Aksjene. Alle investeringsbeslutninger knyttet til Tilbudet og en investering i Aksjene bør baseres på en vurdering av Prospektet som helhet, inkludert Kapittel 2 "Risk Factors" og Financial Information (som definert i punkt 4.2.1 "Financial Information") inkludert i Vedlegg B og Vedlegg C. Dersom et krav knyttet til informasjonen i Prospektet bringes inn for en domstol, kan saksøkende investor i henhold til nasjonal lovgivning i et land som er medlem av Det europeiske økonomiske samarbeidsområdet ("**EØS**"), måtte dekke kostnader forbundet med oversettelse av dette Prospektet før saken behandles. Personene som har utarbeidet dette sammendraget, herunder eventuelle oversettelser av sammendraget, kan ikke holdes sivilrettslig ansvarlig for dette sammendraget, med mindre det er villedende, unøyaktig eller selvmotsigende når det leses sammen med andre deler av Prospektet.*

I dette norske sammendraget skal definerte ord og uttrykk (angitt med stor forbokstav) som er oversatt til norsk forstås i samsvar med tilsvarende engelskspråklige ord eller uttrykk slik disse er definert i det engelskspråklige Prospektet. Noen eksempler på slike engelskspråklige motstykker til definerte ord og uttrykk som er oversatt til norsk er som følger: Med "Prospektet" forstås "Prospectus", med "Selskapet" forstås "Company", med "Tilbudet" forstås "Offering", med "Aksjene" forstås "Shares", med "Salgsaksjene" forstås "Sale Shares", med "Tilbudsaksjene" forstås "Offer Shares", med "Tilleggsaksjene" forstås "Additional Shares" og med "Tilbudsprisen" forstås "Offer Price".

## 22.2 Oversikt over virksomheten

Borregaard er en leverandør av avanserte biokjemikalier til en global kundegruppe som hovedsakelig består av spesialkjemiselskaper. Produktene Borregaard hovedsakelig tilbyr er ligninbaserte produkter og spesialcellulose, men produktporteføljen omfatter også vanillinprodukter, finkjemi og bioetanol. Borregaards produkter leveres til nisjepregede anvendelsesområder i en rekke globale vekstmarkeder, herunder til bygningsindustri, landbruk, næringsmidler, transport og farmasøytiske produkter. Borregaards forretningsmodell er tett knyttet til det integrerte bioraffineriet i Sarpsborg som utnytter de tre hovedkomponentene i tømmer (cellulosefibre, lignin og sukker) til å produsere en bred portefølje av produkter. Bioraffineriet utnytter ca 85 % av råmaterialet til å lage Borregaards produkter, mens det meste av den gjenværende delen av biomassen brukes til å produsere energi til produksjonsprosessene.

I tillegg til bioraffineriet i Sarpsborg har Borregaard syv produksjonsanlegg utenfor Norge som produserer ligninbaserte produkter, og salgskontorer i 17 land i Europa, Asia, Afrika og Nord- og Sør-Amerika som betjener Borregaards globale kundegruppe. Borregaards samlede driftsinntekter for regnskapsåret 2011 og for første halvår 2012 var henholdsvis NOK 3 854 millioner og NOK 2 017 millioner, og driftsresultatet var henholdsvis NOK 530 millioner og NOK 236 millioner. Per 30. juni 2012 hadde Konsernet ca 1 100 ansatte.

Borregaard er organisert i to hovedforretningsområder:

- *Performance Chemicals* utvikler, produserer og selger ligninbaserte produkter som kan benyttes innenfor en rekke anvendelsesområder, og fokuserer særlig på produkter innen mellom- og høyverdisegmentene. I tillegg omfatter forretningsområdet en begrenset tradingvirksomhet av kjemikalier som enten er knyttet til ligninbaserte produkter eller som har blitt produsert av Borregaard tidligere.
- *Specialty Cellulose* utvikler, produserer og selger spesialcellulose og fokuserer særlig på cellulose til bruk i produksjon av celluloseacetat og celluloseetere (som Borregaard betegner som "høyspesialisert" cellulose). Produksjon og salg av 2. generasjons bioetanol inngår også i forretningsområdet Specialty Cellulose.

I tillegg, som en del av Borregaards øvrige virksomhet, som hovedsaklig består av Ingredients og Fine Chemicals, produserer Borregaard innen Ingredients, tømmer-og oljebaserte vanillinprodukter til aromaleverandører, og i økende grad til næringsmiddelselskaper. Borregaard er verdens eneste produsent av tømmerbasert vanillin. Innen Fine Chemicals leverer Borregaard finkjemikalier til den farmasøytiske industrien og er av den oppfatning at de er verdens største leverandør av $C_3$ aminodioler til røntgenkontrastmidler.

I 2011 var 53 % av Borregaards samlede salg basert på omsetning til kunder i Europa, 26 % i Asia, 20 % i Nord- og Sør-Amerika (14 % i USA og Canada og 6 % i øvrige land) og 1 % til kunder lokalisert i resten av verden. Salg rettet mot bygningsindustrien (for eksempel, til tilsetningsmidler i betong, maling, gipsplater og fliser), landbruket (for eksempel, til dyrefôr, landbrukskjemikalier og jordforbedringsmidler), næringsmidler og farmasøytisk industri utgjorde henholdsvis ca. 30 %, 15 % og 20 % av de samlede driftsinntektene, mens de gjenstående omtrent 35 % inkluderte salg mot kjemiindustrien og andre bransjer.

For ytterligere informasjon om produktene Borregaard produserer og bransjene Borregaard opererer i, se punkt 7 "Industry and Market Overview".

### 22.3 Posisjoner og konkurransefortrinn

Borregaard er av den oppfatning at Borregaards økonomiske resultater hovedsaklig kan tilskrives følgende viktige posisjoner og konkurransefortrinn som Selskapet har og som er nærmere beskrevet i punkt 8.2 "Investment highlights".

- Bærekraftig bioraffinerikonsept med høy verdiskapning
- Global nisjeaktør med ledende markedsposisjoner
- Biokjemiporteføljen bidrar til å møte globale utfordringer
- Planlagte prosjekter med potensial til å utvide og styrke bioraffinerikonseptet
- Svært erfaren ledergruppe med gode resultater
- En vellykket strategi med spesialisering og produktivitetsforbedring basert på attraktiv kompetanse.

### 22.4 Den siste tids utviklinger og trender

Gjennom 2012 har Borregaard hatt en relativt stabil produksjon når det gjelder de totale volumene av spesialcellulose, vanillin og bioetanolprodukter. Økte volumer av ligninbaserte produkter ved Borregaards øvrige produksjonsanlegg har kompensert for den reduserte produksjonen av ligninbaserte produkter i Brasil, som ble forårsaket av en stans i leveransen av råstoff fra Cambára til ligninfabrikken i Brasil, se punkt 8.7.2"Sourcing of the lignin feedstock". Borregaards salgsvolum for ligninbaserte produkter har økt i løpet av året, salgsvolumene for celluloseprodukter har vært stabile mens salgsvolumer for vanillinprodukter er redusert.

Borregaard har erfart at markedsforholdene stort sett har vært gode gjennom tredje kvartal i 2012, men Borregaard har imidlertid observert enkelte svakhetstegn og økt konkurranse i markedet for spesialcellulose som har resultert i en svakere produktmiks for sitt salg, med økt salg av tekstilcellulose. Råvare- og energikostnader er redusert sammenliknet med første halvår.

I det korte perspektivet er det en økt usikkerhet knyttet til uviklingen i markedet for spesialcellulose. Generelt svakere konjunkturforhold og en svak EUR er forventet å ha en negativ innvirkning på lønnsomheten.

I et mellomlangt til lengre perspektiv vil Borregaard blant annet bli påvirket av den generelle økonomiske utviklingen, resultatene av Borregaards løpende spesialiserings- og produktivitetsaktiviteter, samt utviklingen på etterspørsels/tilbudssiden og konkurranseforholdene innen spesialcellulose. Som beskrevet i punkt 7.3.2 "Markets and applications", var Borregaards sterke resultat i 2011 i stor grad preget av en kraftig økning i prisen på tekstilcellulose forårsaket av en vesentlig ubalanse mellom tilbudssiden og etterspørselsiden i tekstilmarkedet, høye bomullspriser, redusert volum av cellulose basert på bomullslinters og en høy aktivitet innen flere av bransjene som spesialcellulose er eksponert mot. Disse faktorene medførte en kraftig økning i prisene for spesialcellulose i 2011. Selv om prisene for tekstilcellulose etter dette har falt tilbake mot mer normale nivåer og bomullsmarkedet har normalisert seg, har prisene for spesialcellulose gjennom første halvår 2012 holdt seg tett oppunder 2011-nivåene. Spesialcellulose industrien er eksponert mot sykliske markeder, slik som bygningsindustrien. I tillegg har flere av Borregaards største konkurrenter offentliggjort planer om vesentlige investeringer innen spesialcellulose. Dette vil øke kapasiteten med totalt ca 270 000 tonn som forventes å være i produksjon fra 2013 og 2014. Selv om det er høyst usikkert, kan disse faktorene forventes få en negativ innvirkning på resultatene innen spesialcellulose i et mellomlangt til lengre tidsperspektiv. Effekten kan være vanskelig å anslå, men den kan bli betydelig.

Borregaard har som mål å levere bærekraftig lønnsomhet som støtter Selskapets strategi og utbyttepolitikk, med høyere snittavkastning på anvendt kapital enn sammenliknbare spesialkjemiselskaper. Gruppen av sammenliknbare selskaper har hatt en avkastning på anvendt kapital gjennom konjunkturperioden på 12-15 %.

Med unntak av refinansieringen av Borregaard og overføringen av Borregaard AS fra BRG Holding AS til Borregaard ASA som beskrevet i punkt 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing", har det ikke skjedd noen betydelige endringer i Borregaards økonomiske eller kommersielle stilling siden dato for Borregaards regnskap for første halvår 2012 (Interim Condensed Financial Information), inntatt i dette Prospektet.

### 22.5 Bakgrunnen for Tilbudet

Den 14. september 2011 annonserte Orkla en endring i sitt strategiske fokus for å sikre fremtidig vekst og for å allokere kapital til merkevaresektoren, hvor Orkla forventer å kunne benytte sin styrke og kjernekompetanse i best mulig grad. For å fokusere på sin kjernevirksomhet, besluttet Orkla å skille ut Bioraffinerivirksomheten fra Orkla på en måte som ville gi Bioraffinerivirksomheten styrket strategisk og operasjonell fleksibilitet. Gjennom børsnoteringen søker Orkla å profilere og øke forståelsen i markedet for en av sine attraktive eiendeler og samtidig gi Selskapet direkte adgang til kapitalmarkedet for å dekke sitt behov for finansiering og vekst i fremtiden. (Se punkt 15 "Establishment of the current Borregaard Group").

Som følge av Orklas strategiske fokus, anser Orkla sin aksjebeholdning i Borregaard for å være en finansiell investering. Etter utløpet av en lock-up periode på 180 dager fra dato for inngåelse av Purchase Agreement (som definert i punkt 19.1 "Overview of the Offering"), som gjelder for Orkla og Selgende Aksjonær, se punkt 19.14 "Lock-up", vil alle Aksjer eiet av Selgende Aksjonær etter gjennomføring av Tilbudet kunne selges eller overføres, i henhold til gjeldende verdipapirrettslige begrensninger.

### 22.6 Tilbudet

| | |
|---|---|
| Tilbudet.................................... | Tilbudet består av (i) et Institusjonelt Tilbud hvor Tilbudsaksjene tilbys til (a) institusjonelle og profesjonelle investorer i Norge, (b) investorer utenfor Norge og USA, i samsvar med gjeldende unntak fra lokal prospektplikt, og (c) i USA til QIBs, som definert i og i samsvar med Rule 144a i U.S. Securities Act; og (ii) et Offentlig Tilbud der Tilbudsaksjer tilbys allmennheten i Norge.<br><br>Tilbudet utenfor USA vil bli gjort i samsvar med Regulation S. |
| Tilbudsaksjene .......................... | Selgende Aksjonær selger opp til 81 millioner Salgsaksjer (som sammen med Tilleggsaksjene utgjør Tilbudsaksjene) i Tilbudet. Selskapet vil ikke motta noen av inntektene fra Tilbudet. |
| Overallokeringsopsjonen ............ | Selgende aksjonær har tildelt UBS Limited som Stabilisation Manager på vegne av Tilretteleggerne en opsjon til å kjøpe et antall Tilleggsaksjer (som sammen med Salgsaksjene utgjør Tilbudsaksjene) tilsvarende opp til 15 % av antall Salgsaksjer, som kan utøves innen en 30-dagers periode etter datoen for annonseringen av den endelige tilbudsprisen, som forventes å skje 18. oktober 2012, for å dekke eventuelle overallokeringer i forbindelse med Tilbudet. Se punkt 19.1 "Overview of the Offering". |
| Prisintervall .............................. | Fra NOK 20 til NOK 25. Den endelige prisen per Aksje i Tilbudet vil bli fastsatt av Selgende Aksjonær på basis av ordre som plasseres i det Institusjonelle Tilbudet. |
| Bookbuilding-periode ................. | Bookbuilding-perioden i det Institusjonelle Tilbudet vil løpe fra kl. 09.00 norsk tid 3. oktober 2012 til kl. 15.00 norsk tid den 17. oktober 2012, med mindre perioden forlenges. |
| Bestillingsperioden..................... | Bestillingsperioden i det Offentlige Tilbudet vil løpe fra kl. 09.00 norsk tid den 3. oktober 2012 til kl. 12.00 norsk tid den 17. oktober 2012, med mindre perioden forlenges. |
| Selgende Aksjonær..................... | BRG Holding AS, et heleid datterselskap av Orkla. |
| Tilretteleggere........................... | ABG Sundal Collier Norge ASA, UBS Limited, DNB Bank ASA, Handelsbanken Capital Markets (en avdeling av Svenska Handelsbanken AB (Publ)) og Skandinaviska Enskilda Banken AB (Publ). |
| Tildelingsmekanisme.................. | I det Institusjonelle Tilbudet vil Selgende Aksjonær sammen med Tilretteleggerne beslutte tildelingen av Tilbudsaksjene.<br><br>I det Offentlige Tilbudet vil allokeringen bli foretatt på pro rata basis ved bruk av VPS' automatiske tildelingssystem, dog slik at Selgende Aksjonær vil ta sikte på, og forbeholder seg retten til, å gi en høyere allokeringsprosent til investorer som var aksjonærer i Orkla eller ansatte i Borregaard i Norge, i begge tilfeller per 2. oktober 2012. Se punkt 19.5 "Mechanism of allocation". Det vil ikke bli foretatt tildeling av Tilbudsaksjer som samlet representerer en Tilbudspris på |

| | |
|---|---|
| | mindre enn NOK 10 500 per bestilling. |
| Notering og handel .................... | Før Tilbudet har det ikke vært et offentlig marked for Aksjene. Den 28. august 2012 søkte Selskapet om notering av Aksjene på Oslo Børs. Den 25. september 2012 godkjente Oslo Børs' styre Selskapets søknad om notering på visse vilkår. Se punkt 19.12 "Conditions for completion of the Offering - Listing and trading of the Offer Shares".<br><br>Handel på betinget "hvis levert"-basis er forventet å starte 18. oktober 2012. |
| Betaling og levering ................... | Det er forventet at betaling for, og levering av, Tilbudsaksjene vil bli foretatt på eller rundt 23. oktober 2012 når det gjelder det Institusjonelle Tilbudet og på eller rundt 22. oktober 2012 når det gjelder det Offentlige Tilbudet. Aksjene vil kunne leveres gjennom VPS, Euroclear og Clearstream. |
| Vilkår for gjennomføring av Tilbudet | Vilkårene for gjennomføring av Tilbudet omfatter blant annet:<br>• At de vilkår som er satt av styret på Oslo Børs er oppfylt.<br>• At Selgende Aksjonær, i samråd med Tilretteleggerne, har godkjent tilbudsprisen og allokeringen av Tilbudsaksjene til kvalifiserte investorer etter book-buildingprosessen.<br>• At Selskapet, Orkla, Selgende aksjonær og Joint Bookrunners (på vegne av Tilretteleggerne) har inngått Purchase Agreement og at vilkårene for gjennomføring av Purchase Agreement er oppfylt.<br>• At Purchase Agreement ikke har blitt brakt til opphør av Tilretteleggerne på grunn av force majeure.<br>• At Purchase Agreement ikke har blitt brakt til opphør grunnet mislighold fra en eller flere av Tilretteleggerne i form av at de ikke har kjøpt det antall Tilbudsaksjer de er forpliktet til i henhold til Purchase Agreement (se punkt 19.1 "Overview of the Offering"). |
| Lock-up .................................... | I henhold til Purchase Agreement vil Selgende Aksjonær, Orkla og Selskapet påta seg begrenseer i deres adgang til å utstede, selge eller overføre Aksjer i en periode på 180 dager etter datoen for inngåelse av Purchase Agreement.For mer informasjon om disse begrensningene, se punkt 19.14 "Lock-up". |
| International Securities Identification Number (ISIN)........ | ISIN NO 001 0657505. |
| Ticker symbol ............................ | Handel i Aksjene på Oslo Børs er forventet å finne sted under symbolet "BRG". |
| Kostnader.................................. | Totale kostnader og utgifter tilknyttet børsnoteringen og Tilbudet er anslått til NOK 87 millioner (inkl. mva.) for det tilfelle at samtlige Salgsaksjer og Tilleggsaksjer blir solgt av Selgende Aksjonær og Selgende Aksjonær beslutter å utbetale tilleggshonoraret fullt ut (beregnet på en pris per Aksje på NOK 22,50 som utgjør midt-verdien i prisintervallet) se punkt 19.13 "Expenses of the Offering and the Listing". |
| Salgsbegrensninger ................... | Tilbudsaksjene vil være underlagt enkelte salgsbegrensninger. Se punkt 20.3 "Transfer restrictions". |
| Utbytte / Utbyttepolitikk ............. | Borregaard tar sikte på å utbetale et jevnlig og progressivt utbytte som reflekterer Konsernets forventede langsiktige inntjening og kontantstrøm, og tar sikte på å utdele et årlig utbytte på mellom 30 % og 50 % av Selskapets netto fortjeneste for det foregående regnskapsår. Se punkt 6.1 "Dividend policy". |
| Stemmeretter ........................... | Hver aksje gir rett til å avgi en stemme på alle saker som er gjenstand for beslutning av Selskapets aksjonærer. Se punkt 16.9 "Shareholder rights". |

## 22.7 Sammendrag av finansielle og andre opplysninger

Følgende tabeller representerer et sammendrag av utvalgt finansiell informasjon for Borregaard. Med mindre noe annet fremgår, er de finansielle opplysningene for første halvår 2012 og 2011, og for regnskapsårene 2011, 2010 og 2009 hentet fra og basert på henholdsvis Interim Condensed Financial Information og Combined Financial Statements (som definert i punkt 4.2.1 "Financial information"). I tillegg har enkelte finansielle og operasjonelle data blitt hentet fra Borregaards interne rapporteringssystem. Historiske opplysninger i Combined Financial Statements har blitt hentet fra det konsoliderte regnskapet for Orkla og kombinerer driftsresultatet, eiendeler og forpliktelser til enhetene og virksomheten som utgjorde Borregaardkonsernet før Restruktureringen som beskrevet i punkt 15.2 "Overview of the Restructuring". Combined Financial Statements og Interim Condensed Financial Information har blitt utarbeidet i samsvar med IFRS, som fastsatt av EU.

Sammendraget av de finansielle opplysningene bør leses sammen med og er i sin helhet kvalifisert ved henvisning til Combined Financial Statements og Interim Condensed Financial Information inntatt i henholdsvis Vedlegg B og Vedlegg C i dette Prospektet og bør leses sammen med punkt 11 "Operating and Financiel Review" og særskilt punkt 11.2 "Presentation of financial information" og note 2 til Combined Financial Statements og note 1 til Interim Condensed Financial Information, samt punkt 4.2.1 "Financial information" for nærmere detaljer om grunnlaget for utarbeidelsen av Regnskapene.

### *22.7.1 Sammendrag av resultatregnskap*

**Resultatregnskap**

| *I millioner NOK* | **Første halvår** | | **Regnskapsåret** | | |
|---|---|---|---|---|---|
| | **2012** *(Ureviderte)* | **2011** *(Ureviderte)* | **2011** *(Revidert)* | **2010** *(Revidert)* | **2009** *(Revidert)* |
| Salgsinntekter | 1 993 | 1 925 | 3 810 | 3 419 | 3 338 |
| Andre driftsinntekter | 24 | 31 | 44 | 42 | 44 |
| **Driftsinntekter** | **2 017** | **1 956** | **3 854** | **3 461** | **3 382** |
| Materialkostnader | -859 | -824 | -1 605 | -1 524 | -1 532 |
| Lønnskostnader | -356 | -337 | -699 | -674 | -665 |
| Andre driftskostnader | -415 | -401 | -815 | -774 | -722 |
| Avskrivninger og nedskrivning av eiendom, anlegg og utstyr | -104 | -101 | -199 | -200 | -210 |
| Avskrivninger immaterielle aktiva | -3 | -3 | -6 | -6 | -6 |
| Andre inntekter og kostnader | -44 | 0 | 0 | 22 | 0 |
| **Driftsresultat** | **236** | **290** | **530** | **305** | **247** |
| Finansinntekter | 78 | 60 | 160 | 171 | 161 |
| Finanskostnader | -101 | -90 | -235 | -216 | -197 |
| **Gevinst/tap før skatt** | **213** | **260** | **455** | **260** | **211** |
| Skatt | -74 | -77 | -135 | -76 | -67 |
| **Gevinst/tap for perioden** | **139** | **183** | **320** | **184** | **144** |

**Oppstilling av totalresultat**

| *I millioner NOK* | **Første halvår** | | **Regnskapsåret** | | |
|---|---|---|---|---|---|
| | **2012** *(Ureviderte)* | **2011** *(Ureviderte)* | **2011** *(Reviderte)* | **2010** *(Reviderte)* | **2009** *(Reviderte)* |
| **Gevinst/tap for perioden** | **139** | **183** | **320** | **184** | **144** |
| Endring i sikringsreserver etter skatt | 34 | -1 | -70 | 50 | 266 |
| Omregningseffekter | -10 | -32 | -28 | 0 | -75 |
| **Totalt resultat** | **163** | **150** | **222** | **234** | **335** |
| Gevinst/tap som tilskrives ikke-kontrollerende eierinteresser | 0 | 2 | 2 | 3 | 5 |
| Gevinst/tap som tilskrives eier av morselskap | 163 | 148 | 220 | 231 | 330 |

### *22.7.2 Sammendrag av balanse*

**Balanse**

| I millioner NOK | Per 30. juni | Per 31. desember | | |
|---|---|---|---|---|
| | 2012 (Ureviderte) | 2011 (Ureviderte) | 2010 (Revidert) | 2009 (Revidert) |
| **Eiendeler** | | | | |
| Eiendom, anlegg og utstyr | 1 942 | 1 822 | 1 791 | 1 776 |
| Immaterielle eiendeler | 38 | 72 | 76 | 86 |
| Eiendeler ved utsatt skatt | 0 | 0 | 10 | 23 |
| Andre eiendeler | 84 | 91 | 128 | 88 |
| **Anleggsmidler** | **2 064** | **1 985** | **2 005** | **1 973** |
| Varelager | 599 | 558 | 468 | 497 |
| Fordringer | 749 | 665 | 661 | 624 |
| Kontanter, kontantekvivalenter og innskudd i Orklagruppens konsernkonto | 421 | 496 | 427 | 340 |
| **Omløpsmidler** | **1 769** | **1 719** | **1 556** | **1 461** |
| **Som eiendeler** | **3 833** | **3 704** | **3 561** | **3 434** |
| | | | | |
| **Egenkapital og gjeld** | | | | |
| Konsernets egenkapital | 626 | 1 109 | 998 | 1 335 |
| Ikke-kontrollerende eierinteresser | 13 | 14 | 16 | 20 |
| **Egenkapital** | **639** | **1 123** | **1 014** | **1 355** |
| Forpliktelser ved utsatt skatt | 126 | 158 | 183 | 160 |
| Avsetninger og andre forpliktelser | 43 | 42 | 38 | 67 |
| Rentebærende gjeld | 2 425 | 1 788 | 1 862 | 1 403 |
| **Langsiktig Gjeld** | **2 594** | **1 988** | **2 083** | **1 630** |
| Rentebærende gjeld | 7 | 20 | 23 | 19 |
| Betalbar skatt | 55 | 62 | 23 | 8 |
| Annen gjeld | 538 | 511 | 418 | 422 |
| **Kortsiktig gjeld** | **600** | **593** | **464** | **449** |
| **Egenkapital og gjeld** | **3 833** | **3 704** | **3 561** | **3 434** |

### *22.7.3 Sammendrag av kontantstrømsoppstilling*

**Kondensert kontantstrømsoppstilling**

| I millioner NOK | Første halvår | | Regnskapsåret | | |
|---|---|---|---|---|---|
| | 2012 (Ureviderte) | 2011 (Ureviderte) | 2011 (Reviderte) | 2010 (Revidert) | 2009 (Revidert) |
| Kontantstrøm fra operasjonelle aktiviteter | 258 | 147 | 536 | 452 | 504 |
| Kontantstrøm fra investeringsaktiviteter | -245 | -88 | -247 | -210 | -133 |
| Kontantstrøm fra finansieringsaktiviteter | -81 | -59 | -214 | -148 | -465 |
| Endring i kontanter og kontantekvivalenter | -68 | 0 | 75 | 94 | -94 |
| Kontanter og kontantekvivalenter ved periodens utløp[1] | 421 | 414 | 496 | 427 | 340 |

1 Innskudd i Orklagruppens konsernkonto er inkludert.

### 22.7.4 Utvalgt tilleggsdata og økonomiske tiltak

| *I millioner NOK med mindre annet fremgår* | **Første halvår** | | **Regnskapsåret** | | |
|---|---|---|---|---|---|
| | **2012** *(Ureviderte)* | **2011** *(Ureviderte)* | **2011** *(Ureviderte)* | **2010** *(Ureviderte)* | **2009** *(Ureviderte)* |
| Justert EBITA[1] ....... | 283 | 293 | 536 | 289 | 253 |
| Justert EBITDA[2] ....... | 387 | 394 | 735 | 489 | 463 |
| Justert EBITA-margin (*prosentandel*)[1] ....... | 14.0 % | 15.0 % | 13.9 % | 8.4 % | 7.5 % |
| Justert EBITDA-margin (*prosentandel*)[2] ....... | 19.2 % | 20.1 % | 19.1 % | 14.1 % | 13.7 % |
| Anvendt kapital (gjennomsnitt)[3,4] ....... | 2,781 | 2,649 | 2,625 | 2,569 | 2,673 |
| Avkastning på anvendt kapital (*prosentandel*)[5] ....... | - | - | 20.4 % | 11.3 % | 9.5 % |

1 Justert EBITA er definert som driftsresultat før avskrivning og andre inntekter og utgifter. Justert EBITA er ikke en måling av resultat under IFRS. Se punkt 4.2"Presentation of financial and other information". Justert EBITA-margin er justert som en prosentandel av driftsinntekter i de respektive periodene.

2 Justert EBITDA er definert som driftsresultat før nedskrivning, avskrivning og andre inntekter og utgifter. Justert EBITDA er ikke en måling av resultat under IFRS. Se punkt 4.2"Presentation of financial and other information". Justert EBITDA-margin er justert som en prosentandel av driftsinntekter i de respektive periodene. Avstemmingen av Borregaards Justerte EBITA og Justerte EBIDTA er som følger:

| *I millioner NOK* | **Første halvår** | | **Regnskapsåret** | | |
|---|---|---|---|---|---|
| | **2012** *(Ureviderte)* | **2011** *(Ureviderte)* | **2011** *(Revidert)* | **2010** *(Revidert)* | **2009** *(Revidert)* |
| **Avstemming mot driftsresultat** | | | | | |
| Driftsresultat ....... | 236 | 290 | 530 | 305 | 247 |
| Andre inntekter og utgifter ....... | 44 | 0 | 0 | -22 | 0 |
| Avskrivning immaterielle eiendeler ....... | 3 | 3 | 6 | 6 | 6 |
| Justert EBITA ....... | 283 | 293 | 536 | 289 | 253 |
| Avskrivning og nedskrivning eiendeler, produksjonsanlegg og utstyr ....... | 104 | 101 | 199 | 200 | 210 |
| Justert EBITDA ....... | 387 | 394 | 735 | 489 | 463 |

3 Hentet fra Borregaards interne rapporteringssystem.

4 Gjennomsnittlig anvendt kapital er definert som gjennomsnittlig netto arbeidskapital + gjennomsnittlig varige driftsmidler + gjennomsnittlig immaterielle eiendeler til kostpris – gjennomsnittlige netto pensjonsforpliktelser – gjennomsnittlig merverdi av utsatt skatt.

5 Avkastning på anvendt kapital er et forholdstall definert som driftsresultat før andre inntekter og utgifter og avskrivning (EBITA) delt på gjennomsnittlig anvendt kapital.

### 22.7.5 Egenkapital og gjeld

Se punkt 9 "Capitalisation and indebtedness" for nærmere informasjon vedrørende Selskapets eiendeler, egenkapital og gjeld.

### 22.7.6 Uttalelse om arbeidskapital

Borregaard er av den oppfatning at arbeidskapitalen som er tilgjengelig for Konsernet er tilstrekkelig til å dekke Konsernets nåværende kapitalbehov, det vil si i minst 12 måneder fra dato for Prospektet.

## 22.8 Sammendrag av risikofaktorer

Investering i Tilbudsaksjene medfører en iboende risiko. Nedenfor følger et kort sammendrag av risikofaktorene beskrevet i punkt 2 "Risk Factors".

Dersom noen av risikofaktorene beskrevet nedenfor inntrer, kan dette få en betydelig negativ innvirkning på Konsernet og/eller dets virksomhet, resultater, kontantstrøm, økonomiske stilling og / eller fremtidsutsikter, og dette kan føre til en nedgang i verdien av og kursen på Tilbudsaksjene, som kan resultere i tap av hele eller deler av en investering i disse.

Rekkefølgen risikofaktorene er presentert i er ikke ment å reflektere sannsynligheten for at de inntreffer eller betydningen av deres potensielle innvirkning på Konsernet. Fremtidsrettet informasjon avgis med de begrensninger som følger av punkt 4.3 "Cautionary note regarding forward-looking statements".

*22.8.1 Risiko forbundet med Konsernet og bransjen Konsernet opererer i*

- Borregaard møter betydelig konkurranse.
- De integrerte prosessene ved bioraffineriet og de høye kostnadene forbundet med produksjon i Norge krever spesialisering og vellykket implementering av produktivitetsprogrammer for å sikre Borregaards langsiktige levedyktighet.
- Borregaards virksomhet, økonomiske stilling og driftsresultater er knyttet til den generelle økonomiske situasjonen og bransjespesifikke faktorer i sentrale sluttmarkeder for Borregaards produkter.
- Borregaards investeringer i spesialisering og satsing på langsiktig forskning og utvikling kan mislykkes.
- Tap av storkunder kan påvirke Borregaards salg og fortjeneste.
- Endring i råvarekostnader, særlig for tømmer, og energikostnader kan påvirke Borregaards driftsresultater og økonomiske stilling.
- Borregaard inngår ikke formaliserte, skriftlige avtaler med enkelte av sine kunder og denne praksisen kan utsette Borregaard for rettstvister og usikkerhet dersom en konflikt eller uoverensstemmelse skulle oppstå.
- Borregaard opererer i et land med høyt kostnadsnivå.
- Prisene i markedet for dissolving cellulose er svingende.
- Borregaards finansielle resultater og fremtidsutsikter kan bli betydelig påvirket av manglende evne til å opprettholde eller utvide dens nåværende leveranser av lignin.
- Ulykker eller feil eller andre årsaker kan forårsake betydelige driftsavbrudd og tap.
- Borregaard er avhengig av å tiltrekke seg og beholde dyktige ansatte.
- Farer tilknyttet kjemisk fremstilling kan resultere i betydelige krav, bøter eller vesentlig skade Borregaards renommé.
- Retningslinjer, instrukser, rutiner og systemer for å ivareta de ansattes helse og sikkerhet kan tenkes å være utilstrekkelige.
- Borregaard er utsatt for risiko for betydelig miljøansvar og er underlagt krav i miljølover og forskrifter som legger begrensninger på virksomheten.
- Borregaard er utsatt for risiko for betydelig tap og ansvar relatert til undersøkelser og utbedring av miljøforurensing.
- Borregaard er underlagt konkurranselover og annen statlig regulering.
- Den europeiske gjeldskrisen kan ha en betydelig negativ innvirkning på Borregaards virksomhet.
- Borregaards kvartalsvise driftsresultater påvirkes av svingninger forårsaket av at enkelte av Borregaards nøkkelkostnader er sesongbetonte.
- Borregaards joint-venture partner og medinvestorer kan ha interesser som avviker fra Borregaards og kan foreta handlinger som kan påvirke Borregaard på en negativ måte.
- Borregaard er avhengig av lover og regler som beskytter immaterielle eiendeler og forretningshemmeligheter og av kontraktsmessige begrensinger for å beskytte viktige immaterielle rettigheter, og dersom disse rettigheter ikke er tilstrekkelig beskyttet vil dette kunne påvirke Borregaards konkurransedyktighet og evne til å generere inntekter.
- Tredjeparter kan påstå at Borregaards produkter eller prosesser krenker deres immaterielle rettigheter.
- Borregaard er utsatt for en rekke potensielle produktansvarsrisiki.
- Fremtidige klimagass- / karbonregelverk eller forskrifter kan øke Borregaards kostnader knyttet til overholdelse av miljølover og forskrifter.
- Borregaard kan risikere ikke å ha tilstrekkelig forsikringsdekning for et potensielt erstatningsansvar eller andre tap.
- Risiko forbundet med landene Borregaard opererer i kan påvirke avkastningen eller innvirke på investeringer i Borregaard.

- Borregaard kan risikere ikke å være i stand til å overholde restriksjoner og de finansielle betingelser som følger av Borregaards låneavtaler.
- Borregaard kan få behov for ytterligere kapital i fremtiden for å kunne oppfylle sin strategi.
- Arbeidskonflikter kan ha en betydelig negativ innvirkning på Borregaards virksomhet.
- Borregaard er utsatt for valutasvingninger.
- Borregaard er utsatt for renterisiko.
- Avkastning på pensjonsmidler kan være lavere enn forventet og renten kan synke, noe som kan medføre at Borregaard må skyte inn betydelig tilleggskapital til sine pensjonsplaner.
- Borregaards driftsresultater kan svinge over tid og det kan tenkes at det nåværende lønnsomhetsnivået ikke opprettholdes.

*22.8.2 Risiko forbundet med utskillelsen av Konsernet fra Orkla og Konsernets løpende forhold til Orkla*

- Borregaard har ikke en operasjonshistorikk utenfor Orklagruppen og investorer kan ha vanskeligheter med å vurdere Borregaards historiske resultater og utsiktene for fremtidige inntekter og andre driftsresultater.
- Enkelte av avtalene knyttet til Bioraffinerivirksomheten er underlagt "change of control"- klausuler eller lignende bestemmelser basert på Orklas eller tredjeparters eierinteresse i Borregaard.
- Orkla kan få betydelig stemmeinnflytelse og kan i så fall påvirke saker som krever godkjenning av aksjonærene.
- Borregaard kan fra tid til annen oppleve interessekonflikter i sitt forhold med Orkla, og, siden Orkla kan eie en betydelig andel av aksjene i Selskapet, kan løsningen av slike konflikter tenkes ikke å være på de gunstigste vilkår for Borregaard.
- På nåværende tidspunkt er Borregaard avhengig av Orkla når det gjelder flere overgangstjenester og kan pådra seg tilleggskostnader etter utskillelsen av Borregaard fra Orkla.

*22.8.3 Risiko forbundet med Aksjene*

- Det finnes ikke noe tidligere marked for Aksjene og det kan tenkes at det ikke vil utvikle seg et attraktivt handelsmarked for Aksjene.
- Prisen på Aksjene kan svinge betydelig, noe som kan medføre at investorer taper en betydelig del av sin investering.
- Selskapets evne til å betale utbytte er avhengig av at det finnes utdelbare midler.
- Fremtidige salg av Aksjer av den Selgende Aksjonær kan redusere kursen på aksjene.
- Fremtidige utstedelser av Aksjer eller andre verdipapirer kan utvanne aksjonærenes beholdning og vesentlig innvirke på prisen på Aksjene.
- Forkjøpsrett til å tegne og betale for Aksjer i fremtidige emisjoner kan tenkes ikke å være tilgjengelig for amerikanske eller andre aksjonærer.
- Investorer kan tenkes ikke å kunne utøve sin stemmerett for Aksjer som er registrert på en forvalterkonto.
- Investorer kan tenkes ikke å få dekket tap gjennom sivilrettslige prosesser i andre jurisdiksjoner enn Norge.
- Norsk lov kan begrense aksjonærenes mulighet til å gå til sak mot Selskapet.
- Overføring av Aksjene er underlagt restriksjoner i henhold til verdipapirlovginingen i USA og andre jurisdiksjoner.
- Aksjonærer utenfor Norge er utsatt for valutarisiko.
- Markedsrenten kan påvirke prisen på Aksjene.

## 22.9 Informasjon om Selskapet

Borregaard ASA er et norsk allmennaksjeselskap med organisasjonsnummer 998 753 562. Selskapet ble stiftet 22. august 2012.

Selskapets forretningsadresse er Hjalmar Wessels vei 10, 1721 Sarpsborg, Norge.

### 22.10 Historikk

Borregaard ble opprinnelige etablert i Sarpsborg i 1889 under selskapet Kellner Partington Paper and Pulp Co. Ltd. I 1921 startet Borregaard sin omstilling fra tradisjonell treforedlingsindustri og mot produksjon av spesialcellulose da de for første gang leverte cellulose til tekstilproduksjon, og i 1938 startet Borregaard å produsere bioetanol fra tømmer.

Borregaard fortsatte å øke sin virksomhet gjennom en kombinasjon av produkt-, prosess- og markedsutvikling i de påfølgende år. På 1960-tallet startet Borregaard å produsere tømmerbasert vanillin og ligninbaserte produkter. I løpet av de siste 30 årene har Borregaard fokusert på utvikling av sitt bioraffinerikonsept ved å utvide ligninkapasitetene og strømlinjeforme virksomheten, samtidig som det ble utviklet mer spesialiserte produkter for å møte kundenes behov.

I 1986 ble Borregaard fusjonert med Orkla Industrier. Etter dette økte Borregaard omfanget av ligninvirksomheten betydelig ved kjøp av Holmen LignoTech og dets fabrikker i Sverige, Tyskland og Spania i 1990, som skapte det som i dag er forretningsområdet Performance Chemicals. Dette forretningsområdet ble videre styrket ved oppkjøp av Daishowas nordamerikanske ligninvirksomhet i 1991. Gjennom oppkjøp og samarbeidsavtaler har Borregaard fått tilgang til nye ligninforekomster i Sør Afrika, Tsjekkia og Brasil.

### 22.11 Restruktureringen og forberedelse til notering

Frem til 1. april 2012 ble industrivirksomheten drevet av Orkla gjennom Borregaard Industries Limited og datterselskaper av Borregaard Industries Limited og gjennom andre direkte og indirekte datterselskaper av Orkla. En restruktureringsprosess hvor industrivirksomheten ble overført til Borregaard AS ble gjennomført ved en overføring av alle Borregaard Industries Limiteds eiendeler og forpliktelser knyttet til industrivirksomheten til Borregaard AS og overføring av aksjer i hel- og deleide datterselskap og joint venture selskaper som utgjorde en del av industrivirksomheten fra Borregaard Industries Limited og enkelte andre selskaper i Orklagruppen til Borregaard AS og dets datterselskaper. Se punkt 15.2 "Overview of the Restructuring" for ytterligere informasjon.

Selskapet ble stiftet 22. august 2012. Gjennom kapitalforhøyelser vedtatt 11. september og 17. september 2012 ble Selskapets egenkapital økt til NOK 1 000 millioner gjennom kontantinnskudd av Selgende Aksjonær. Videre overførte Selgende Aksjonær den 17. september 2012 alle aksjene i Borregaard AS til Selskapet gjennom et tingsinnskudd, som økte aksjekapitalen og overkursfondet med til sammen NOK 1 158 millioner. Se punkt 15.4 "Transfer of Borregaard AS to the Company and preparations for Listing".

### 22.12 Aksjekapital

Per dato for Prospektet er Selskapets aksjekapital NOK 100 000 000 fordelt på 100 000 000 aksjer hver pålydende NOK 1. Alle aksjene er gyldig utstedt og fullt innbetalt. Selskapet har én aksjeklasse.

### 22.13 Hovedaksjonærer

Per dato for Prospektet har Selskapet kun én aksjonær, BRG Holding AS, som eier 100 % av de utestående Aksjer i Selskapet. BRG Holding AS er et heleid datterselskap av Orkla.

### 22.14 Selskapets forhold til Orkla

Orkla og Borregaard har blitt enige om at i en overgangsperiode på ett til to år etter Noteringen skal Borregaard motta, og Orkla yte, de samme tjenester som før Noteringen, på hovedsakelig de samme vilkår og betingelser, kun med de endringer som er nødvendig for å reflektere at tjenesteyter og tjenestemottaker vil tilhøre to forskjellige noterte enheter. Se punkt 15.5 "Insurance, IT services and other realtionships with Orkla" og punkt 14 "Related party transactions" for ytterligere informasjon om Borregaards forhold til Orkla.

### 22.15 Styre

Selskapets nåværende styre består av Terje Andersen, Jan Anders Oksum og Veronica Skevik.

Fra første noteringsdag vil styret bestå av Terje Andersen, Jan Anders Oksum, Jan Erik Korssjøen, Kristine Ryssdal og Kimberly Lein-Mathiesen. I tillegg vil de ansatte i Borregaard, etter samtykke fra Bedriftsdemokratinemda, ha rett til å velge to styremedlemmer og to observatører.

## 22.16 Toppledelsen

Borregaards toppledelse består av:

| Navn | Nåværende stilling i Konsernet |
|---|---|
| Per Arthur Sørlie ............................ .............. | Chief Executive Officer |
| Per Bjarne Lyngstad ....................... .............. | Chief Financial Officer |
| Dag Arthur Aasbø .......................... .............. | Senior Vice President of HR and Public relations |
| Tuva Barnholt ............................... .............. | Senior Vice President of Purchasing and strategic sourcing |
| Morten Harlem ............................. .............. | Executive Vice President, Performance Chemicals (business area) |
| Tom Erik Foss-Jakobsen ................. .............. | Executive Vice President, Specialty Cellulose (business area) |
| Bjørn Erik Amundsen...................... .............. | Executive Vice President, Ingredients and Fine Chemicals |
| Gisle Løhre Johansen ..................... .............. | Senior Vice President of Business development and Research & Development |
| Ole Gunnar Jakobsen ..................... .............. | Plant Director of Borregaard Fabrikker |

## 22.17 Ansatte

Per dato for Prospektet har Borregaard ca 1 100 ansatte.

## 22.18 Vedtekter

Selskapets vedtekter per dato for Prospektet er vedlagt Prospektet som Vedlegg A og er nærmere beskrevet i punkt 16.10.1 "The Articles of Association".

## 22.19 Revisor og rådgivere

Selskapets revisor er Ernst & Young AS med organisasjonsnummer 976 389 387, og forretningsadresse Dronning Eufemias gate 6, N-0191 Oslo, Norge.

ABG Sundal Collier og UBS Limited er Joint Global Coordinators og Joint Bookrunners for Tilbudet. DNB Markets, Handelsbanken Capital Markets and SEB Enskilda er Co-Lead Managers for Tilbudet. Advokatfirmaet Schjødt AS, Tilretteleggernes norske juridiske rådgiver og Cleary Gottlieb Steen Hamilton, Tilretteleggernes internasjonale rådgiver vil uttale seg om enkelte rettslige forhold vedrørende Tilbudet.

Advokatfirmaet Thommessen AS, Selskapets og Selgende aksjonærs norske juridiske rådgiver, og Latham & Watkins (London) LLP, Selskapets og Selgende aksjonærs internasjonale rådgiver vil uttale seg om enkelte rettslige forhold ved Tilbudet.

## 22.20 Tilgjengelige dokumenter

I 12 måneder fra datoen for dette Prospektet vil kopier av følgende dokumenter være tilgjengelige for inspeksjon på Selskapets forretningskontor i Hjalmar Wessels vei 10, Sarpsborg, i normal kontortid fra mandag til fredag hver uke (bortsett fra offentlige helligdager):

- Selskapets vedtekter og stiftelsesdokument.
- Combined Financial Statements og Selskapets datterselskapers regnskaper for regnskapsårene 2011, 2010 og 2009, Interim Condensed Financial Information for første halvår 2012 and 2011; og Borregaard ASAs regnskap for perioden fra stiftelse den 22. august 2012 til 31. august 2012.
- Dette Prospektet.

## 23 DEFINITIONS AND GLOSSARY

In the Prospectus, the following defined terms have the following meanings:

| | |
|---|---|
| 2010 PD Amending Directive | Directive 2010/73/EU amending the EU Prospectus Directive. |
| Additional Shares........................... | The additional Shares sold pursuant to the over-allotment by the Stabilisation Manager of up to 15% of the number of Sale Shares offered in the Offering. |
| ABG Sundal Collier........................ | ABG Sundal Collier Norge ASA. |
| Adjusted EBITA ............................ | Adjusted EBITA is defined as operating profit before amortisation and other income and expenses. |
| Adjusted EBITDA .......................... | Adjusted EBITDA is defined as operating profit before depreciation, amortisation and other income and expenses. |
| Anti-Money Laundering Legislation.. | Anti-Money Laundering Legislation, including the Norwegian Money Laundering Act of 6 March 2009 No. 11 and the Norwegian Money Laundering Regulations of 13 March 2009 No. 302, collectively. |
| Application Period ......................... | The application period for the Retail Offering which will take place from 09:00 hours (CET) on 3 October 2012 to 12:00 hours (CET) on 17 October 2012, unless shortened or extended. |
| Articles of Association.................... | The Company's articles of association attached as Appendix A of this Prospectus. |
| Bank Facilities Agreements ............ | The three separate, bilateral multicurrency revolving loan facility agreements entered into by Borregaard with DNB Bank ASA, Handelsbanken and Skandinaviska Enskilda Banken, respectively, acting as lenders, such agreements being in the aggregate amount of NOK 1,800 million. |
| Bedriftsdemokratinemda................ | The Norwegian Industrial Democracy Board. |
| Biocel ......................................... | Biocel Paskov A.S. |
| BIL ............................................ | Borregaard Industries Limited. |
| Biorefinery Business...................... | The biorefinery business held by Borregaard following the Restructuring. |
| Board members............................ | Members of the Board of Directors. |
| Board of Directors or the Board ...... | The Board of Directors of the Company. |
| Bookbuilding Period ...................... | The bookbuilding period for the Institutional Offering which will take place from 09:00 hours (CET) on 3 October 2012 to 15:00 hours (CET) on 17 October 2012, unless shortened or extended. |
| Borregaard .................................. | The Company taken together with its consolidated subsidiaries and joint venture company. |
| CET............................................ | Central European Time. |
| Co-Lead Managers ........................ | DNB Markets, Handelsbanken Capital Markets and SEB Enskilda. |
| Combined Financial Statements...... | The audited combined financial statements for Borregaard Group as of and for the years ended 31 December 2011, 2010 and 2009. |
| Company..................................... | Borregaard ASA. |
| Company Books............................ | Borregaard's data warehouse (SAP Business Warehouse) together with Borregaard's financial consolidating system (Hyperion Financial Management) where all companies in the Group report on a monthly basis. |
| Corporate Governance Code........... | The Norwegian Code of Practice for Corporate Governance dated 2010, as amended. |
| DNB Markets................................ | DNB Bank ASA. |
| EBITDA ....................................... | Earnings before interest, tax, depreciation and amortisation. |
| EEA............................................ | The European Economic Area. |
| EU ............................................. | The European Union. |
| EUR ........................................... | The lawful currency of the participating member states in the European Union. |
| EU Prospectus Directive................. | Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State. |
| Financial Information .................... | The Combined Financial Statements and the Interim Condensed Financial Information together. |
| General Meeting ........................... | The general meeting of the shareholders in the Company. |
| Group.......................................... | The Company taken together with its consolidated subsidiaries and joint venture company. |
| Handelsbanken Capital Markets ...... | Handelsbanken Capital Markets, a part of Svenska Handelsbanken AB (Publ). |
| IAS ............................................ | International Accounting Standard. |
| IFRS .......................................... | International Financial Reporting Standards as adopted by the EU. |
| Indicative Price Range................... | The indicative price range in the Offering of NOK 20 to NOK 25 per Offer Share. |
| Institutional Closing date .............. | Delivery and payment for the Offer Shares by the applicants in the Institutional Offering is |

| | |
|---|---|
| | expected to take place on or about 23 October 2012. |
| Institutional Offering .................... | An institutional offering which comprises of (a) to institutional and professional investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from local prospectus requirements, and (c) in the United States to QIBs as defined in, and in reliance on, Rule 144A under the U.S. Securities Act; subject to a lower limit per application of an amount of NOK 1,000,000. |
| Interim Board Members ................ | Three shareholder-elected members whom will serve as Board Members up to the first day of the Listing. |
| Interim Condensed Financial Information................................. | The unaudited interim condensed consolidated financial information for the Borregaard Group as of and for the six-month periods ended 30 June 2012 and 2011. |
| Joint Bookrunners ........................ | ABG Sundal Collier and UBS Limited. |
| Joint Global Coordinators .............. | ABG Sundal Collier and UBS Limited. |
| Lending Option ............................ | A lending option granted to the Stabilisation Manager by the Selling Shareholder, pursuant to which the Stabilisation Manager may require the Selling Shareholders to lend to the Stabilisation Manager, on behalf of the Managers, up to a number of Shares equal to the number of Additional Shares. |
| LignoTech South Africa ................. | Umkomaas Lignin Proprietary Limited t/a LignoTech South Africa. |
| Listing ........................................ | The listing of the Shares on the Oslo Stock Exchange. |
| Management ............................... | The senior management team of the Company. |
| Managers.................................... | The Joint Global Coordinators, the Joint Bookrunners and the Co-lead Managers together. |
| Member States ............................ | The participating member states of the European Union. |
| MT ............................................. | Metric tonne. |
| MTDS ......................................... | Metric tonne dry solid. |
| New Board of Directors................. | The five shareholder-elected Board Members together with, subject to the consent by the Norwegian Industrial Democracy Board, two employee-elected Board Members and two observers which will form the new Board of Directors from the first day of Listing. |
| NOK ........................................... | Norwegian Kroner, the lawful currency of Norway. |
| Non-Norwegian Corporate Shareholders............................... | Shareholders who are limited liability companies and certain similar corporate entities not resident in Norway for tax purposes. |
| Non-Norwegian Personal Shareholders............................... | Shareholders who are individuals not resident in Norway for tax purposes. |
| Norwegian Corporate Shareholders . | Shareholders who are limited liability companies and certain similar corporate entities resident in Norway for tax purposes. |
| Norwegian FSA ............................ | The Financial Supervisory Authority of Norway (*Nw.: Finanstilsynet*). |
| Norwegian Personal Shareholder..... | Shareholders who are individuals resident in Norway for tax purposes. |
| Norwegian Public Limited Companies Act ............................ | Norwegian Public Limited Liability Companies Act of 13 June 1997 No 45. |
| Norwegian Securities Trading Act.... | The Norwegian Securities Trading Act of 28 June 2007, no. 75 (*Nw.: verdipapirhandelloven*). |
| Offering ...................................... | The global offering including the Institutional Offering and the Retail Offering taken together. |
| Offer Price .................................. | The final offer price for the Offer Shares in the Offering. The Offer Price may be set above or below the Indicative Price Range. |
| Offer Shares ............................... | The Additional Shares together with the Sale Shares - the Shares offered pursuant to the Offering. |
| Order ......................................... | The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended. |
| Orkla.......................................... | Orkla ASA. |
| Oslo Stock Exchange .................... | Oslo Børs ASA, or, as the context may require, Oslo Børs, a Norwegian regulated stock exchange operated by Oslo Børs ASA. |
| Over-Allotment Option.................. | Option granted by the Selling Shareholder to the Stabilisation Manager, on behalf of the Managers, to purchase a number of Additional Shares (together with the Sale Shares, the Offer Shares) equaling up to 15% of the number of Sale Shares, exercisable within a 30-day period commencing at the date of announcement of the final offer price expected to be made on 18 October 2012, to cover over-allotments, if any, in connection with the Offering. |
| Payment Date ............................. | The payment date for the Offer Shares under the Retail Offering, expected to be 22 October 2012. |
| Prospectus .................................. | This Prospectus dated 2 October 2012. |
| Purchase Agreement ..................... | The purchase agreement expected to be entered into by the Company, the Selling Shareholder, Orkla and the Joint Bookrunners (as representatives of the Managers) on or about 17 October 2012 with respect to the Offering of the Offer Shares. |

| | |
|---|---|
| QIBs | Qualified institutional buyers as defined in Rule 144A. |
| Regulation S | Regulation S under the U.S. Securities Act. |
| Relevant Member State | Each Member State of the European Economic Area which has implemented the EU Prospectus Directive. |
| Relevant Persons | Persons in the UK that are (i) investment professionals falling within Article 19(5) of the Order or (ii) high net worth entities, and other persons to whom the Prospectus may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order. |
| Restricted Shares | Offer Shares purchased in the Offering inside the US. |
| Restructuring | The transfer of the Biorefinery Business to Borregaard. |
| Retail Application Form | Application form to be used to apply for Offer Shares in the Retail Offering, attached to this Prospectus as Appendix E and Appendix F. |
| Retail Offering | An offering to the public in Norway subject to a lower limit per application of an amount of NOK 10,500 and an upper limit per application of an amount of NOK 999,999 for each investor. |
| Rule 144A | Rule 144A under the U.S. Securities Act. |
| Sale Shares | Up to 81 million ordinary shares of Borregaard ASA offered pursuant to the Offering. |
| Sappi | Sappi Saiccor (Proprietary) Ltd. |
| SEB Enskilda | Skandinaviska Enskilda Banken AB (Publ). |
| SEC | The U.S. Securities and Exchange Commission. |
| Selling Shareholder | BRG Holding AS. |
| Share(s) | Means the shares of the Company, each with a par value of NOK 1, or any one of them, including the Offer Shares and the Additional Shares. |
| Stabilisation Manager | UBS Limited. |
| Transitional Service Agreements | Transitional service agreements between Orkla and Borregaard regarding certain operational services that Orkla and Borregaard have agreed that Borregaard shall receive and Orkla shall render in the Transitional Period. |
| Transitional Period | A period of one or two years after the Listing |
| Transfer Agreement | Transfer agreement entered into between BIL as transferor, Borregaard AS as transferee and Orkla on 19 March 2012. |
| UK | United Kingdom. |
| U.S. or United States | The United States of America. |
| U.S. Exchange Act | The U.S. Securities Exchange Act of 1934, as amended. |
| U.S. Securities Act | The U.S. Securities Act of 1933, as amended. |
| USD or U.S. Dollar | United States Dollars, the lawful currency of the United States. |
| VPS or Verdipapirsentralen | The Norwegian Central Securities Depository (*Nw.: Verdipapirsentralen*). |
| VPS account | An account with VPS for the registration of holdings of securities. |

# APPENDIX A:

# ARTICLES OF ASSOCIATION

**ARTICLES OF ASSOCIATION**

**OF**

**BORREGAARD ASA**

*As of 17 September 2012*

**§ 1 – Company name**

The name of the company is Borregaard ASA. The company is a public limited liability company.

**§ 2 – Registered office**

The company's registered office is in the municipality of Sarpsborg, Norway.

**§ 3 – Objective of the company**

The objective of the company is development, production and sale of specialty cellulose and, in addition, a number of other chemicals, letting of real property and other naturally related activities. The business can also be conducted through participation in or in cooperation with other companies.

**§ 4 – Share capital**

The share capital is NOK 100,000,000, divided into 100,000,000 shares, each with a nominal value of NOK 1. The shares shall be registered with a register of securities.

**§ 5 – Board of directors**

The board of directors shall consist of a minimum of three and a maximum of ten members according to the decision of the general meeting.

**§ 6 – Signatory rights**

The managing director of the company and the chairman of the board of directors may jointly sign for and on behalf of the company. The board of directors may grant powers of procuration.

**§ 7 – General meeting**

Documents relating to matters to be dealt with by the company's general meeting, including documents which by law shall be included in or attached to the notice of the general meeting, do not need to be sent to the shareholders if such documents have been made available on the company's internet site. A shareholder may nevertheless request that documents which relates to matters to be dealt with at the general meeting, is sent to him/her.

The ordinary general meeting shall address and decide upon the following matters:

- Approval of the annual accounts and the annual report, including distribution of dividend.
- Any other matters which are referred to the general meeting by law or the articles of association.

The shareholders may cast their votes in writing, including through electronic communication, in a period prior to the general meeting. The board of directors can establish specific guidelines for such advance voting. It must be stated in the notice of the general meeting which guidelines have been set.

The general meetings of the company may be held in Oslo. Shareholders who want to participate in the general meeting must, in accordance with further resolutions by the board of directors, notify the company thereof no later than three days before the general meeting is held.

**§ 8 – Nomination committee**

The company shall have a nomination committee. The nomination committee shall consist of three members who are shareholders or representatives of shareholders and shall be independent of the board of directors and the management. The members of the nomination committee, including the chairman, will be elected by the general meeting for a term of two years.

The nomination committee shall give recommendations for the election of shareholder elected members of the board of directors and the member of the nomination committee. The remuneration to the members of the nomination committee is determined by the general meeting. The general meeting may adopt instructions for the nomination committee.

# APPENDIX B:

# FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2011, 2010 AND 2009

# Combined Financial Statements

# for

# Borregaard AS

# 2009 - 2011

1

## Combined Income Statement

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Sales revenues | 8 | 3 810 | 3 419 | 3 338 |
| Other operating revenues | | 44 | 42 | 44 |
| **Operating revenues** | 7 | 3 854 | 3 461 | 3 382 |
| Cost of materials | | -1 605 | -1 524 | -1 532 |
| Payroll expenses | 9,10 | -699 | -674 | -665 |
| Other operating expenses | 11 | -815 | -774 | -722 |
| Depreciation and write-down property, plant and equipment | 16,17 | -199 | -200 | -210 |
| Amortisation intangible assets | 16 | -6 | -6 | -6 |
| Other income and expenses | 12 | 0 | 22 | 0 |
| **Operating profit** | | 530 | 305 | 247 |
| Finance income | 13 | 160 | 171 | 161 |
| Finance costs | 13 | -235 | -216 | -197 |
| **Profit/loss before taxes** | | 455 | 260 | 211 |
| Taxes | 14 | -135 | -76 | -67 |
| **Profit/loss for the year** | | 320 | 184 | 144 |
| Profit/loss attributable to non-controlling interests | 29 | 3 | 4 | 5 |
| Profit/loss attributable to owners of the parent | | 317 | 180 | 139 |
| EBITA adjusted 1) | 7 | 536 | 289 | 253 |
| EBITDA adjusted 2) | | 735 | 489 | 463 |

1) Operating profit before amortisation and other income and expenses

2) Operating profit before depreciation, amortisation and other income and expenses

## Combined earnings per share

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Earnings per share (one share) | 33 | 317 | 180 | 139 |

## Combined Statement of Comprehensive Income

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Profit/loss for the year** | | 320 | 184 | 144 |
| Change in hedging reserve after tax | 28 | -70 | 50 | 266 |
| Translation effects | | -28 | 0 | -75 |
| **Comprehensive income** | | 222 | 234 | 335 |
| Profit/loss attributable to non-controlling interests | | 2 | 3 | 5 |
| Profit/loss attributable to owners of the parent | | 220 | 231 | 330 |

## Combined Statement of Financial Position

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment | 17 | 1 822 | 1 791 | 1 776 |
| Intangible assets | 16 | 72 | 76 | 86 |
| Deferred tax assets | 14 | 0 | 10 | 23 |
| Other assets | 23 | 91 | 128 | 88 |
| **Non-current assets** | | 1 985 | 2 005 | 1 973 |
| Inventories | 18 | 558 | 468 | 497 |
| Receivables | 21 | 665 | 661 | 624 |
| Cash, cash equivalents and deposits in Group cash pool | 22 | 496 | 427 | 340 |
| **Current assets** | | 1 719 | 1 556 | 1 461 |
| **Total assets** | | 3 704 | 3 561 | 3 434 |
| **Equity and liabilities** | | | | |
| Combined equity from parent | | 1 109 | 998 | 1 335 |
| Non-controlling interests | 29 | 14 | 16 | 20 |
| **Equity** | | 1 123 | 1 014 | 1 355 |
| Deferred tax | 14 | 158 | 183 | 160 |
| Provisions and other liabilities | 19 | 42 | 38 | 67 |
| Interest-bearing liabilities | 26 | 1 788 | 1 862 | 1 403 |
| **Non-current liabilities** | | 1 988 | 2 083 | 1 630 |
| Interest-bearing liabilities | 26 | 20 | 23 | 19 |
| Income tax payable | 14 | 62 | 23 | 8 |
| Other liabilities | 24 | 511 | 418 | 422 |
| **Current liabilities** | | 593 | 464 | 449 |
| **Equity and liabilities** | | 3 704 | 3 561 | 3 434 |

Oslo, 17 September 2012
The Board of Directors of Borregaard AS

| | | |
|---|---|---|
| Terje Andersen | Kjell Sundsli | Jan A. Oksum |
| Karl Otto Tveter | Erik Ruud Barkald | Roar Linder |
| Bente Seljebakken Klausen | Ragnhold Anker Eide | Roy Kåre Appelgren |

3

## Combined Statement of Cash Flows

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Profit/loss before taxes | | 455 | 260 | 211 |
| Amortisation, depreciation and impairment charges | | 205 | 206 | 216 |
| Changes in net working capital, etc. | | -75 | 17 | 84 |
| Taxes paid | | -49 | -31 | -7 |
| **Cash flow from operating activities** | | **536** | **452** | **504** |
| Investments property, plant and equipment and intangible assets | 7,16,17 | -251 | -205 | -128 |
| Other capital transactions | | 4 | -5 | -5 |
| **Cash flow from investing activities** | | **-247** | **-210** | **-133** |
| Dividends/Group contributions paid | | -149 | -609 | -214 |
| **Net paid to shareholders** | | **-149** | **-609** | **-214** |
| Change in interest-bearing liabilities | | -74 | 452 | -274 |
| Change in interest-bearing receivables | | 9 | 9 | 23 |
| **Change in net interest-bearing liabilities** | 25,26 | **-65** | **461** | **-251** |
| **Cash flow from financing activities** | | **-214** | **-148** | **-465** |
| **Change in cash and cash equivalents** | 22 | **75** | **94** | **-94** |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents as of 1 January | | **427** | **340** | **374** |
| Change in cash and cash equivalents | | **75** | **94** | **-94** |
| Currency effect of cash and cash equivalents | | **-6** | **-7** | **60** |
| **Cash and cash equivalents as of 31 December** 1) | 22 | **496** | **427** | **340** |

1) Includes deposits in Group cash pool

Joint ventures affect the cash flow as follows:

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Cash flow from operating activities | | 14 | 36 | 46 |
| Cash flow from investing activities | | -2 | -2 | 0 |
| Cash flow from financing activities | | -29 | -28 | -53 |
| Change in cash and cash equivalents | 6 | -17 | 6 | -7 |

## Combined Statement of Changes in Equity

| Amounts in NOK million | **Hedging reserve** 1) | **Translation effects** | **Allocated equity/ retained earnings** | **Combined equity from parent** | **Non-controlling interests** | **Total equity** |
|---|---|---|---|---|---|---|
| **Equity 31 December 2008** | -225 | 34 | 1343 | 1152 | 18 | 1170 |
| Profit/Loss for the year | | | 139 | 139 | 5 | 144 |
| Group comprehensive income | 266 | -75 | 0 | 191 | 0 | 191 |
| Share based payments | | | 3 | 3 | | 3 |
| Dividends/Group contributions | | | -150 | -150 | -3 | -153 |
| **Equity 31 December 2009** | 41 | -41 | 1335 | 1335 | 20 | 1355 |
| Profit/Loss for the year | | | 180 | 180 | 4 | 184 |
| Group comprehensive income | 50 | 0 | 1 | 51 | -1 | 50 |
| Share based payments | | | 4 | 4 | | 4 |
| Dividends/Group contributions | | | -572 | -572 | -7 | -579 |
| **Equity 31 December 2010** | 91 | -41 | 948 | 998 | 16 | 1014 |
| Profit/Loss for the year | | | 317 | 317 | 3 | 320 |
| Group comprehensive income | -70 | -28 | 1 | -97 | -1 | -98 |
| Share based payments | | | 4 | 4 | | 4 |
| Dividends/Group contributions | | | -113 | -113 | -4 | -117 |
| **Equity 31 December 2011** | 21 | -69 | 1157 | 1109 | 14 | 1123 |

1) After tax

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## Note 1 General information

The combined financial statements for the Borregaard AS (Borregaard/Group), including notes, are prepared for the years 2011, 2010 and 2009. The parent company and its offices are located in Sarpsborg, Norway. Borregaard is an advanced biorefinery. Using timber as raw material, it produces a wide range of advanced biochemicals, biomaterials and bioethanol as sustainable alternatives to oil-based products. Borregaard is an international company with production units and sales offices in the most important industrial markets.

The combined financial statements contain certain items that are crucial to understand the financial results for 2011, 2010 and 2009. Basis for preparation is described below.

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. 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 27.

"Other income and expenses" (OIE) are presented as part of operating profit in the Income Statement, but are presented after EBITA in the segment information in Note 7. OIE comprise mainly of effect in changes in pension arrangements.

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 fall in interest rates therefore has little impact on the Group's pension plans and thus on the Group's financial health. 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. Borregaard has no loan agreements containing financial covenants except for in a joint venture company. In the combined financial statements all financing is provided by the parent company Orkla ASA, except for financing of the joint venture. We refer to Note 26 for further details.

Impairment tests that have been carried out confirm that the value of the combined Borregaard Group's most exposed assets is also intact as of 31 December 2011. The situation of the main supplier of raw material to LignoTech Brasil Produtos de Lignina Ltda is uncertain and it resulted in a write down of goodwill and other intangibles assets of NOK 35 million in Q2 2012. See Note 15 for further details.

## Note 2 Basis for preparation

**Background**

In connection with the potential initial public offering of Borregaard ASA, an entity that is scheduled to acquire the share in Borregaard AS, combined financial statements covering the biorefinery activities for the years 2009, 2010 and 2011 have been prepared.

On 19 March 2012 Borregaard Industries Limited ("BIL"), Borregaard AS and Orkla ASA entered into a Transfer Agreement regarding the transfer by way of contribution in kind of certain assets, rights and obligations related to the biorefinery business formerly conducted by BIL from BIL to Borregaard AS. The said transfer was completed on 30 March 2012. Historical figures from the transferred business from BIL (continuity) are the basis for the historical figures of Borregaard AS.

As a general rule, all assets, rights and obligations, including employees and contracts related to the Biorefinery business, were transferred to Borregaard AS as part of the Transfer Agreement. However, no shares in subsidiaries and joint ventures were transferred as part of the Transfer Agreement. All such shares which form part of the Biorefinery business were transferred to Borregaard AS from BIL and certain other companies in the Orkla group through various share transfer agreements. Further, certain assets and liabilities which were not related to the Biorefinery business, mainly the hydro power production business of BIL, were explicitly excluded from the transfer and remain with BIL.

**Basis for preparation**

The combined Borregaard Group includes those direct and indirect held subsidiaries of Orkla ASA which are part of the new Borregaard Group (established in 2012). Accordingly the financial information, which has been prepared specifically for the purposes of this document, has been prepared on a basis that combines the results and assets and liabilities of the companies forming the Borregaard Group for December 31 2011, 2010 and 2009 and as at those dates.

The entities included in the combined historical financial statements are under common control for the reporting periods included. Combined historical financial statements are required for the proposed Initial Public Offering and will be made available for investors as part of that process. The combined historical financial statements are general-purpose financial statements prepared based on IFRS (as adopted by EU).

Combined Group
The combined accounts are prepared based on segment information for the Borregaard Chemicals, as presented in Orkla ASA's Annual Report for 2011.

Entities not part of the new Borregaard Group
When establishing the new Borregaard Group, the historic parent company BIL were split, leaving the Hydro Power activity, the sub-business area Denomega Nutrition Oil and the shares in the subsidiaries in Italy within the old company, not being part of this transaction.

The Hydro Power activity has not been reported as a part of the segment Borregaard Chemicals in Orkla ASA.

Denomega and the activity in Italy have historically been reported as part of the Borregaard Chemicals. As these business activities will not be part of the new Borregaard Group, but included in other business areas of the Orkla Group, they are not included in the combined financial accounts.

In addition Borregaard Switzerland owned by Orkla ASA via LignoTech Sweden AB has also historically been reported as part of the Borregaard Chemicals. Those business activities will also be part of other segments within Orkla Group and will not be part of the new Borregaard Group, and are therefore not included in the combined financial accounts.

As described above, a minor part of what is previously reported as part of the Borregaard Chemicals segment in the Orkla Group was not part of the transfer of business from BIL to Borregaard AS, and is not part of the Chemicals business going forward. Historical consolidated financial information for the current Chemicals business is not available. Therefore, combined financial statements ("the Combined Financial Statements") of the Borregaard AS for the years 2011, 2010 and 2009 have been extracted, or carved-out, from the consolidated financial statements of the Orkla Group. The Orkla Group's consolidated financial statements for the years presented were prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"). The combined financial statements for 2011, 2010 and 2009 have been prepared and presented in full compliance with the International Financial Reporting Standards (IFRS), as adopted by the EU. Borregaard is using the same presentation and accounting principles for all three years. Valuation and recognition of the items in the financial statements have been carried out in accordance with current IFRS standards. The most important principles are described below.

The historical results of operations and carrying amounts of assets and liabilities of the Borregaard Group have been arrived at by combining the financial information of all entities and of the assets and liabilities that have been identified as being within the business during the periods presented. To the extent items have been allocated, the principles and reasons for such allocations are described below. Management believes the assumptions underlying the Combined Financial Statements are reasonable. However, the Combined Financial Statements as presented may not reflect what the results of the operations, financial position and cash flows would have been if the Borregaard Group had been a stand-alone company during the periods presented. The Combined Financial Statements may not be indicative of future performance.

The combined financial statements are primarily based on the historical cost principle. Hedging instruments that satisfy the criteria for hedge accounting are reported at fair value in the statement of financial position and changes in value are recognised in comprehensive income. Derivatives that 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 dividend/group contribution does not become a liability until it has been formally approved by the General Meeting.

The amortisation of intangible assets and "Other income and expenses" 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 AS) is NOK and the Group's reporting currency is NOK.

**Consolidation principles**
The Combined Financial Statements show the overall financial results and the overall financial position when the parent company Borregaard AS and its combined companies 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 combined, line by line, in the combined financial statements from the date the Group has control and are combined until the date that such control ends. "Controlling influence" means formal "power to govern", i.e. ownership of more than a 50% equity interest. If the Group owns more than 50%, but less than 100% of 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 controlling influence (joint ventures, see Note 6) are combined with the Group's interest line by line in the combined financial statements using the proportionate consolidation method from the date joint control is obtained/established.

Borregaard AS does not have any interests in associated companies (normally 20-50 % owned companies).

**The basis for allocation of income, expenses, assets and liabilities**

The Combined Financial Statements were extracted from the consolidated statements of the Orkla Group for the periods presented. The significant principles that were used to prepare the Combined Financial Statements for the Borregaard Group and key adjustments made in the preparation were the following:

*Pension*
Borregaard has pension plans that are classified as funded benefit plans and unfunded benefit plans. The largest part of the benefit plans are in the USA and Norway. The employees in Borregaard AS are employees carved-out from the Chemicals business in BIL. The pension liabilities and the pension assets associated with these employees are included in the Combined Financial Statements.

*General and overhead costs*
The majority of general and overhead costs originate in the individual entities. A proportion of the costs charged to BIL have been allocated to Borregaard AS in line with the activities in the company. Costs related to the Orkla Group's shared services and corporate services, such as legal, IT, human resources services, internal audit etc have been charged to the entities

conducting the Chemicals business based on services delivered in each period. Certain of the Orkla Group's corporate expenses related to preparing its consolidated financial statements, complying with requirements for Orkla's listing on public exchanges and certain other activities have not been allocated. Management believes that all significant costs have been allocated to the entities identified as entities conducting the business to be transferred to Borregaard AS

*Income taxes*
A proportion of taxes reported as part of BIL for the years presented have been allocated to Borregaard AS in accordance with the business going forward in Borregaard AS.BIL consisted primarily of hydro power and Chemicals, and taxes related to hydro power are not allocated to Borregaard AS.

The income tax payable included in the Combined Financial Statements has been based on the actual amount payable by the legal entities within the Borregaard Group.

*Equity*
As a significant part of the Borregaard Group previously was part of BIL, an allocation of the equity in BIL into Borregaard AS was done for the periods presented.

The Orkla Group has a policy that the legal entities within the Group should have an equity share of approximately 25% of capital employed. Dividends and group contributions are used to reach the preferred level, see Note 25. In preparing the Combined Financial Statements, the Borregaard Group allocated debt so that the residual, equity, was in line with Orkla Group policy. Also the equity share as presented in the combined financial statements will differ from the preferred level of equity share due to timing of payments of dividends and group contributions.

*Debt and interests*
The Orkla Group uses a centralised approach to financing of its operations. As a result, the Chemicals business has not had separate external financing. There has been no allocation of Orkla's external debt to the Chemicals business. Intercompany loans held by legal entities transferred to the Borregaard Group are included in the Combined Balance sheet of the Company. In addition a proportion of the debt in the legal entity BIL has been allocated to the new legal entity, Borregaard AS.

Interest related to debt has been allocated in line with the allocation of debt. As such, interest related to debt in the legal entity Borregaard Industries Limited has been allocated between BIL and Borregaard AS.

*Cash,cash equivalents and deposits in Group cash pool / interest-bearing liabilities from parent*
Orkla ASA has historically used a centralized approach to cash management that operates as an internal banking system (cash pool). Balances owed to, or owing from, Borregaard Group entities under the Orkla ASA centralised cash management internal banking system have been presented gross in the Combined Balance Sheet and included in "Cash, cash equivalents and deposits in Group cash pool", see Note 22, and "Interest-bearing liabilities", see Note 26, respectively.

The level of "Cash, cash equivalents and deposit in Group cash pool" may not be indicative of the future level of cash in the new Borregaard Group.

*The method of accounting of transactions between the combined Group and the Orkla Group*
All internal transactions within the combined group are eliminated. Transactions with the Orkla Group have been conducted on market terms, see Note 7 and 32.

## Note 3 New accounting standards

New and amended IASB accounting standards that have been endorsed by the EU can affect the preparation and presentation of financial statements to varying degrees. The amendments to IAS 24 Related Party Disclosures, IAS 32 Financial Instruments Presentation, IFRIC 14 (IAS 19 The Limit on a Defined Benefit Asset) and IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments have had no impact on Group reporting, nor did the results of the IASB's annual improvement project entailing some 20 technical amendments entail any important changes.

**Future changes in standards**
The combined 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.

**New standards not endorsed by the EU**
All the new standards or amendments presented are expected to come into force on 1 January 2013, apart from IFRS 9, which is expected to become effective in 2015. The standards will be implemented retrospectively, so comparative figures will be restated accordingly.

**IFRS 9 Financial Instruments**
IFRS 9 will replace the current IAS 39 Financial Instruments. The IASB has divided the project up into several phases, and as and when the individual phases of IFRS 9 are completed, the relevant parts of IAS 39 will be deleted. The changes in IFRS 9 are not expected to have any material effects on Borregaard's accounting.

**IFRS 10 Consolidated Financial Statements**
IFRS 10 will replace the parts of IAS 27 that deal with consolidated financial statements, in addition to addressing the relationships discussed in SIC-12. IFRS 10 is based on a simple control model that is to be applicable to all entities. Questions relating to consolidation will change from a principle-based decision to more of a discretionary decision (de facto control). Borregaard will not be materially affected by this change.

**IFRS 11 Joint Arrangements**
IFRS 11 will replace IAS 31 Interests in Joint Ventures and SIC 13. IFRS 11 retains some of the same terms that were used in IAS 31, but defines them differently. IFRS 11 eliminates the possibility of using the proportionate consolidation method for jointly controlled entities. Under IFRS 11, these entities are to be presented according to the equity method. Figures for Joint Ventures are presented in Note 6. Borregaard's share of profit/loss after tax and minority interests will be reclassified to the item profit from companies reported under the equity method as a finance item. Profit for the year in Note 6 will correspond to profit from companies reported according to the equity method.

**IFRS 12 Disclosure of Interests in Other Entities**
IFRS 12 will contain all the disclosure requirements that were previously set out in IAS 27 Consolidated and Separate Financial Statements, in addition to the disclosure requirements that were formerly included in IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. In addition to this, new requirements apply to disclosure of information regarding consolidated companies. This will further increase the volume of disclosures. IAS 27 now only contains rules governing company financial statements, while IAS 28 describes the application of the equity method, among other things.

**IFRS 13 Fair Value Measurement**
IFRS 13 will consolidate and clarifies the guidelines for measuring fair value. A number of standards require or permit companies to measure or disclose information regarding the fair value of assets, liabilities or equity instruments. Prior to the issue of IFRS 13, limited guidance was provided on how to measure fair value, and in some cases the guidelines were not consistent. This standard may, for instance, affect the way the value of assets is determined in connection with acquisitions.

**IAS 1 – Amendment: Presentation of Items of Other Comprehensive Income**
The amendment to IAS 1 will require enterprises to group items under “Other Comprehensive Income” (OCI), based on whether the items will be recognised in the income statement in subsequent periods.

**IAS 19 – Amendment to Employee Benefits**
There will be significant amendments to IAS 19 Employee Benefits. The changes entail that the corridor approach (deferred recognition of changes in pension liabilities and assets) is no longer permitted as an alternative. In practice, this will mean that a pension cost estimated on the basis of selected assumptions will, as before, be recognized in profit or loss, while all estimate variances will be recognised in the statement of comprehensive income. This will result in higher balance sheet volatility for those who currently apply the corridor approach, while ordinary profit or loss (in EBITA) will be normalised and will not be affected by the impact on profit or loss of any accrual of estimate variances. The anticipated return on assets in the plan will be replaced by an estimated return based on the market rate of interest on corporate bonds. Borregaard has a large proportion of defined contribution plans and the effect of the described amendments will be limited. Based on figures reported at 31 December 2011, however, Borregaard’s equity will be reduced by NOK 58 million less tax due to the proposed change. See Note 10.

**Other matters**
The proposed standards for Revenue Recognition and Leases have not yet materialised in the form of final standards. Both of these drafts have undergone substantial changes since the consultation documents and no final version has yet been produced. These standards are not expected to be finalised in 2012.

Not all the effects of the new standards have been reviewed.

## Note 4 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, which is when the goods have been shipped. Gains on the sale of property, plant and equipment are presented as "Other income" and are included in the income statement.

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 "finance income".

**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 recognized in the statement of financial position at cost minus any accumulated depreciation and write-downs. Annual major inspections 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.

Expenditures related to internal generated intangible assets are expensed directly since the future economic benefits to the company cannot be identified and shown to be probable with any degree of certainty at the time the intangible assets are being developed. 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.

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 will be 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 can be capitalised, and that decision-making point comes at a late stage of the process (see Note 16).

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 15.

*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 payment of the receivable. The interest rate element is disregarded if it is insignificant, which is the case for the majority of receivables.

*Cash, cash equivalents and deposits in Group cash pool* are held for the purpose of meeting short-term fluctuations in liquidity rather than for investment purposes. Cash, cash equivalents and deposit in Group cash pool consist of cash, bank deposits and current deposits with a maturity of three months or less. As far as possible, excess liquidity is placed with Orkla's cashpool or as deposits with Orkla, see Note 22. In some countries it may be impossible to place such assets with Orkla's cashpool.

**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.

Defined benefit pension plans are based on an obligation of the Company to the employees to provide a certain level of pension upon retirement, normally defined as a percentage of the final. The Company is responsible for funding the amount of the future pension benefit and the present value of this obligation, less the fair value of pension assets, less actuarial gains and losses must be reported in statement of financial position.

The pension obligation is calculated on a straight-line accruals basis and is measured as the present value of the estimated future pension payments that are vested on the statement of financial position date.

Changes in the pension obligation for defined benefit plans due to curtailments or settlements are reported in their entirety in the income statement when benefits are terminated or settled by acquiring. Actuarial gains and losses are recognized in the income statement over the estimated average remaining vesting period for the part of the gains and losses that exceeds 10% of the greater of the gross pension obligation or the gross pension plan assets. Gains and losses on curtailment or settlement of a defined benefit pension plan are recognised at the time of curtailment or settlement.

*Provisions* are recognised in the financial statements in the case of onerous contracts or when restructuring measures that 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. Borregaard has no material provisions as of 31 December 2011.

*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. Contingent 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 realize 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.

A provision for deferred tax on retained earnings in foreign subsidiaries is recognised to the extent it is probable that dividends will be distributed in the near future.

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 Groups 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 valued at fair value on the balance sheet date and reported as receivables or liabilities. Gains and losses due to realisation or 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 during the interest rate period are not reported in the income statement.

*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. Hedge accounting is discontinued if: (a) the hedging instrument has matured, or is terminated, exercised or sold, (b) the hedge no longer satisfied the above mentioned for hedging, or (c) the Group for some reason decides not to continue the fair value hedge. In the case of a discontinued hedge relationship, the changes in the fair value of the hedged item recognised in the statement of financial position will be amortised over the remaining life of the item, using the effective interest rate method. The same will apply for the hedging instrument.

*Cash flow hedges*. The efficient 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 is carried out, and presented on the same line as the hedged transaction. The inefficient part of the hedging instrument is reported in the income statement. When a hedging instrument has matured, or is sold, exercised or terminated, or the Group discontinues the hedging relationship, even though the hedged transaction is still expected to occur, the accumulated gains and losses at this point will remain in comprehensive income, and will be recognised in the income statement when the transaction occurs. If the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses on the hedging instrument will be recognised in the income statement immediately.

*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 20):

Level 1: Quoted, unadjusted prices in active markets for identical assets and liabilities
Level 2: Other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: Other techniques which use inputs that have significant effect on the recorded fair value that are not based on observable market data.

Derivatives are considered to be in level 2. 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 specialty cellulose in addition to vanillin, bioethanol and fine chemicals, 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 specialty cellulose products as a niche supplier and solutions provider. In addition, Borregaard produces second generation bioethanol.

Performance Chemicals and Speciality Cellulose conduct over 75% of the revenue and EBITA in the Borregaard Group.Borregaard utilises the lignin from the sulphite pulping process to produce wood-based vanillin. In addition, 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. In addition, utilities (water works, incineration facilities and purification plants) and services at the Sarpsborg site and corporate functions are also part of other businesses. (See Note 7).

The arm's length principle is applied to pricing of transactions between the various segments. Borregaard AS provides services to the companies in the Group and charges them for these services.

Figures for the geographical distribution of capital employed, 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 the 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 valued at their share of identified assets and liabilities and no goodwill has been allocated to non-controlling interests.. 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, cash equivalents and deposits in Group cash pool" 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 it is a reasonable assurance 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 Note 344.

## Note 5 Use of estimates in preparing the combined financial statements

The management has made use of estimates and assumptions in preparing the combined 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:

| **Accounting item**<br>Amounts in NOK million | **Note** | **Estimate/assumptions** | **Carrying value** |
|---|---|---|---|
| Property, plant and equipment | 17 | Recoverable amount and estimation of correct remaining useful life | 1.822 |
| Goodwill and other intangible assets | 16 | Net present value future cash flows/NSV[1] | 65 |
| Pension liabilities | 10 | Economic and demographic assumptions | 42 |
| Research & development | 16 | Assumption of what is considered as research and development respectively. Some development is capitalised. | 7 |

[1] 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.

Goodwill is capitalised based on recognition principles from purchase price allocations. Goodwill is not routinely amortised, but their value is tested at least once a year. The impairment tests are based on estimates of the value of the cash-generating units to which goodwill has been allocated. The estimates are based on assumptions of anticipated future cash flows based on a selected discount rate. The latter is based on the Borregaard's Weighted Cost of Capital and adjusted to the relevant calculation that is carried out in relation to country risk, inflation and operational risk (see Note 15).

Other estimates and assumptions are reported in various notes and any information that is not logically included in other notes is presented in Note 34 "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 combined 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 expenses" 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 significant changes in the lines presented.

## Note 6 Joint Ventures

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Operating revenues | 137 | 126 | 115 |
| Operating expenses | -117 | -108 | -90 |
| Operating profit/loss | 20 | 18 | 25 |
| Profit/loss for the year *) | 11 | 27 | 24 |
| Non-current assets | 80 | 106 | 105 |
| Current assets | 65 | 79 | 64 |
| Non-current liabilities | 24 | 38 | 49 |
| Current liabilities | 27 | 26 | 23 |
| Cash and cash equivalents | 17 | 34 | 28 |

*) Profit/loss for the year will correspond to the figures presented according to the equity method after implementation of IFRS 11, presented as a finance item (see Note 3).

No significant capital contribution is required in the joint venture in which Borregaard is a participant.

## Note 7 Segments

The Group applies the same principles for the presentation of segment information as for the rest of its combined 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 total operating revenue, operating expenses, EBITA, amortisation and write downs of intangible assets, other income and expenses and operating profit for each business area. It does not disclose internal sale between the various segments as it is considered immaterial.

This table shows the revenues generated by the Performance Chemicals business area, the Speciality Cellulose business area and Other businesses.

The segment information also includes cash flow from operations, expansion investments, working capital and capital employed for each area.

| 2011<br>Amounts in NOK million | Performance Chemicals | Speciality Cellulose | Other Businesses | Eliminations | Borregaard Group |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Total operating revenue | 1 539 | 1 644 | 749 | -78 | **3 854** |
| Operating expenses | -1 314 | -1 327 | -755 | 78 | **-3 318** |
| EBITA 1) | 225 | 317 | -6 | 0 | **536** |
| Amortisation and write downs intangible assets | -6 | 0 | 0 | 0 | **-6** |
| Other income and expenses | 0 | 0 | 0 | 0 | **0** |
| Operating profit | 219 | 317 | -6 | 0 | **530** |
| Net financial items | | | | | **-75** |
| Profit before tax | | | | | **455** |
| **Cash flow** | | | | | |
| Cash flow from operations before net replacement expenditures | 234 | 258 | 168 | 0 | **660** |
| Replacement expenditures | -36 | -63 | -107 | 0 | **-206** |
| Cash flow from operations | 198 | 195 | 61 | 0 | **454** |
| Expansion investments | -4 | -17 | -24 | 0 | **-45** |
| **Capital structure** | | | | | |
| Working capital | 315 | 357 | 28 | 0 | **700** |
| Capital employed (see note 8) | 758 | 1 466 | 368 | 0 | **2 592** |

1) Operating profit before amortisation and other income and expenses

| 2010<br>Amounts in NOK million | Performance Chemicals | Speciality Cellulose | Other Businesses | Eliminations | Borregaard Group |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Total operating revenue | 1 495 | 1 296 | 736 | -66 | **3 461** |
| Operating expenses | -1 238 | -1 253 | -747 | 66 | **-3 172** |
| EBITA 1) | 257 | 43 | -11 | 0 | **289** |
| Amortisation and write downs intangible assets | -6 | 0 | 0 | 0 | **-6** |
| Other income and expenses | -1 | 0 | 23 | 0 | **22** |
| Operating profit | 250 | 43 | 12 | 0 | **305** |
| Net financial items | | | | | **-45** |
| Profit before tax | | | | | **260** |
| **Cash flow** | | | | | |
| Cash flow from operations before net replacement expenditures | 291 | 149 | 88 | 0 | **528** |
| Replacement expenditures | -30 | -48 | -117 | 0 | **-195** |
| Cash flow from operations | 261 | 101 | -29 | 0 | **333** |
| Expansion investments | 0 | -9 | -1 | 0 | **-10** |
| **Capital structure** | | | | | |
| Working capital | 306 | 230 | 100 | 0 | **636** |
| Capital employed (see note 8) | 757 | 1 332 | 417 | 0 | **2 506** |

1) Operating profit before amortisation and other income and expenses

| 2009<br>Amounts in NOK million | Performance Chemicals | Speciality Cellulose | Other Businesses | Eliminations | Borregaard Group |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Total operating revenue | 1 425 | 1 283 | 756 | -82 | **3 382** |
| Operating expenses | -1 182 | -1 273 | -756 | 82 | **-3 129** |
| EBITA 1) | 243 | 10 | 0 | 0 | **253** |
| Amortisation and write downs intangible assets | -6 | 0 | 0 | 0 | **-6** |
| Other income and expenses | 0 | 0 | 0 | 0 | **0** |
| Operating profit | 237 | 10 | 0 | 0 | **247** |
| Net financial items | | | | | **-36** |
| Profit before tax | | | | | **211** |
| | | | | | |
| **Cash flow** | | | | | |
| Cash flow from operations before net replacement expenditures | 261 | 100 | 186 | 0 | **547** |
| Replacement expenditures | -13 | -44 | -63 | 0 | **-120** |
| Cash flow from operations | 248 | 56 | 123 | 0 | **427** |
| Expansion investments | -6 | -2 | 0 | 0 | **-8** |
| | | | | | |
| **Capital structure** | | | | | |
| Working capital | 310 | 268 | 80 | 0 | **658** |
| Capital employed (see note 8) | 761 | 1 395 | 338 | 0 | **2 494** |

1) Operating profit before amortisation and other income and expenses

| **Reconciliation Cash Flow from operations**<br>Amounts in NOK million | **2011** | **2010** | **2009** |
|---|---|---|---|
| **Cash Flow from operating activities** | 536 | 452 | 504 |
| Financial items, net | 75 | 45 | 36 |
| Taxes paid | 49 | 31 | 7 |
| **Cash flow from operations before net replacement expenditures** | 660 | 528 | 547 |
| Replacement expenditures | -206 | -195 | -120 |
| **Cash flow from operations** | 454 | 333 | 427 |
| Expansion investments | -45 | -10 | -8 |

| **Reconciliation Working Capital**<br>Amounts in NOK million | **2011** | **2010** | **2009** |
|---|---|---|---|
| Receivables | 665 | 661 | 624 |
| Inventories | 558 | 468 | 497 |
| Other liabilities | -511 | -418 | -422 |
| Derivatives etc included in above items | -12 | -75 | -41 |
| **Working Capital** | 700 | 636 | 658 |

| **Reconciliation Capital Employed**<br>Amounts in NOK million | **2011** | **2010** | **2009** |
|---|---|---|---|
| **Capital Employed** | 2 592 | 2 506 | 2 494 |
| Other non-current assets | 91 | 128 | 88 |
| Cash and Cash equivalents | 496 | 427 | 340 |
| Net deferred tax | -158 | -173 | -137 |
| Provisions and other liabilities | -42 | -38 | -67 |
| Interest bearing liabilities | -1 808 | -1 885 | -1 422 |
| Income tax | -62 | -23 | -8 |
| Other | 14 | 72 | 67 |
| **Equity** | 1 123 | 1 014 | 1 355 |

## Note 8 Geographical breakdown of capital employed, investments, number of man-years and sales revenues

| | Capital Employed | | | Investments | | | Number of man-years | | | Sales revenues | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Amounts in NOK million | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| Norway | 2 166 | 2 051 | 2 051 | 235 | 190 | 116 | 720 | 741 | 772 | 152 | 136 | 161 |
| Rest of Europe | 105 | 116 | 133 | 2 | 4 | 6 | 115 | 112 | 111 | 1 854 | 1 576 | 1 435 |
| Asia | 10 | 5 | 4 | 3 | 1 | 1 | 44 | 33 | 31 | 976 | 863 | 942 |
| America | 202 | 203 | 183 | 8 | 8 | 3 | 136 | 131 | 144 | 778 | 798 | 753 |
| Rest of the world | 109 | 131 | 123 | 3 | 2 | 2 | 47 | 47 | 46 | 50 | 46 | 47 |
| Total | 2 592 | 2 506 | 2 494 | 251 | 205 | 128 | 1 062 | 1 064 | 1 104 | 3 810 | 3 419 | 3 338 |
| *Link between segments and «Investments»:* | | | | | | | | | | | | |
| Net replacement expend. segments (see Note 7) | | | | 206 | 195 | 120 | | | | | | |
| Expansion investments (see Note 7) | | | | 45 | 10 | 8 | | | | | | |
| Total | | | | 251 | 205 | 128 | | | | | | |

| **Revenues per product group** | | | |
|---|---|---|---|
| Amounts in NOK million | **2011** | **2010** | **2009** |
| Performance chemicals | 1 508 | 1 458 | 1 377 |
| Cellulose | 1 554 | 1 223 | 1 188 |
| Bioethanol | 87 | 70 | 94 |
| Fine Chemicals | 193 | 188 | 227 |
| Ingredients | 360 | 401 | 391 |
| Other | 108 | 79 | 61 |
| **Total revenues** | 3 810 | 3 419 | 3 338 |

## Note 9 Payroll expenses

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Wages | -584 | -564 | -546 |
| Sharebased payments | -4 | -4 | -3 |
| Employer's national insurance contribution | -81 | -74 | -74 |
| Pension costs (see note 10) | -29 | -31 | -41 |
| Other payments etc. | -1 | -1 | -1 |
| **Payroll expenses** | **-699** | **-674** | **-665** |
| Average number of man-years | 1 061 | 1 083 | 1 124 |

### Remuneration of the executive management

| | 2011 | | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| Amounts in NOK thousand | Salary | Sharebased payments | Pensions costs | Salary | Sharebased payments | Pensions costs | Salary | Sharebased payments | Pensions costs |
| Remuneration to CEO | 3 183 | 425 | 309 | 2 887 | 374 | 306 | 2 608 | 229 | 294 |
| Remuneration to other members of the Group Executive Board | 16 909 | 2 289 | 977 | 16 181 | 2 345 | 944 | 14 787 | 1 814 | 892 |
| Number of options to CEO 31 December | 180 000 | | | 130 000 | | | 80 000 | | |
| Number of options to other members ofthe Group Executive Board 31 December | 970 000 | | | 815 000 | | | 635 000 | | |

Remuneration of the Board of Directors amounted to NOK 204.000 in 2011 (NOK 201.000 in 2010 and NOK 221.000 in 2009). Remuneration is only paid to employee representatives and to the one external board member.

No compensation has been paid or will be paid to the Board Members for the period up to the first day of listing. Compensation to members of the New Board of Directors for the period from the first day of listing and up to the date of the annual General Meeting of the Company's shareholders in 2013 will be determined by the shareholders at such meeting and such determination shall have retrospective effect. Thereafter, compensation will be determined on an annual basis by the shareholders at the Company's annual General Meeting.

Per Arthur Sørlie (CEO) entered into a new employment contract with Borregaard to reflect the transfer of employment from BIL to Borregaard.

If the CEO, by mutual agreement and in the best interests 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 CEO is included in the company's ordinary pension schemes and in addition has a pension agreement to receive 60% of annual pay including benefits from 65 to 67 years with no deduction for income from other permanent post.

If Orkla reduces its shares in Borregaard to less than 50%, the CEO has a right to be offered another management position within the Orkla Group at the same conditions as he has with Borregaard.

The members of Management were employed by Borregaard Industries Limited ("BIL") before being transferred to Borregaard in connection with the Restructuring on 1 April 2012, and maintained their salary and other benefits.

Members of Management (including CEO) have been granted stay-on bonuses equalling 12 months' salary in connection with the Restructuring which are conditional upon each member of Management's continued employment on the earliest of the closing of a sale / IPO of Borregaard or 1 March 2013. The stay-on bonuses are payable within two months after the trigger date.

**Bonus systems**
Borregaard has a system of annual bonuses that rewards improvement (operational excellence).

Under this system, a "good performance", which is specifically defined for the various elements, can result in an annual bonus of 30% of an employee's fixed pay, while the maximum bonus is 100% of the employee's annual pay. This bonus system applied to approximately 33 senior executives in 2011 including the CEO.

**Option programmes**
Borregaard is attending Orkla's option programmes. Until 2011, options have been issued at 110% of the market price of the Orkla share. Options have had a maturity of six years, and it has been possible to exercise the option in the last three years. When an option is exercised, Orkla alternatively has the right to redeem the option by paying a cash amount equivalent to the difference between the exercise price and the price of the share on the day the option is exercised, but this is seldom done. Changes in outstanding options for Borregaard's employees are shown in the following table:

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| | No. | WAEP 1) | No. | WAEP 1) | No. | WAEP 1) |
| Outstanding at the beginning of the year | 1 390 000 | 60,81 | 1 050 000 | 62,65 | 797 500 | 62,07 |
| Granted during the year | 435 000 | 57,53 | 455 000 | 51,38 | 430 000 | 52,36 |
| Exercised during the year | 0 | | -115 000 | 40,27 | -147 500 | 27,00 |
| Forfeited during the year | -130 000 | 51,58 | 0 | | -30 000 | 75,02 |
| Outstanding at year-end 1) | 1 695 000 | 55,29 | 1 390 000 | 60,81 | 1 050 000 | 62,65 |
| Exercisable options at year-end | 375 000 | 78,41 | 190 000 | 68,38 | 245 000 | 48,92 |

1) Weighted average exercise price. Amounts in NOK.

Weighted average exercise price for outstanding options at year end:

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| Expiry date | WAEP 1) | No. | WAEP 1) | No. | WAEP 1) | No. |
| 15.12.2010 | | | | | 40,27 | 115 000 |
| 15.12.2011 | | | 56,57 | 130 000 | 56,57 | 130 000 |
| 15.12.2012 | 88,94 | 60 000 | 93,94 | 60 000 | 93,94 | 60 000 |
| 08.05.2014 | 76,40 | 315 000 | 81,40 | 315 000 | 81,40 | 315 000 |
| 22.05.2015 | 47,36 | 430 000 | 52,36 | 430 000 | 52,36 | 430 000 |
| 10.05.2016 | 46,38 | 455 000 | 51,38 | 455 000 | | |
| 09.05.2017 | 52,53 | 435 000 | | | | |
| | | 1 695 000 | | 1 390 000 | | 1 050 000 |

1) Weighted average exercise price. Amounts in NOK.

Orkla has used the Black-Scholes model when estimating the value of the options. The volatility is calculated on the basis of the past performance of the Orkla share price during the same period as the maturity of the options. In the model, new option awards have been based on the following assumptions:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Expected dividend-yield (%) | 6 | 5 | 5 |
| Expected volatility (%) | 40 | 39 | 38 |
| Historical volatility (%) | 40 | 39 | 38 |
| Risk-free return (%) | 2,0 | 2,6 | 3,3 |
| Expected life of option (years) | 5,6 | 5,5 | 5,5 |
| Weighted average share price (NOK) | 47,7 | 46,7 | 52,3 |

## 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. 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.

*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.

A small part of the pension liability consists also of provisions made to cover the underfunding in the old early retirement scheme (AFP), as recommended under the Norwegian Accounting Standards.

The new early retirement scheme is recognised as a 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 will increase from 1.4% in 2011 to 1.75% in 2012 of total payments of wages between 1 and 7.1 times the average basic amount. This change in premium is in line with the announced change whereby the premium for the new early retirement scheme for the years 2011-2015 is gradually to be increased as the premiums and employer's contributions for the old AFP scheme are phased out.

The post of Settlements of pensions in 2010 stating a revenue of NOK 22 million is mainly a result of the statutory termination of the former contractual early retirement scheme (AFP). As a consequence of this, provisions related to the old AFP scheme was reversed and recognised as income. In connection with this it was also decided to reverse provisions for gratuity pensions and associated actuarial gains and losses, recognised as expense. The net result of these reversals consequently gives revenue of NOK 22 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). In countries where there is no deep market in such bonds (such as Norway), the market yields on government bonds are used, adjusted for the actual lifetime of the pension liabilities. In the case of Norway, the discount rate has been adjusted to the shorter average pension lifetime.

As a rule, parameters such as wage growth, growth in G (future social security wage base) and inflation are set in accordance with recommendations in the various countries.

The mortality estimate is based on up-to-date mortality tables for the various countries (K2005 in Norway).

**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. Return on pension plan assets in 2012 are expected to total NOK 15 million.

### Assumptions defined benefit plans

| | Norway | | | USA | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| Discount rate | 2.5% | 3.4% | 4.2% | 4.75% | 5.5% | 5.25% |
| Rate of return on assets | - | - | - | 6 % | 6 % | 6 % |
| Future salary adjustment | 3.75% | 3.75% | 3.75% | 5 % | 5 % | 5 % |
| G-multiplier 1) / Future social security wage base | 3.75% | 3.75% | 3.75% | 4.5% | 4.5% | 4.5% |
| Adjustment of benefits | 0.7% | 1.5% | 1.5% | - | - | - |
| Turnover | 0-5 % | 0-5 % | 0-5 % | 3 % | 3 % | 3 % |
| Expected average remaining vesting period | 5.5 | 4.5 | 15 | - | - | - |

1) 1G is NOK 79,216 as of 31 December 2011.

### Breakdown of net pension costs

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Contribution plans | -19 | -18 | -23 |
| Current service cost (incl. national insurance contributions) | -10 | -7 | -11 |
| Interest on pension obligations | -10 | -13 | -12 |
| Expected return on pension plan assets | 11 | 10 | 8 |
| Actuarial gains and losses/past service cost | -1 | -3 | -3 |
| Settlements pension plans 1) | 0 | 22 | 0 |
| **Net pension costs** | **-29** | **-9** | **-41** |

1) The settlements in 2010 are presented as "Other income and expenses".

### Breakdown of net pension liabilities as of 31 December

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Present value of funded pension obligations | -193 | -183 | -158 |
| Pension plan assets (fair value) | 193 | 183 | 158 |
| Net funded pension assets | 0 | 0 | 0 |
| Present value of unfunded pension obligations | -51 | -24 | -86 |
| Unrecognised actuarial gains and losses | 58 | 27 | 60 |
| **Capitalised net pension liabilities** | **7** | **3** | **-26** |
| Capitalised pension liabilities | -42 | -38 | -63 |
| Capitalised plan assets | 49 | 41 | 37 |

See Note 19 and 23 for capitalised pension assets and pension liabilities

### Changes in the present value of pension obligations during the year

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Pension obligations 1 January | -207 | -244 | -238 |
| Current service cost (incl. national insurance contributions) | -10 | -7 | -11 |
| Interest on pension obligations | -10 | -13 | -12 |
| Unrecognised actuarial gains and losses | -20 | -24 | -18 |
| Curtailments and settlements | | 79 | |
| Benefits paid during the year | 8 | 4 | 6 |
| Currency translations | -5 | -2 | 29 |
| **Pension obligations 31 December** | **-244** | **-207** | **-244** |

### Changes in pension plan assets during the year

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Pension plan assets (fair value) 1 January | 183 | 158 | 168 |
| Expected return on pension plan assets | 11 | 10 | 8 |
| Unrecognised actuarial gains and losses | -13 | 1 | -1 |
| Curtailments and settlements | | -3 | |
| Contributions and benefits paid during the year | 8 | 8 | 8 |
| Assets transferred to contribution plans | | -3 | |
| Currency translations | 4 | 12 | -25 |
| **Pension plan assets (fair value) 31 December** | **193** | **183** | **158** |

### Breakdown of pension plan assets (fair value) as of 31 December

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Cash and cash equivalents and money market investments | 0 % | 1 % | 1 % |
| Bonds | 39 % | 38 % | 40 % |
| Shares | 61 % | 61 % | 59 % |
| Total pension plan assets | 100 % | 100 % | 100 % |

### Summary of net pension liabilities and adjustments in past three years

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Pension obligations | -244 | -207 | -244 |
| Pension plan assets | 193 | 183 | 158 |
| Net pension liabilities | -51 | -24 | -86 |
| Changes in unrecognised actuarial gains and losses in pension obligations | -20 | -24 | -18 |
| Changes in unrecognised actuarial gains and losses in pension plan assets | -13 | 1 | -1 |

## Note 11 Other operating expenses

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| External freight costs | -310 | -299 | -276 |
| Repair and maintenance costs | -121 | -115 | -107 |
| Consultants, legal advisors, temporary staff, etc. | -93 | -96 | -83 |
| Operating expenses vehicles | -3 | -2 | -2 |
| Rental/leasing (see note 30) | -52 | -50 | -56 |
| Operating expenses, office equipment etc. | -4 | -3 | -3 |
| Other | -232 | -209 | -195 |
| **Total other operating expenses** | **-815** | **-774** | **-722** |

## Note 12 Other income and expenses

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Termination of the old contractual early retirement schemes and issued paid up policies | - | 22 | - |
| **Total other income and expenses** | **0** | **22** | **0** |

The termination of the old early retirement schemes is described in Note 10.

## Note 13 Finance income and finance costs

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Interest income from Orkla Group | 2 | 2 | 2 |
| Interest income | 13 | 9 | 10 |
| Foreign exchange gain | 144 | 159 | 147 |
| Other finance income | 1 | 1 | 2 |
| Total finance income | 160 | 171 | 161 |
| | | | |
| Interest costs from Orkla Group | -83 | -52 | -56 |
| Interest costs | -1 | -2 | -2 |
| Foreign exchange loss | -150 | -161 | -138 |
| Other finance costs | -1 | -1 | -1 |
| Total finance costs | -235 | -216 | -197 |
| | | | |
| **Total finance costs** | **-75** | **-45** | **-36** |

## Note 14 Taxes

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Profit before tax | 455 | 260 | 211 |
| | | | |
| Current tax expense | -124 | -64 | -58 |
| Deferred tax expense | -11 | -12 | -9 |
| **Total tax expense** | **-135** | **-76** | **-67** |
| Tax as % of "Profit/loss before taxes" | 30 % | 29 % | 32 % |

**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 28%. The main tax components are specified.

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| 28% of profit before taxes (tax rate in Norway) | -127 | -73 | -59 |
| Foreign operations with other tax rates than 28% | -6 | -6 | -2 |
| Other non-deductible expenses | -2 | -4 | -2 |
| Other non-taxable income | 4 | 2 | 3 |
| Other current taxes | -4 | -2 | -4 |
| Corretion previous years | | 7 | -3 |
| **The Group's total tax expense** | **-135** | **-76** | **-67** |

The ordinary tax rate for companies domiciled in Norway is 28 %. The businesses in countries with tax rates other than 28% have the net effect of increasing the tax expense. Particularly the Performance chemicals business in the US, subject to a tax rate of 40% inclusive state tax, is contributing to an increased tax expense. The business in South Africa is subject to a tax rate of 25 % not taken into consideration the distribution of dividend.

Other non taxable income is mainly due to tax consolidation with Orkla Brands in Austria which will not take place in the future as the tax consolidation group has ended as an effect of the restructuring of Borregaard.

Other current taxes are mainly due to increased corporate tax rate in South Africa on distribution of dividend.

The amount on taxes correction previous years in 2010 is mainly due to the settlement of a tax issue with the tax authorities in South Africa related to a debt to equity conversion in LignoTech South Africa in 2005.

**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.

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Deferred tax on tax increasing/(reducing) differences** | | | |
| Hedging taken to comprehensive income | 8 | 35 | 16 |
| Intangible assets | 1 | 2 | 2 |
| Property, plant and equipment | 104 | 115 | 112 |
| Net pension liabilities | -2 | -1 | 7 |
| Gain and loss tax deferral | 2 | 3 | 3 |
| Other non-current items | 0 | 0 | 0 |
| Total non-current items | 113 | 154 | 140 |
| Current receivables | -2 | -1 | 1 |
| Time lag group contributions | 36 | 32 | 30 |
| Inventories | 23 | 12 | 16 |
| Provisions | -6 | -6 | -6 |
| Other current items | 6 | 4 | -11 |
| Total current items | 57 | 41 | 30 |
| Losses carried forward | -12 | -22 | -33 |
| **Net deferred tax** | **158** | **173** | **137** |
| Change in deferred tax | 15 | -36 | -82 |
| Change in deferred tax hedging reserve taken to comprehensive income | -27 | 19 | 104 |
| Acquisitions/sale of companies, translation effects etc. | -3 | 3 | 0 |
| Other | 4 | 2 | -31 |
| **Change in deferred tax income statement** | **-11** | **-12** | **-9** |

**Net deferred tax presented in statement of financial position**

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Deferred Tax | 158 | 183 | 160 |
| Deferred tax assets | 0 | 10 | 23 |
| **Net deferred tax** | **158** | **173** | **137** |

**Losses carried forward by expiry date**

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| 2018 or later | 34 | 64 | 95 |
| Without expiry date | 1 | 0 | 0 |
| **Total tax losses carried forward** | **35** | **64** | **95** |

The unused tax losses carried forward totalling NOK 35 million in LignoTech US alone constitute a recognised deferred tax asset of NOK 12 million. The unused tax loss has decreased by approximately NOK 30 million per year in recent years. The remaining tax loss of NOK 35 million is expected to be used in due time before expiring.

**Tax reducing timing differences with corresponding deferred tax assets**

| 2011<br>Amounts in NOK million | Tax reducing timing differences | Recognised deferred tax assets | Unrecognised deferred tax assets | Total deferred tax |
|---|---|---|---|---|
| **Losses carried forward by country** | | | | |
| USA | 35 | 12 | | 12 |
| **Total** | **35** | **12** | **0** | **12** |
| Other tax reducing timing differences | 46 | 13 | | 13 |
| **Total tax reducing timing differences** | **81** | **25** | **0** | **25** |
| Netted deferred tax | -81 | -25 | | -25 |
| **Net tax reducing timing differences** | **0** | **0** | **0** | **0** |

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 taxreducing timing differences, deferred tax assets are not recognised.

## Note 15 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 16 and 17.

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. Account is taken of residual value. 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. Intangible assets consist of lye supplies which are amortised over the contract period.

Borregaard routinely monitors assets and if there are indications that the value of an asset is no longer recoverable, an impairment test will immediately 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 acquisitions of respectively LignoTech Brasil Produtos de Ligninia Ltda and Biotech Lignosulfonate Handels GmbH:

| | Goodwill | | |
|---|---|---|---|
| Amounts in NOK million | 2011 | 2010 | 2009 |
| Lignotech Brazil | 30 | 30 | 30 |
| Biotech | 25 | 25 | 27 |
| **Total goodwill** | **55** | **55** | **57** |

The situation of the main supplier of raw material to LignoTech Brasil Produtos de Ligninia Ltda is uncertain. In April 2012 the plant stopped due to draught and lack of water. In the valuation from Q2 2012 the updated information was taken into consideration, and it resulted in a write down of the booked value of the companies in Brasil with NOK 35 million, where of NOK 30 million was related to goodwill and NOK 5 million was related to intangible rights. (See Note 35).

**Budget 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, the two CGUs justify the capitalised values of goodwill at 31 December 2011, 31 December 2010 and 31 December 2009.

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 has been estimated to be 10.7 % before tax in 2011 (9.7% in 2010 and 9.7% in 2009), 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 16 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 | IT | Other intangible assets | Goodwill | Total |
|---|---|---|---|---|---|
| Book value 1 January 2011 | 5 | 0 | 16 | 55 | 76 |
| Additions | 4 | | | | 4 |
| Depreciation/Amortisation | -2 | | -6 | | -8 |
| Write-downs | | | | | 0 |
| Currency translations | | | | | 0 |
| Book value 31 December 2011 | 7 | 0 | 10 | 55 | 72 |
| | | | | | |
| Initial cost 31 December 2011 | 13 | 106 | 53 | 55 | 227 |
| Accumulated amortisation and write-downs | -6 | -106 | -43 | 0 | -155 |
| Book value 31 December 2011 | 7 | 0 | 10 | 55 | 72 |
| | | | | | |
| Book value 1 January 2010 | 6 | 0 | 23 | 57 | 86 |
| Additions | | | | | 0 |
| Depreciation/Amortisation | -1 | | -6 | | -7 |
| Write-downs | | | | | 0 |
| Currency translations | | | -1 | -2 | -3 |
| Book value 31 December 2010 | 5 | 0 | 16 | 55 | 76 |
| | | | | | |
| Initial cost 31 December 2010 | 9 | 106 | 53 | 55 | 223 |
| Accumulated amortisation and write-downs | -4 | -106 | -37 | 0 | -147 |
| Book value 31 December 2010 | 5 | 0 | 16 | 55 | 76 |
| | | | | | |
| Book value 1 January 2009 | 1 | 0 | 32 | 62 | 95 |
| Additions | 6 | | | | 6 |
| Depreciation/Amortisation | -1 | | -6 | | -7 |
| Write-downs | | | | | 0 |
| Currency translations | | | -3 | -5 | -8 |
| Book value 31 December 2009 | 6 | 0 | 23 | 57 | 86 |
| | | | | | |
| Initial cost 31 December 2009 | 9 | 106 | 54 | 57 | 226 |
| Accumulated amortisation and write-downs | -3 | -106 | -31 | 0 | -140 |
| Book value 31 December 2009 | 6 | 0 | 23 | 57 | 86 |

In addition, Borregaard expensed NOK 56 million in 2011 in research and development costs (NOK 53 million in 2010, NOK 49 million in 2009).

Goodwill has not been subject to write down historically, so accumulated cost in NOK is the same as initial cost as of 31 December 2009, see Note 15 for details.

## Note 17 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 5-15%, vehicles 15-25% and EDP equipment 16-33%. 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 fulfill contracts amounting to NOK 195 million which is not recorded in the statement of financial position as of December 31, 2011 (NOK 6 million as of 31 December 2010 and NOK 15 million as of December 31, 2009).

| Amounts in NOK million | Land, buildings and other property | Machinery and plants | Assets under constructions | Fixtures, fittings, vehicles, EDP etc. | Total |
|---|---|---|---|---|---|
| Book value 1 January 2011 | 667 | 975 | 134 | 15 | 1 791 |
| Additions | 26 | 68 | 148 | 5 | 247 |
| Disposals | | -2 | | | -2 |
| Reclassification | | | | | 0 |
| Transferred assets under construction | 28 | 48 | -76 | | 0 |
| Write-downs | | | | | 0 |
| Depreciation | -38 | -154 | | -5 | -197 |
| Currency translation | -3 | -12 | -1 | -1 | -17 |
| Book value 31 December 2011 | 680 | 923 | 205 | 14 | 1 822 |
| | | | | | |
| Initial cost 31 December 2011 | 1 350 | 4 248 | 205 | 135 | 5 938 |
| Accumulated depreciation and write-downs | -670 | -3 325 | 0 | -121 | -4 116 |
| Book value 31 December 2011 | 680 | 923 | 205 | 14 | 1 822 |

| | | | | | |
|---|---|---|---|---|---|
| Book value 1 January 2010 | 623 | 1 027 | 113 | 13 | 1 776 |
| Additions | 47 | 64 | 87 | 7 | 205 |
| Disposals | -2 | -1 | 0 | | -3 |
| Transferred assets under construction | 34 | 31 | -66 | 1 | 0 |
| Write-downs | | | | | 0 |
| Depreciation | -37 | -155 | | -6 | -198 |
| Currency translation | 2 | 9 | | | 11 |
| Book value 31 December 2010 | 667 | 975 | 134 | 15 | 1 791 |
| | | | | | |
| Initial cost 31 December 2010 | 1 297 | 4 090 | 134 | 135 | 5 656 |
| Accumulated depreciation and write-downs | -630 | -3 115 | 0 | -120 | -3 865 |
| Book value 31 December 2010 | 667 | 975 | 134 | 15 | 1 791 |

| | | | | | |
|---|---|---|---|---|---|
| Book value 1 January 2009 | 607 | 1 060 | 184 | 18 | 1 869 |
| Additions | 15 | 42 | 63 | 2 | 122 |
| Disposals | | | | | 0 |
| Transferred assets under construction | 40 | 92 | -134 | 2 | 0 |
| Write-downs | | | | | 0 |
| Depreciation | -36 | -165 | | -7 | -208 |
| Currency translation | -3 | -2 | | -2 | -7 |
| Book value 31 December 2009 | 623 | 1 027 | 113 | 13 | 1 776 |
| | | | | | |
| Initial cost 31 December 2009 | 1 221 | 4 015 | 113 | 169 | 5 518 |
| Accumulated depreciation and write-downs | -598 | -2 988 | 0 | -156 | -3 742 |
| Book value 31 December 2009 | 623 | 1 027 | 113 | 13 | 1 776 |

See Note 32 for disclosures of security and mortgages related to Borregaard's property, plant and equipment.

## Note 18 Inventories

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Raw materials | 114 | 93 | 96 |
| Work in progress | 61 | 89 | 55 |
| Finished goods and merchandise | 383 | 286 | 346 |
| **Total inventories** | **558** | **468** | **497** |

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 2011 of NOK 6 million (NOK 7 million in 2010, NOK 4 million in 2009). There are no reversed write-downs from earlier years. Inventories valued at net realisable value total NOK 9 million (NOK 43 million in 2010, NOK 7 million in 2009).

## Note 19 Provisions and other non-current liabilities

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Pension liabilities (see note 10) 1) | 42 | 38 | 63 |
| Other provisions | - | - | 4 |
| **Total** | **42** | **38** | **67** |

1) Pension liabilities are classified as non-interest-bearing liabilities because the interest elements are presented with other pension expenses under “Payroll expenses”.

## Note 20 Overview of financial instruments

| **2011**<br>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 | 23 | | | | | 22 | 22 | 6 | 22 |
| Non-current derivatives | 23, 28 | 2 | | 20 | | | 20 | | 20 |
| Total | | | | | | | 42 | 6 | 42 |
| *Current assets* | | | | | | | | | |
| Accounts receivable | 21 | | | | | 550 | 550 | | 550 |
| Current derivatives | 21, 28 | 2 | | 10 | | | 10 | | 10 |
| Cash and cash equivalents 1) | 22 | | | | | 496 | 496 | 496 | 496 |
| Total | | | | | | | 1 056 | 496 | 1056 |
| *Non-current liabilities* | | | | | | | | | |
| Non-current financial liabilities | 26 | | | | 1 788 | | 1 788 | 1 788 | 1 788 |
| Total | | | | | | | 1 788 | 1 788 | 1 788 |
| *Current liabilities* | | | | | | | | | |
| Current financial liabilities | 26 | | | | 19 | | 19 | 19 | 19 |
| Accounts payable | 24 | | | | 299 | | 299 | | 299 |
| Other current liabilities | 26 | | | | 1 | | 1 | 1 | 1 |
| Current derivatives | 24, 28 | 2 | 2 | 1 | | | 3 | | 3 |
| Total | | | | | | | 322 | 20 | 322 |
| **Total financial instruments** | | | **-2** | **29** | **-2 107** | **1 068** | **-1 012** | **-1 306** | **-1 012** |
| Total measurement level 1 | | | | | | | **0** | | |
| Total measurement level 2 | | | | | | | **27** | | |
| Total measurement level 3 | | | | | | | **0** | | |

1) Includes deposits in Group cash pool

**2010**

| 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 | 23 | | | | | 36 | 36 | 15 | 36 |
| Non-current derivatives | 23, 28 | 2 | | 51 | | | 51 | | 51 |
| Total | | | | | | | 87 | 15 | 87 |
| *Current assets* | | | | | | | | | |
| Accounts receivable | 21 | | | | | 459 | 459 | | 459 |
| Current derivatives | 21, 28 | 2 | 4 | 75 | | | 79 | | 79 |
| Cash and cash equivalents 1) | 22 | | | | | 427 | 427 | 427 | 427 |
| Total | | | | | | | 965 | 427 | 965 |
| *Non-current liabilities* | | | | | | | | | |
| Non-current financial liabilities | 26 | | | | 1 862 | | 1 862 | 1 862 | 1 862 |
| Total | | | | | | | 1 862 | 1 862 | 1 862 |
| *Current liabilities* | | | | | | | | | |
| Current financial liabilities | 26 | | | | 18 | | 18 | 18 | 18 |
| Accounts payable | 24 | | | | 264 | | 264 | | 264 |
| Other current liabilities | 26 | | | | 5 | | 5 | 5 | 5 |
| Current derivatives | 24, 28 | 2 | | | | | 0 | | 0 |
| Total | | | | | | | 287 | 23 | 287 |
| **Total financial instruments** | | | **4** | **126** | **-2 149** | **922** | **-1 097** | **-1 443** | **-1 097** |
| Total measurement level 1 | | | | | | | **0** | | |
| Total measurement level 2 | | | | | | | **130** | | |
| Total measurement level 3 | | | | | | | **0** | | |

1) Includes deposits in Group cash pool

**2009**

| 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 | 23 | | | | | 32 | 32 | 25 | 32 |
| Non-current derivatives | 23, 28 | 2 | | 19 | | | 19 | | 19 |
| Total | | | | | | | 51 | 25 | 51 |
| *Current assets* | | | | | | | | | |
| Accounts receivable | 21 | | | | | 489 | 489 | | 489 |
| Other current receivables | 21 | | | | | 4 | 4 | | 4 |
| Current derivatives | 21, 28 | 2 | 3 | 38 | | | 41 | | 41 |
| Cash and cash equivalents 1) | 22 | | | | | 340 | 340 | 340 | 340 |
| Total | | | | | | | 874 | 340 | 874 |
| *Non-current liabilities* | | | | | | | | | |
| Non-current financial liabilities | 26 | | | | 1 403 | | 1 403 | 1 403 | 1 403 |
| Total | | | | | | | 1 403 | 1 403 | 1 403 |
| *Current liabilities* | | | | | | | | | |
| Current financial liabilities | 26 | | | | 19 | | 19 | 19 | 19 |
| Accounts payable | 24 | | | | 234 | | 234 | | 234 |
| Other current liabilities | 26 | | | | 0 | | 0 | | 0 |
| Current derivatives | 24, 28 | 2 | | | | | 0 | | 0 |
| Total | | | | | | | 253 | 19 | 253 |
| **Total financial instruments** | | | **3** | **57** | **-1 656** | **865** | **-731** | **-1 057** | **-731** |
| Total measurement level 1 | | | | | | | **0** | | |
| Total measurement level 2 | | | | | | | **60** | | |
| Total measurement level 3 | | | | | | | **0** | | |

1) Includes deposits in Group cash pool

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

Level 1: Quoted, unadjusted prices in active markets for identical assets and liabilities

Level 2: Other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: Other techniques which use inputs that have significant effect on the recorded fair value that are not based on observable market data.

There were no transfers from one level to another in the measurement hierarchy in 2009, 2010 and 2011. Borregaard has no items defined as level 1 and level 3. The measurement of Borregaard's derivatives is defined as level 2. A description of how the derivatives are measured is provided in Note 28.

## Note 21 Receivables (current)

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Accounts receivable | 550 | 459 | 489 |
| Non interest-bearing derivatives | 10 | 79 | 41 |
| Other current receivables | 0 | 0 | 4 |
| **Total financial receivables** | **560** | **538** | **534** |
| Advance payment to suppliers/earned income | 105 | 123 | 90 |
| **Total current receivables** | **665** | **661** | **624** |

Change in provisions for bad debt:

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Provisions for bad debts 1 January | 3 | 3 | 8 |
| Bad debts recognised as expense (- income) | 3 | 0 | -5 |
| Realised losses | 0 | 0 | 0 |
| **Provisions for bad debts 31 December** | **6** | **3** | **3** |

Accounts receivables have the following due dates:

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Accounts receivable not due | 468 | 400 | 426 |
| Overdue receivables 1-30 days | 75 | 56 | 62 |
| Overdue receivables 31-60 days | 8 | 4 | 2 |
| Overdue receivables 61-90 days | 2 | 1 | 1 |
| Overdue receivables over 90 days | 3 | 1 | 1 |
| **Accounts receivable carrying amount 31 December** | **556** | **462** | **492** |

## Note 22 Cash, cash equivalents and deposits in Group cash pool

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Cash at bank and in hand | 18 | 24 | 14 |
| Cash and cash equivalents in Joint Ventures | 17 | 34 | 28 |
| Current deposits with Orkla | 461 | 369 | 298 |
| **Total cash, cash equivalents and deposits in Group cash pool** | **496** | **427** | **340** |

Current deposits with Orkla are deposits in the cash pool in which Orkla has established a master overdraft facility with its banks. Under this arrangement Borregaard's cash reserves in the cash pool are formally receivables on Orkla ASA and all the companies within the Orkla group are jointly responsible for the drawings of the Orkla group. The facility is used internally i.e. allocated among participating entities in the shape of individual inter-company overdraft limits according to the estimated needs of the company. The intra-Group credit limits is monitored by

Orkla. Each company has its separate account, and Orkla has the overall agreement with the external bank. Orkla operates as a bank for Borregaard.

## Note 23 Other assets (non-current)

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Non interest-bearing derivatives | 20 | 51 | 19 |
| Receivables interest-bearing | 6 | 15 | 25 |
| Receivables non interest-bearing | 16 | 21 | 7 |
| **Total financial assets** | **42** | **87** | **51** |
| Pension plan assets | 49 | 41 | 37 |
| **Total other assets** | **91** | **128** | **88** |

## Note 24 Other liabilities (current)

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Accounts payable | 299 | 264 | 234 |
| Non interest-bearing derivatives | 3 | 0 | 0 |
| **Total financial liabilities non interest-bearing** | **302** | **264** | **234** |
| Value added tax, employee taxes etc. | 47 | 44 | 46 |
| Accruals | 162 | 110 | 142 |
| **Total current liabilities** | **511** | **418** | **422** |

## Note 25 Capital management

Borregaard's capital management is governed by policies set out by its ultimate parent, Orkla ASA, which policy is to provide necessary capital through a combination of equity and loans. One of the main objectives is to maintain a financial structure that, through solidity and cash flows, secures Borregaard's credit worthiness. The capital structure is also adapted to legal and tax considerations. The short term liquidity of Borregaard is deposited with Orkla ASA, through bank accounts which take part in Orkla's cash-pools. Long-term funding is in place for the Borregaard Group from Orkla ASA. The loan agreements include "Change of control" clauses. Partly owned subsidiaries are either funded by loans from Orkla ASA according to its indirect share of capital, jointly with other shareholders, or external funding is established.

The Orkla Group has a policy that the legal entities within the Group should have an equity share of approximately 25% of capital employed. Dividends and group contributions are used to reach the preferred level. However, timing of group contribution and dividends may lead to an equity that differs from the policy.

Borregaard's management of funding is further described in Note 26 and Note 35. Borregaard has no official credit rating.

Orkla plans to dispose its shares in Borregaard. Upon such disposal, Borregaard's loans from and deposits with Orkla ASA will be settled and replaced by other counterparties. Further, a disposal may bring about changes in Borregaard's capital structure.

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

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Total interest-bearing liabilities Orkla ASA | 1 773 | 1 828 | 1 348 |
| Total interest-bearing liabilities other | 35 | 57 | 74 |
| Total interest-bearing receivables 1) | 502 | 442 | 365 |
| **Net interest-bearing liabilities** | **1 306** | **1 443** | **1 057** |
| | | | |
| Group's equity | 1 123 | 1 014 | 1 355 |
| Equity ratio 2) | 30.3% | 28.5% | 39.5% |
| Net gearing (net interest-bearing liabilities/equity) | 1.16 | 1.42 | 0.78 |

1) Includes deposits in Group cash pool

2) Changes in equity ratio relates to time differences in paying out group contribution.

There were no changes in Borregaard's approach and goals regarding financial management in 2011.

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

## Note 26 Funding and interest-bearing liabilities

**Funding**

Borregaard's main source of financing has been loan facilities from its ultimate parent, Orkla ASA. In addition, some short-term working capital facilities from banks providing cash management services are in place.

In 2011 Borregaard increased its committed loan facility with Orkla ASA from NOK 1.75 billion to NOK 2 billion.

Borregaard AS is funded by the ultimate parent, Orkla ASA. The loan agreement with Orkla ASA contains no financial covenants. (See Note 35).
For the joint venture LignoTech South Africa, there are financial covenants in place for a "Special Notarial Bond" corresponding to USD 18.5 million The loan agreement with Orkla ASA includes some limitations on new indebtedness, creation of security interest on assets, change of ownership and cross default clauses.

| | Book value | | | Fair value | | |
|---|---|---|---|---|---|---|
| Amounts in NOK million | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| **Non-current interest-bearing liabilities** | | | | | | |
| Bank loans | 15 | 34 | 55 | 15 | 34 | 55 |
| Other loans from Orkla | 1 773 | 1 828 | 1 348 | 1 773 | 1 828 | 1 348 |
| Total non-current interest-bearing liabilities | 1 788 | 1 862 | 1 403 | 1 788 | 1 862 | 1 403 |
| | | | | | | |
| **Current interest-bearing liabilities** | | | | | | |
| Bonds, maturity < 1 year | | | | | | |
| Bank loans, overdraft | 19 | 18 | 19 | 19 | 18 | 19 |
| Other loans | 1 | 5 | - | 1 | 5 | - |
| Total current interest-bearing liabilities | 20 | 23 | 19 | 20 | 23 | 19 |
| Total interest-bearing liabilities | 1 808 | 1 885 | 1 422 | 1 808 | 1 885 | 1 422 |
| | | | | | | |
| **Interest bearing receivables** | | | | | | |
| Non-current interest-bearing receivables | 6 | 15 | 25 | 6 | 15 | 25 |
| Cash and cash equivalents 1) | 496 | 427 | 340 | 496 | 427 | 340 |
| **Net interest-bearing liabilities** | **1 306** | **1 443** | **1 057** | **1 306** | **1 443** | **1 057** |

1) Includes deposits in Group cash pool

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The maturity profiles of the Group's interest bearing liabilities are shown in the table below and are based on the current financing. (See Notes 25 and 35)

**Maturity profile interest-bearing liabilities and unutilised credit facilities**

| | Gross interest-bearing liabilities | | |
|---|---|---|---|
| Amounts in NOK million | 2011 | 2010 | 2009 |
| Maturity <1 year | 20 | 23 | 19 |
| Maturity 1-3 years | 15 | 34 | 37 |
| Maturity 3-5 years | 1 773 | 1 828 | 18 |
| Maturity 5-7 years | | | 1 348 |
| **Total** | **1 808** | **1 885** | **1 422** |

## Note 27 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 financial policy.

The sole shareholder Orkla ASA has a central Group Treasury. Its most important tasks are to ensure the Group's financial flexibility in the short and long term, and to monitor and manage financial risk in cooperation with individual operational entities. Borregaard's main focus has been on cash management, especially on efficient collection of due amounts from customers.

**Financial risks**

This section describes the most important risk factors within each business area of the Borregaard Group and the management of these. 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 a source of risk themselves. Market risk not hedged with financial instruments is also discussed in this section.

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. 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.

Borregaard is also exposed to price risk on energy (thermal energy and electric power) as well as strategic raw materials (wood, chemicals). In 2011 Borregaard entered into a long-term power contract for a total of 6.1 TWh to be supplied in the period 2013-2024. This is solely energy to be used by Borregaard in the production.

**(II) CATEGORIES OF FINANCIAL RISK 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 does not make any hedges for this risk as it is managed at parent level by Orkla ASA.

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 table below.

**Foreign exchange contracts linked to hedging of future revenues and costs**

**2011**

| Puchase currency | Amount | Sale currency | Amount | Maturity |
|---|---|---|---|---|
| Amounts in million | | | | |
| NOK | 567 | USD | 99 | 2012 |
| NOK | 8 | USD | 1 | 2013 |
| NOK | 8 | USD | 1 | 2014 |
| USD | 5 | NOK | 29 | 2012 |
| EUR | 1 | USD | 2 | 2012 |
| NOK | 548 | EUR | 65 | 2012 |
| NOK | 333 | EUR | 39 | 2013 |
| EUR | 14 | NOK | 109 | 2012 |
| EUR | 2 | NOK | 17 | 2013 |
| SEK | 60 | NOK | 51 | 2012 |

**2010**

| Puchase currency | Amount | Sale currency | Amount | Maturity |
|---|---|---|---|---|
| Amounts in million | | | | |
| NOK | 609 | USD | 99 | 2011 |
| NOK | 24 | USD | 4 | 2012 |
| USD | 4 | NOK | 22 | 2011 |
| USD | - | NOK | 2 | 2012 |
| EUR | 1 | USD | 1 | 2011 |
| NOK | 598 | EUR | 70 | 2011 |
| NOK | 356 | EUR | 40 | 2012 |
| NOK | 333 | EUR | 39 | 2013 |
| NOK | 11 | GBP | 1 | 2011 |
| NOK | 9 | JPY | 131 | 2011 |
| SEK | 48 | NOK | 41 | 2011 |

**2009**

| Puchase currency | Amount | Sale currency | Amount | Maturity |
|---|---|---|---|---|
| Amounts in million | | | | |
| NOK | 549 | USD | 90 | 2010 |
| USD | 10 | NOK | 62 | 2010 |
| EUR | 1 | USD | 1 | 2010 |
| NOK | 565 | EUR | 66 | 2010 |
| NOK | 517 | EUR | 60 | 2011 |
| NOK | 342 | EUR | 39 | 2012 |
| NOK | 17 | GBP | 2 | 2010 |
| NOK | 14 | JPY | 210 | 2010 |
| SEK | 51 | NOK | 43 | 2010 |

**Interest rate risk**
Borregaard's interest rate risk is mainly related to the Group's interest bearing liabilities and assets. This risk has been managed at parent level by Orkla ASA. The Orkla Group's policy is that all intra-group loans and deposits should have floating interest rate, see Notes 25 and 35.

**Liquidity risk**
Liquidity risk is the risk that Borregaard is not able to meet its payment obligations. This risk is managed together with the ultimate parent, Orkla ASA. Borregaard management initiates measures, together with its ultimate parent, deemed necessary to maintain a strong liquidity.

Cash flow from operations, which among other factors is affected by changes in working capital, is managed operationally at Borregaard Group level, and is relatively stable. Borregaard monitors liquidity flows, short- and long-term, through reporting. Due to the above-mentioned measures, the Borregaard Group has limited liquidity risk.

The table shows the maturity profile for the Borregaard 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. Derivatives related to currency are presented with gross settlement. 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. This is based on the current financing, see Notes 25 and 35.

Maturity profile financial liabilities

| 2011<br>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 | 1 808 | 1 808 | 20 | 15 | 1 773 | | |
| Interest payable | 0 | 292 | 74 | 146 | 72 | | |
| Accounts payable | 299 | 299 | 299 | | | | |
| Gross settled derivatives * | -27 | 0 | | | | | |
| Inflow | | -1 678 | -1 318 | -360 | | | |
| Outflow | | 1 635 | 1 304 | 331 | | | |
| **Total** | **2 080** | **2 356** | **379** | **132** | **1 845** | **0** | **0** |

| 2010<br>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 | 1 885 | 1 885 | 23 | 34 | 1 828 | | |
| Interest payable | 0 | 334 | 68 | 134 | 132 | | |
| Accounts payable | 264 | 264 | 264 | | | | |
| Gross settled derivatives * | -129 | 0 | | | | | |
| Inflow | | -2 091 | -1 354 | -737 | | | |
| Outflow | | 1 935 | 1 271 | 664 | | | |
| **Total** | **2 020** | **2 327** | **272** | **95** | **1 960** | **0** | **0** |

| 2009<br>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 | 1 422 | 1 422 | 19 | 37 | 18 | 1 348 | |
| Interest payable | 0 | 264 | 45 | 89 | 87 | 43 | |
| Accounts payable | 234 | 234 | 234 | | | | |
| Gross settled derivatives * | -60 | 0 | | | | | |
| Inflow | | -2 207 | -1 274 | -933 | | | |
| Outflow | | 2 117 | 1 229 | 888 | | | |
| **Total** | **1 596** | **1 830** | **253** | **81** | **105** | **1 391** | **0** |

* 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, and is 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 and is being regularly reviewed. 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 the credit risk. With these risk mitigation measures in place, the current credit risk is considered acceptable.

Borregaard considers its credit risk related to other financial instruments to be low. Firstly, Borregaard seeks to minimise the liquid assets deposited outside the Group. Secondly, its sole shareholder Orkla ASA is the only counterpart for financial hedge transactions. According to Orkla Group policy, bank accounts are mainly held with banks belonging to Orkla relationship banks. For deposits of excess liquidity with other counterparts, 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 unlikely event that no receivables are redeemed, this amount to:

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Cash and cash equivalents 1) | 496 | 427 | 340 |
| Accounts receivable | 550 | 459 | 489 |
| Other current receivables | 0 | 0 | 4 |
| Non-current receivables | 22 | 36 | 32 |
| Derivatives | 30 | 130 | 60 |
| **Total** | **1 098** | **1 052** | **925** |

1) Includes deposits in Group cash pool

**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, the 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 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.

**Sensitivity financial instruments**

| 2011 | Accounting effects on | | | |
|---|---|---|---|---|
| | income statement of | | equity of | |
| Amounts in NOK million | increase | decrease | increase | decrease |
| **Financial instruments in hedging relationships** | | | | |
| Interest rate risk: 100 bp parallel shift in interest curves all currencies | -12 | 12 | | |
| Currency risk: 10% change in FX-rate USD/NOK | | | 42 | -42 |
| Currency risk: 10% change in FX-rate EUR/NOK | | | 49 | -49 |
| Currency risk: 10% change in FX-rate SEK/NOK | | | -4 | 4 |

| 2010 | Accounting effects on | | | |
|---|---|---|---|---|
| | income statement of | | equity of | |
| Amounts in NOK million | increase | decrease | increase | decrease |
| **Financial instruments in hedging relationships** | | | | |
| Interest rate risk: 100 bp parallel shift in interest curves all currencies | -13 | 13 | | |
| Currency risk: 10% change in FX-rate USD/NOK | | | 42 | -42 |
| Currency risk: 10% change in FX-rate EUR/NOK | | | 84 | -84 |
| Currency risk: 10% change in FX-rate SEK/NOK | | | -3 | 3 |

| 2009 | Accounting effects on | | | |
|---|---|---|---|---|
| | income statement of | | equity of | |
| Amounts in NOK million | increase | decrease | increase | decrease |
| **Financial instruments in hedging relationships** | | | | |
| Interest rate risk: 100 bp parallel shift in interest curves all currencies | -10 | 10 | | |
| Currency risk: 10% change in FX-rate USD/NOK | | | 33 | -33 |
| Currency risk: 10% change in FX-rate EUR/NOK | | | 98 | -98 |
| Currency risk: 10% change in FX-rate SEK/NOK | | | -3 | 3 |

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

## Note 28 Derivatives and hedging

The table below shows the fair value of all outstanding derivative financial instruments grouped according to treatment in the financial statements:

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| Amounts in NOK million | **Assets** | **Liabilities** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Cash flow hedges** | | | | | | |
| Currency forwards, currency swaps | 30 | - | 126 | - | 57 | - |
| **Other derivatives - Fair value changes recognised in income statement** | | | | | | |
| Currency forwards, currency swaps, options | - | 3 | 4 | - | 3 | - |
| **Total derivatives** | **30** | **3** | **130** | **-** | **60** | **-** |

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 recognized in the equity hedging reserve, and recycled to the income statement as the cash flows being hedged are recognised in the income statement.

In 2011 a gain of NOK 0.5 million (2010: NOK 0.2 million) was recorded in the income statement as a result of hedging inefficiency. All expected cash flows which have been hedged during 2011 still qualify for hedge accounting.

**Development in the equity hedging reserve**

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Opening balance hedging reserve before tax** | **126** | **57** | **-313** |
| Reclassified to P/L - operating revenues | -115 | -46 | 158 |
| Reclassified to P/L - operating costs | 9 | 8 | |
| Reclassified to P/L - net financial income | | | 16 |
| Fair value change during the year | 10 | 107 | 196 |
| **Closing balance hedging reserve before tax** | **30** | **126** | **57** |
| Deferred tax hedging reserve | -9 | -35 | -16 |
| **Closing balance hedging reserve after tax** | **21** | **91** | **41** |

A negative hedging reserve means a negative recognition in the income statement in the future. Accumulated hedging gains/losses from cash flow hedges recognized in the equity hedging reserve as of 31 December 2011 are expected to be recycled to the income statement as follows (before tax):

2012: NOK 10 million
After 2012: NOK 20 million

**Fair value hedges**
There have not been any fair value hedges in the period 2009-2011.

**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 29 Non-controlling interests

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Non-controlling interests' share of:** | | | |
| Depreciation and write-downs | 1 | 1 | 1 |
| Operating profit | 3 | 5 | 6 |
| Profit/loss before taxes | 4 | 5 | 6 |
| Taxes | -1 | -1 | -1 |
| | | | |
| **Changes in non-controlling interests:** | | | |
| Non-controlling interests' 1 January | 16 | 20 | 18 |
| Non-controlling interests' share of profit/loss | 3 | 4 | 5 |
| Dividends to non-controlling interests | -4 | -7 | -3 |
| Translation differences etc. | -1 | -1 | 0 |
| **Non-controlling interests' 31 December** | **14** | **16** | **20** |

## Note 30 Leases, 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, vehichles etc. | | | Other assets | | | Total | | |
| Amounts in NOK million | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| Cost current year | -19 | -27 | -18 | -12 | -10 | -18 | -6 | -7 | -11 | -15 | -6 | -9 | -52 | -50 | -56 |
| Mimimum payments next year | -18 | -27 | -18 | -7 | -7 | -16 | -5 | -6 | -11 | -7 | -7 | -6 | -37 | -47 | -51 |
| Min. payments 2–5 years | -45 | -63 | -55 | -19 | -21 | -25 | -11 | -13 | -20 | -8 | -8 | -12 | -83 | -105 | -112 |
| Min. payments after 5 years | 0 | -11 | 0 | -7 | -7 | -17 | 0 | 0 | 0 | 0 | 0 | 0 | -7 | -18 | -17 |
| Total minimum future leasing payments | -63 | -101 | -73 | -33 | -35 | -58 | -16 | -19 | -31 | -15 | -15 | -18 | -127 | -170 | -180 |

Borregaard does not have any financial leases.

## Note 31 Pledges and guarantees

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Liabilities secured by mortgages** | **23** | **30** | **41** |
| | | | |
| **Mortgaged assets** | | | |
| Machinery, vehicles, etc. | 22 | 30 | 30 |
| **Total book value** | **22** | **30** | **30** |
| | | | |
| **Guarantees** | | | |
| Other guarantee commitments | 0 | 7 | 0 |
| **Total guarantee commitments** | **0** | **7** | **0** |

Borregaard makes limited use of guarantees.

## Note 32 Related parties

Activity within the Group is reported in the segment information disclosed in Note 7.

Borregaard has been owned 100 % from Orkla ASA and has therefore intercompany relations with the Orkla Group. Borregaard has paid joint expenses to Orkla ASA. Orkla ASA has provided necessary capital through equity and loans (see Note 25 Capital Management). Intercompany relations between Orkla ASA and Borregaard are specified in the table below. Finance expenses are specified in Note 13.

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Joint expenses from Orkla ASA | 4 | 4 | 4 |
| Accounts payable | 40 | 15 | 35 |
| Interest bearing liabilities (non-current) | 1 773 | 1 828 | 1 348 |
| Interest bearing liabilities (current) | 0 | 0 | 0 |
| Other liabilities/(receivables) | 5 | (25) | 22 |

Borregaard also obtains services from Orkla Shared Services AS (it and payroll), Orkla Insurance Company Ltd (insurance) and BIL (energy), in addition to certain minor sales and purchases to other companies within the Orkla group.

Borregaard has ownership interests in joint ventures. This is presented line by line in the combined financial statements based on the Group's ownership interest. The Group's share of internal balances and transactions relating to the joint ventures has been eliminated in the combined financial statements. There are no other material transactions relating to this company.

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".

Borregaard has one joint venture, Umkomaas Lignin (proprietary) Limited t/a LignoTech South Africa (50%). This company is jointly owned with Sappi Saiccor.

There have been no other transactions with related parties. Information regarding the executive management is disclosed in Note 9 to the combined financial statements.

Below is a description of transactions made as part of the restructuring from BIL to Borregaard AS:

Master Share Purchase Agreement
Subsequent to the execution of the Transfer Agreement, the shares in subsidiaries in BIL, LignoTech Sweden AB and Felix Austria, which were related to the Business, were transferred to Borregaard. Borregaard acquired the shares listed below from BIL, Felix Austria GmbH, LignoTech Sweden AB.

The signing and completion of the agreement was on 24 April 2012.
The shares in the subsidiary Nutracell AS was transferred from BIL to Borregaard AS on June 12, 2012. The shares in Borregaard Deutschland GmbH was transferred from Borregaard Deutschland Holding GmbH to Borregaard AS on June 26, 2012.

The following shares were transferred as part of the Master Share Purchase Agreement:
(i) 100% of the shares in Borregaard UK Ltd
(ii) 100% of the shares in Borregaard France Sarl
(iii) 100% of the shares in Biotech Lignosolfonate Handels GmbH. The company has a branch in the Czech Republic.
(iv) 100% of the shares in Borregaard Poland sp. z.o.o
(v) 100% of the shares in Borregaard S.E.A. Pte Ltd. Boregaard S.E.A. Pte Ltd. is the owner of the shares in Borregaard S.A. PL (India) and had at the time of completion of the transfer entered into the Equity Transfer Agreement regarding transfer of Borregaard Shanghai Co Ltd.
(vi) 100% of the shares in Borregaard Ibérica S.L.U
(vii) 60% of the shares in LignoTech Ibérica S.A
(viii) 50% of the shares in Umkomaas Lignin (Proprietary) Limited t/a Lignotech South Africa.
(ix) 100% of the shares in Borregaard Inc.

100 quotas in LignoTech Brasil Participacões Ltda, which were held by a subsidiary outside the transaction, were transferred to Borregaard by agreement dated 5 March 2012.

After the restructuring the directly held subsidiaries/joint venture of Borregaard AS is as follows:

| **Company** | **Ownership and voting rights** |
|---|---|
| | |
| Nutracell AS | 100% |
| Borregaard Inc. | 100% |
| Borregaard UK Ltd. | 100% |
| Umkomaas Lignin Ltd t/a LignoTech South Africa | 50% |
| Borregaard France Sarl | 100% |
| Borregaard S.E.A Pte Ltd. | 100% |
| Borregaard Deutschland GmbH | 100% |
| Biotech Lignosulfonate Handels GmbH | 100% |
| Borregaard Poland Sp z.o.o | 100% |
| Borregaard Iberica S.L.U | 100% |
| LignoTech Iberica S.A | 60% |

## Note 33 Earnings per share

The basic earnings per share are calculated as the ratio of the profit for the year that is due to the shareholders of the parent of NOK 317 million for 2011, NOK 180 million in 2010 and NOK 139 million in 2009 divided by the weighted average number of ordinary shares outstanding, 1 share for all years.

The activities in Borregaard AS were established in 2012 and the number of shares outstanding has been applied on historical numbers.

No dilution effects exist for the years 2009 through 2011.

## Note 34 Other matters

*Eidsiva Vannkraft AS* and Borregaard have entered into a long-term power contract for the delivery of a total of 6.1 billion kilowatt hours (6.1 Twh) in the period from 2013 to 2024. The agreement between Eidsiva and Borregaard secures power deliveries for Borregaard's plants in Sarpsborg from 1 January 2013 to 31 December 2024. The deliveries constitute around 15 per cent of Eidsiva's total annual production of power.

*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.

*Government grants*. Borregaard received NOK 25 million in government grants in 2011. Of this amount, NOK 8 million was recognized as reduced costs, while NOK 17 million was recognised as a reduction of the acquisition cost of the asset concerned.

*Emission rights*. Government granted and purchased $CO_2$ emission allowances expected to be used towards Borregaard's own emissions are recognized as intangible assets at nominal value (cost). The amounts are not amortized but are tested for impairment at least annually. Actual $CO_2$ emissions which exceed the level covered by emission rights are recognized as a liability. Sale of government granted CO2 emission rights are recognized at the time of sale at the transaction price. $CO_2$ emission allowances purchased for trading are measured and classified as inventory.

*Environmental issues*. Sarpsborg municipality has established ambient air quality objectives for SO2. Borregaard's production plant in Sarpsborg is regarded as the major emitter with regard to SO2 in the area. Borregaard is obliged to produce an action plan to remedy its emissions from the plant. The investments and costs related to SO2 reduction are subject to further evaluations and will likely be implemented over several years, although current Borregaard estimates include scenarios with investments / costs of NOK 100 million.

The Opsund landfill, a historical waste disposal site used by Borregaard that is located north-east of the Sarpsborg site, was closed for further deposits in 2009. By the end of 2017, Borregaard is responsible for the closing of the landfill. As of today, it is uncertain whether a full impermeable capping of the landfill would be needed and estimated costs related to the closing of the landfill is therefore uncertain. Estimated costs vary from limited to approximately NOK 50 million if a full impermeable capping is required, where current estimate from management is in the lower end of the range.

*Stamp duty.* Stamp duty will apply when title is registered for ownership to the areas the Group has acquired from Borregaard Industries Limited. The stamp duty will be capitalized as part of the cost price for Property, Plant and Equipment. Stamp duty is estimated to 20-25 NOK million.

## Note 35 Subsequent events

*Valuation of LignoTech Brasil Produtos de Ligninia Ltda.* As described in Note 15 Impairment of assets, the booked value of LignoTech Brasil Produtos de Ligninia Ltda was higher than the value assessed as part of the transfer of assets in Nutracell AS from BIL to Borregaard in June 2012. A write down of NOK 35 million related to the company was done. As of 17 September 2012 the plant has not yet restarted its operations. In an event where the plant will not continue its operations an additional write down of fixed assets up to NOK 10 million may have to be taken. In addition restructuring costs such as termination cost etc may occur.

*Equity in Borregaard Group in 2012.* Borregaard AS has acquired the Biorefinery business formerly conducted by Borregaard Industries Ltd. ("BIL") through a number of transactions during March-June 2012. On March 30, 2012, certain assets, rights and obligations related to the biorefinery business were transferred from BIL by way of contribution in kind. Prior to that Borregaard AS was a dormant company and had a share capital of NOK 100,000. At the transfer the paid in capital increased to NOK 10.5 million.

The shares in the relevant subsidiaries and joint venture companies which form part of the biorefinery business were acquired by Borregaard AS from BIL and certain other companies in the Orkla group. To finance the acquisition of the subsidiaries and joint venture companies acquired for cash consideration, Borregaard AS increased its long term debt from Orkla ASA.

One of the subsidiaries was transferred to the Company by way of contribution in kind in the amount of NOK 506 million.

After the acquisition of the subsidiaries and joint venture companies, which in aggregate had a fair market value of NOK 1,062 million, NOK 450 million of Borregaard AS' debt was converted to equity.

IFRS requires that the transfer of assets from BIL to Borregaard AS should be on a continuity basis. However, the shares in subsidiaries have to be booked to fair market value and not at the initial cost price they had in BIL. In the Borregaard Group interim condensed Financial Statements the shares in subsidiaries and joint venture companies are eliminated and impact the equity for the Borregaard Group as difference between fair market value and initial cost price related to the subsidiaries is recorded in the financial statements. When eliminating NOK 1,062 million in the equity for the Borregaard Group, it has a negative impact of the presented equity.

The equity presented in the Combined Financial Statements for 2009-2011 is based on Orkla policy of having approximately 25% equity share in the subsidiaries. The equity presented as of 30 June 2012 is the actual equity for the Borregaard Group as of that date and not the equity based on combined accounts or the equity going forward.

*Initial Public Offering (IPO)*. Borregaard is planning for an IPO and submitted its application to Oslo Stock Exchange on 28 August 2012. In connection with an IPO, Borregaard AS will be transferred to a new holding company (Borregaard ASA). Borregaard ASA has increased its share capital and share premium fund on 11 September 2012 by cash contribution of NOK 299 million. Further on 17 September an additional cash contribution of NOK 700 million will take place. At the same time, NOK 300 million will be converted from share capital and share premium fund to distributable equity. On 17 September the share in Borregaard AS will be transferred to Borregaard ASA as a contribution in kind which will increase the share capital and the share premium fund with a total of NOK 1,158 million.

The newly established Borregaard Group will repay approximately NOK 1,300 million of long term debt to Orkla ASA. Post those transactions the Borregaard Group will have an equity rate of approximately 46%.

*Financing of Borregaard Group post IPO*. Borregaard has historically obtained current and non-current funding through both short-term loans and long-term loans from Orkla. Borregaard has also received capital contributions from Orkla when necessary to achieve an efficient capital structure for the entities within the business. Consequently, prior to the separation from Orkla, several of the Borregaard's subsidiaries had various interest-bearing credit facilities with other Orkla group companies.

Ultimo September 2012, Borregaard intend to enter into a Bank Facility Agreements in an aggregate amount of NOK 1,800 million. The purpose of the Bank Facilities Agreements is to finance the Group's working capital and for general corporate purposes and to refinance the amount outstanding under the existing intra-group loan facilities made available to Borregaard by Orkla. The total facility amount under the Bank Facilities Agreements will be split in two tranches: (i) a 3-year revolving loan facility available in the aggregate amount of NOK 600 million from and including the IPO completion date until one month prior to the facility termination date, which will be 36 months after the date of the relevant Bank Facility Agreement; and (ii) a 5-year revolving loan facility in the aggregate amount of NOK 1,200 million available from and including the IPO completion date, until one month prior to the facility termination date, which will be 60 months after the date of the relevant Bank Facility Agreement.

Borregaard intends to make initial drawings under the Bank Facilities Agreements in the aggregate amount of NOK 1,100 million on or about the first day of trading of the Shares on the Oslo Stock Exchange, and will use such proceeds to repay in full its remaining indebtedness to Orkla.

Each revolving loan made available to Borregaard under the Bank Facilities Agreements must be repaid on the last day of an interest period selected by Borregaard. 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.

Statsautoriserte revisorer
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To the Board of directors of Borregaard AS

INDEPENDENT AUDITOR'S REPORT

**Report on the Combined Financial Statements**

We have audited the accompanying combined financial statements of Borregaard AS. The combined financial statements comprises the statements of financial position as at 31 December 2011, 2010 and 2009, the income statements, the statements of comprehensive income, cash flows and changes in equity for the years then ended as well as a summary of significant accounting policies and other explanatory information. The combined financial statements have been prepared for inclusion in the prospectus of Borregaard ASA dated 2012.

*The Board of Directors' responsibility for the combined financial statements*

The Board of Directors' are responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors determine is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the combined financial statements for Borregaard AS.

ERNST & YOUNG

*Opinion*

In our opinion, the combined financial statements of Borregaard AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of Borregaard AS as of 31 December 2011, 2010 and 2009 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Oslo, 17 September 2012

ERNST & YOUNG AS

Jan Wellum Svensen

State Authorised Public Accountant (Norway)

# APPENDIX C:

# INTERIM FINANCIAL INFORMATION FOR THE SIX–MONTH PERIODS ENDED 30 JUNE 2012 AND 2011

# Interim Condensed Consolidated Financial Statements

# for

# Borregaard AS

# First half 2012

| Interim condensed income statement | | | | | | |
|---|---|---|---|---|---|---|
| | | 1.1-30.6. | | 1.1-31.12. | 1.4-30.6. | |
| Amounts in NOK million | Note | 2012 | 2011 | 2011 | 2012 | 2011 |
| Sales revenues | | 1 993 | 1 925 | 3 810 | 1 024 | 961 |
| Other operating revenues | | 24 | 31 | 44 | 12 | 10 |
| **Operating revenues** | 2 | **2 017** | **1 956** | **3 854** | **1 036** | **971** |
| Cost of materials | | -859 | -824 | -1 605 | -438 | -400 |
| Payroll expenses | | -356 | -337 | -699 | -167 | -158 |
| Other operating expenses | | -415 | -401 | -815 | -221 | -204 |
| Depreciation and write-down property, plant and equipment | | -104 | -101 | -199 | -52 | -50 |
| Amortisation intangible assets | | -3 | -3 | -6 | -2 | -2 |
| Other income and expenses | 3 | -44 | | | -44 | |
| **Operating profit** | | **236** | **290** | **530** | **112** | **157** |
| Finance income | | 78 | 60 | 160 | 37 | 33 |
| Finance costs | | -101 | -90 | -235 | -53 | -48 |
| **Profit before taxes** | | **213** | **260** | **455** | **96** | **142** |
| Taxes | | -74 | -77 | -135 | -34 | -44 |
| **Profit for the period** | | **139** | **183** | **320** | **62** | **98** |
| Profit attributable to non controlling interests | | **0** | **2** | **3** | **0** | **1** |
| Profit attributable to owners of the parent | | **139** | **181** | **317** | **62** | **97** |
| EBITA adjusted1 | 2 | **283** | **293** | **536** | **158** | **159** |
| EBITDA adjusted2 | | **387** | **394** | **735** | **210** | **209** |

1 Operating profit before amortisation and other income and expenses

2 Operating profit before depreciation, amortisation and other income and expenses

| Interim earnings per share | | | | | | |
|---|---|---|---|---|---|---|
| | | 1.1-30.6. | | 1.1-31.12. | 1.4-30.6. | |
| Amounts in NOK million | | 2012 | 2011 | 2011 | 2012 | 2011 |
| Earning per share (one share) | | 139 | 181 | 317 | 62 | 97 |

| Interim condensed comprehensive income statement | | | | | | |
|---|---|---|---|---|---|---|
| | | 1.1-30.6. | | 1.1-31.12. | 1.4-30.6. | |
| Amounts in NOK million | Note | 2012 | 2011 | 2011 | 2012 | 2011 |
| **Profit for the period** | | **139** | **183** | **320** | **62** | **98** |
| Change in hedging reserve after tax | | 34 | -1 | -70 | -20 | -11 |
| Translation effects | | -10 | -32 | -28 | 2 | -7 |
| **The Group's comprehensive income** | 4 | 163 | 150 | 222 | 44 | 80 |
| Comprehensive income attributable to non-controlling interests | | 0 | 2 | 2 | | |
| Comprehensive income attributable to owners of the parent | | 163 | 148 | 220 | | |

| Interim condensed statement of financial position | | | |
|---|---|---|---|
| Amounts in NOK million | Note | 2012 30.6. | 2011 31.12. |
| Property, plant and equipment | | 1 942 | 1 822 |
| Intangible assets | | 38 | 72 |
| Deferred tax assets | | 0 | 0 |
| Other assets | 6 | 84 | 91 |
| **Non-current assets** | | 2 064 | 1 985 |
| Inventories | | 599 | 558 |
| Receivables | | 749 | 665 |
| Cash, cash equivalents and deposits in Group cash pool | 6 | 421 | 496 |
| **Current assets** | | 1 769 | 1 719 |
| **Total assets** | | 3 833 | 3 704 |
| Group equity | 5 | 626 | 1 109 |
| Non-controlling interests | | 13 | 14 |
| **Equity** | | 639 | 1 123 |
| Deferred tax | | 126 | 158 |
| Provisions and other liabilities | | 43 | 42 |
| Interest-bearing liabilities | 6 | 2 425 | 1 788 |
| **Non-current liabilities** | | 2 594 | 1 988 |
| Interest-bearing liabilities | 6 | 7 | 20 |
| Income tax payable | | 55 | 62 |
| Other current liabilities | | 538 | 511 |
| **Current liabilities** | | 600 | 593 |
| **Equity and liabilites** | | 3 833 | 3 704 |
| Equity ratio | | 16,7 % | 30,3 % |

Oslo, 17 September 2012
The Board of Directors of Borregaard AS

| | | |
|---|---|---|
| Terje Andersen | Kjell Sundsli | Jan A. Oksum |
| Karl Otto Tveter | Erik Ruud Barkald | Roar Linder |
| Bente Seljebakken Klausen | Ragnhold Anker Eide | Roy Kåre Appelgren |

| Interim condensed change in equity | 1.1. - 30.6. 2012 | | | | | |
|---|---|---|---|---|---|---|
| 2012 | Hedging-reserve | Translation effects | Allocated equity/ retained earnings | Total Group | Non controlling interests | Total equity |
| Equity 1.1. | 21 | -69 | 1157 | 1 109 | 14 | 1 123 |
| Dividends/Group contributions | | | -553 | -553 | -1 | -554 |
| Contribution in kind | | | 517 | 517 | | 517 |
| Debt conversion | | | 450 | 450 | | 450 |
| Reduction due to pooling of interest method (continuity on Group level) | | | -1062 | -1 062 | | -1 062 |
| Option costs (share based payment) | | | 2 | 2 | | 2 |
| The Group's comprehensive income | 34 | -10 | 139 | 163 | | 163 |
| Equity at the close of the period | 55 | -79 | 650 | 626 | 13 | 639 |

| Interim condensed change in equity | 1.1. - 31.12. 2011 | | | | | |
|---|---|---|---|---|---|---|
| 2011 | Hedging-reserve | Translation effects | Allocated equity/ retained earnings | Total Group | Non controlling interests | Total equity |
| Equity 1.1. | 91 | -41 | 948 | 998 | 16 | 1 014 |
| Dividends/Group contributions | | | -113 | -113 | -4 | -117 |
| Option costs (share based payment) | | | 4 | 4 | | 4 |
| The Group's comprehensive income | -70 | -28 | 318 | 220 | 2 | 222 |
| Equity at the close of the period | 21 | -69 | 1157 | 1 109 | 14 | 1 123 |

| **Interim condensed cash flow statement** | | | | |
|---|---|---|---|---|
| | | 1.1-30.6. | | 1.1-31.12. |
| Amounts in NOK million | Note | 2012 | 2011 | 2011 |
| Profit before taxes | | 213 | 260 | 455 |
| Amortisation, depreciation and impairment charges | | 142 | 104 | 205 |
| Changes in net working capital, etc. | | -26 | -178 | -75 |
| Taxes paid | | -71 | -39 | -49 |
| **Cash flow from operating activities** | | 258 | 147 | 536 |
| Investments property, plant and equipment and intangible assets | | -241 | -88 | -251 |
| Other capital transactions | | -4 | 0 | 4 |
| **Cash flow from investing activities** | | -245 | -88 | -247 |
| Dividends/Group contributions | | -714 | -93 | -149 |
| Net paid to shareholders | | -714 | -93 | -149 |
| Change in interest-bearing liabilities | | 633 | 35 | -74 |
| Change in interest-bearing receivables | | 0 | -1 | 9 |
| Change in net interest-bearing liabilities | | 633 | 34 | -65 |
| **Cash flow from financing activities** | | -81 | -59 | -214 |
| **Change in cash and cash equivalents** | | -68 | 0 | 75 |
| Cash and cash equivalents as of 1 January | | 496 | 427 | 427 |
| Change in cash and cash equivalents | | -68 | 0 | 75 |
| Currency effects cash and cash equivalents | | -7 | -13 | -6 |
| **Cash and cash equivalents at the close of the period 1)** | 6 | 421 | 414 | 496 |

1) Includes deposits in Group cash pool

# Notes

## Note 1 General information

Borregaard AS' (Borregaard) interim condensed consolidated financial statements for the first half of 2012 were approved at a meeting of the Board of Directors on 17 September 2012. The figures in the statements have not been audited. Borregaard AS is a parent company and its offices are located in Sarpsborg, Norway.

The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. The same accounting principles and methods of calculation have been applied as in the Combined Financial Statements for 2009-2011. The future effects of new accounting standards were described in the Combined Financial Statements. The entry into force of the standards IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities may be postponed for a year, until 1 January 2014. This will entail a corresponding delay in amendments to the associated standards IAS 27 Consolidated and Separate Financial Statements and IAS 28 Investments in Associates.

## Note 2 Segments

| Operating revenues | | | | | |
|---|---|---|---|---|---|
| | 1.1-30.6. | | 1.1-31.12. | 1.4-30.6. | |
| Amounts in NOK million | 2012 | 2011 | 2011 | 2012 | 2011 |
| **Borregaaard** | **2 017** | **1 956** | **3 854** | **1 036** | **971** |
| Performance Chemicals | 859 | 784 | 1 539 | 460 | 399 |
| Speciality Cellulose | 827 | 818 | 1 644 | 419 | 387 |
| Other Businesses | 371 | 395 | 749 | 176 | 207 |
| Eliminations | -40 | -41 | -78 | -19 | -22 |

| EBITA1 | | | | | |
|---|---|---|---|---|---|
| | 1.1-30.6. | | 1.1-31.12. | 1.4-30.6. | |
| Amounts in NOK million | 2012 | 2011 | 2011 | 2012 | 2011 |
| **Borregaaard** | **283** | **293** | **536** | **158** | **159** |
| Performance Chemicals | 133 | 140 | 225 | 81 | 69 |
| Speciality Cellulose | 146 | 137 | 317 | 86 | 78 |
| Other Businesses | 4 | 16 | -6 | -9 | 12 |
| **Reconciliation against operating profit** | | | | | |
| EBITA1 | 283 | 293 | 536 | 158 | 159 |
| Amortisation intangible assets | -3 | -3 | -6 | -2 | -2 |
| Other income and expenses | -44 | 0 | 0 | -44 | 0 |
| Operating profit | 236 | 290 | 530 | 112 | 157 |

1 Operating profit before amortisation and other income and expenses

| Operating profit per segment | | | | | |
|---|---|---|---|---|---|
| | 1.1-30.6. | | 1.1-31.12. | 1.4-30.6. | |
| Amounts in NOK million | 2012 | 2011 | 2011 | 2012 | 2011 |
| **Borregaaard** | **236** | **290** | **530** | **112** | **157** |
| Performance Chemicals | 94 | 137 | 219 | 43 | 67 |
| Speciality Cellulose | 145 | 137 | 317 | 85 | 78 |
| Other Businesses | -3 | 16 | -6 | -16 | 12 |

There are limited intercompany sales between the different segments and eliminations consist essentially of allocations from HQ.

## Note 3 Other income and expenses

Intangible assets related to Borregaard's operations in Brazil, amounted to NOK 35 million, have been written down. The assets were related to deliveries of lye, and the situation of the main supplier of lye to the Borregaard factory is uncertain, which have been exacerbated by drought in the area.

Stay-on bonus related to separation from the Orkla Group is expensed with NOK 9 million.

**Note 4 Statement of comprehensive income**

The statement of comprehensive income shows changes in the value of hedging instruments (hedging reserve). These figures are presented after tax. The tax effect for the first half of 2012 relating to the hedging reserve amounts to NOK 10 million.

Total unrealised hedging reserve included in equity at 30 June 2012 (after tax) amounts to NOK 55 million.

**Note 5 Equity**

Borregaard AS has acquired the Biorefinery business formerly conducted by Borregaard Industries Ltd. ("BIL") through a number of transactions during March-June 2012. On March 30, 2012, certain assets, rights and obligations related to the biorefinery business were transferred from BIL by way of contribution in kind. Prior to that Borregaard AS was a dormant company and had a share capital of NOK 100,000. At the transfer the paid in capital increased to NOK 10.5 million.

The shares in the relevant subsidiaries and joint venture companies which form part of the biorefinery business were acquired by Borregaard AS from BIL and certain other companies in the Orkla group. To finance the acquisition of the subsidiaries and joint venture companies acquired for cash consideration, Borregaard AS increased its long term debt from Orkla ASA.

One of the subsidiaries was transferred to the Company by way of contribution in kind in the amount of NOK 506 million.

After the acquisition of the subsidiaries and joint venture companies, which in aggregate had a fair market value of NOK 1,062 million, NOK 450 million of Borregaard AS' debt was converted to equity.

IFRS requires that the transfer of assets from BIL to Borregaard AS should be on a continuity basis. However, the shares in subsidiaries have to be booked to fair market value and not at the initial cost price they had in BIL. In the Borregaard Group interim condensed Financial Statements the shares in subsidiaries and joint venture companies are eliminated and impact the equity for the Borregaard Group as difference between fair market value and initial cost price related to the subsidiaries is recorded in the financial statements. When eliminating NOK 1,062 million in the equity for the Borregaard Group, it has a negative impact of the presented equity.

The equity presented in the Combined Financial Statements for 2009-2011 is based on Orkla policy of having approximately 25% equity share in the subsidiaries. The equity presented as of 30 June 2012 is the actual equity for the Borregaard Group as of that date and not the equity based on combined accounts or the equity going forward.

**Note 6 Net interest-bearing liabilities**

The various elements of net interest-bearing liabilities are shown in the following table:

| **Net interest-bearing liabilities** | 2012 | 2011 |
|---|---|---|
| Amounts in NOK million | 30.6. | 31.12. |
| Non-current interest-bearing liabilities | -2 425 | -1 788 |
| Current interest-bearing liabilities | -7 | -20 |
| Non-current interest-bearing receivables (included in "Other Assets") | 6 | 6 |
| Cash and cash equivalents | 421 | 496 |
| Net interest-bearing liabilities | -2 005 | -1 306 |

**Note 7 Related parties**

There have not been any changes towards related parties in first half of 2012. Most of the intercompany balances regarding dividends and group contributions within the Orkla Group are settled.

**Note 8 Assessments relating to impairment**

Apart from the write-downs presented as "Other income and expenses", no other deficit values have been identified in the Borregaard Group's property, plant or equipment or intangible assets.

**Note 9 Other matters and subsequent events**

In connection with the transfer of the Biorefinery business to Borregaard AS, internal profit from the hydropower operations which remained in BIL is now eliminated at a higher level in the Orkla Group. This has resulted in a positive one-off effect of NOK 18 million in Borregaard Group.

*Stamp duty.* Stamp duty will apply when title is registered for ownership to the areas the Group has acquired from Borregaard Industries Limited. The stamp duty will be capitalized as part of the cost price for Property, Plant and Equipment. Stamp duty is estimated to 20-25 NOK million.

*Valuation of LignoTech Brasil Produtos de Ligninia Ltda.* As described in Note 3 Other income and expenses, the booked value of LignoTech Brasil Produtos de Ligninia Ltda was higher than the value assessed as part of the transfer of assets in Nutracell AS from BIL to Borregaard in June 2012. A write down of NOK 35 million related to the company was done, see note 3. As of 17 September 2012 the plant has not yet restarted its operations. In an event where the plant will not continue its operations an additional write down of fixed assets up to NOK 10 million may have to be taken. In addition restructuring costs such as termination cost etc may occur.

*Initial Public Offering (IPO).* Borregaard is planning for an IPO and submitted its application to Oslo Stock Exchange on 28 August 2012. In connection with an IPO, Borregaard AS will be transferred to a new holding company (Borregaard ASA). Borregaard ASA has increased its share capital and share premium fund on 11 September 2012 by cash contribution of NOK 299 million. Further on 17 September an additional cash contribution of NOK 700 million will take place. At the same time, NOK 300 million will be converted from share capital and share premium fund to distributable equity. On 17 September the share in Borregaard AS will be transferred to Borregaard ASA as a contribution in kind which will increase the share capital and the share premium fund with a total of NOK 1,158 million.

*Financing of Borregaard Group post IPO*. Borregaard has historically obtained current and non-current funding through both short-term loans and long-term loans from Orkla. Borregaard has also received capital contributions from Orkla when necessary to achieve an efficient capital structure for the entities within the business. Consequently, prior to the separation from Orkla, several of Borregaard's subsidiaries had various interest-bearing credit facilities with other Orkla group companies.

Ultimo September 2012, Borregaard intend to enter into a Bank Facility Agreements in an aggregate amount of NOK 1,800 million. The purpose of the Bank Facilities Agreements is to finance the Group's working capital and for general corporate purposes and to refinance the amount outstanding under the existing intra-group loan facilities made available to Borregaard by Orkla. The total facility amount under the Bank Facilities Agreements will be split in two tranches: (i) a 3-year revolving loan facility available in the aggregate amount of NOK 600 million from and including the IPO completion date until one month prior to the facility termination date, which will be 36 months after the date of the relevant Bank Facility Agreement; and (ii) a 5-year revolving loan facility in the aggregate amount of NOK 1,200 million available from and including the IPO completion date, until one month prior to the facility termination date, which will be 60 months after the date of the relevant Bank Facility Agreement.

Borregaard intends to make initial drawings under the Bank Facilities Agreements in the aggregate amount of NOK 1,100 million on or about the first day of trading of the Shares on the Oslo Stock Exchange, and will use such proceeds to repay in full its remaining indebtedness to Orkla.

Each revolving loan made available to Borregaard under the Bank Facilities Agreements must be repaid on the last day of an interest period selected by Borregaard. 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.

There have otherwise been no events after the balance sheet date that would have had an impact on the financial statements or the assessments carried out.

Statsautoriserte revisorer
Ernst & Young AS
Dronning Eufemias gate 6, NO-0191 Oslo
Oslo Atrium, P.O.Box 20, NO-0051 Oslo
Foretaksregisteret: NO 976 389 387 MVA
Tlf.: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
Medlemmer av Den norske Revisorforening

To the Board of directors of Borregaard AS

## Report on review of interim condensed consolidated financial information

### Introduction

We have reviewed the accompanying interim condensed consolidated financial information of Borregaard AS as of June 30, 2012 and the related interim condensed income statement, comprehensive income statement, cash flows and changes in equity for the six-months then ended. The Board of Directors' are responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by EU (IAS 34). Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of review

We conducted our review in accordance with the international standard on review engagements ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by EU (IAS 34).

Oslo, 17 September 2012
Ernst & Young AS

Jan Wellum Svensen
State Authorised Public Accountant (Norway)

## APPENDIX D:

## INTERIM FINANCIAL INFORMATION FOR BORREGAARD ASA FOR THE PERIOD 22 AUGUST 2012 TO 31 AUGUST 2012

# Parent company financial statement

# Borregaard ASA

# August 22-31, 2012

| Income statement | | |
|---|---|---|
| Amounts in NOK million | Note | For the period from 22 August 2012, the date of inception, to 31 August 2012 |
| Operating revenues | | **0** |
| Other income and expenses | | 0 |
| **Operating profit** | | **0** |
| Finance income | | 0 |
| Finance costs | | 0 |
| **Profit before taxes** | | **0** |
| Taxes | | 0 |
| **Profit for the period / total comprehensive income** | | **0** |

| Statement of financial position | | |
|---|---|---|
| Amounts in NOK million | Note | At 31 August 2012 |
| **Non-current assets** | | 0 |
| Cash and cash equivalents | 3 | 1 |
| **Current assets** | | 1 |
| **Total assets** | | 1 |
| Shareholder's equity | 4 | 1 |
| Retianed earnings | | 0 |
| **Equity** | 4 | 1 |
| **Non-current liabilities** | | 0 |
| **Current liabilities** | | 0 |
| **Equity and liabilites** | | 1 |

Oslo, 17 September 2012
The Board of Directors of Borregaard ASA

Terje Andersen    Jan A. Oksum    Veronica Skevik

| **Statement of changes in equity** | | | |
|---|---|---|---|
| Amounts in NOK million | | | |
| **2012** | Shareholder's equity | Retained earnings | Total equity |
| At 22 August 2012, date of inception | 0 | 0 | 0 |
| Net income | 0 | 0 | 0 |
| Share issue | 1 | 0 | 1 |
| At 31 August 2012 | 1 | 0 | 1 |

| **Statement of cash flow** | | |
|---|---|---|
| Amounts in NOK million | Note | For the period 22 August, date of inception, to 31 August 2012 |
| Profit before taxes | | 0 |
| **Cash flow from operating activities** | | 0 |
| **Cash flow from investing activities** | | 0 |
| Share issue | 4 | 1 |
| **Cash flow from financing activities** | | 1 |
| **Change in cash and cash equivalents** | | 1 |

| | | |
|---|---|---|
| Cash and cash equivalents as at inception, 22 August 2012 | | 0 |
| Change in cash and cash equivalents | | 1 |
| **Cash and cash equivalents at 31 August 2012** | 3 | 1 |

**Note 1 Organisation and basis for preparation**

Borregaard ASA is incorporated and domiciled in Norway. The address of its registered office is Hjalmar Wessels vei 10, 1721 Sarpsborg.

Borregaard ASA was incorporated as a public limited liability company on 22 August 2012. Borregaard ASA is a wholly owned subsidiary of Borregaard Holding AS, with the ultimate parent Orkla ASA, and was established to serve as the parent company for the Biorefinery business historically within the Chemical segment of Orkla.

In accordance with the Transfer Agreement entered into between Borregaard AS, Borregaard Industries Limited (BIL) and Orkla ASA on 19 March 2012, the Biorefinery business is transferred to Borregaard AS with effective date 30 March 2012.

Borregaard ASA will be the parent company of the Biorefinery business, and will directly hold the shares in Borregaard AS. Borregaard AS holds the share in the relevant subsidiaries.

These financial statements have been prepared for the period from inception (August 22, 2012) to 31 August 2012 in connection with the preparation and filing of the IPO prospectus of Borregaard ASA and subsidiaries in August 2012.

**Note 2 Significant accounting policies**

*Statement of compliance:* The financial statements of Borregaard ASA are prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by EU.

*Cash and cash equivalents:* Cash and cash equivalents include bank deposit held at call with Nordea.

**Note 3 Cash and cash equivalents**

Cash at 31 August 2012 consist of bank deposits in Nordea Bank of NOK 1 million.

**Note 4 Equity and shareholders**

The Board of Directors has authorised and issued 100 000 shares at par value of NOK 10 to Borregaard Holding AS at the inception of Borregaard ASA. The total contribution of NOK 1 million is share capital.

There is only one class of shares, and all shares have equal voting rights.

**Note 5 Financial risk management**

Currently, there are no operations at Borregaard ASA, and the only asset owned by the company is cash. Therefore the only risk Borregaard ASA is exposed to is credit risk, arising from deposit with financial institutions.

**Note 6 Subsequent events**

*Initial Public Offering (IPO).* Borregaard is planning for an IPO and submitted its application to Oslo Stock Exchange on 28 August 2012. Borregaard ASA has increased its share capital and share premium fund on 11 September 2012 by cash contribution of NOK 299 million. Further on 17 September an additional cash contribution of NOK 700 million will take place. At the same time, NOK 300 million will be converted from share capital and share premium fund to distributable equity. On 17 September the share in Borregaard AS will be transferred to Borregaard ASA as a contribution in kind which will increase the share capital and the share premium fund with a total of NOK 1,158 million.

The newly established Borregaard Group will repay approximately NOK 1,300 million of long term debt to Orkla ASA. Post those transactions the Borregaard Group will have an equity rate of approximately 46%.

*Financing of Borregaard Group post IPO*. Borregaard has historically obtained current and non-current funding through both short-term loans and long-term loans from Orkla. Borregaard has also received capital contributions from Orkla when necessary to achieve an efficient capital structure for the entities within the business. Consequently, prior to the separation from Orkla, several of Borregaard's subsidiaries had various interest-bearing credit facilities with other Orkla group companies.

On 17 September 2012, Borregaard entered into the Bank Facilities Agreements in an aggregate amount of NOK 1,800 million. The purpose of the Bank Facilities Agreements is to finance the Group's working capital and for general corporate purposes and to refinance the amount outstanding under the existing intra-group loan facilities made available to Borregaard by Orkla. The total facility amount under the Bank Facilities Agreements is split in two tranches: (i) a 3-year revolving loan facility available in the aggregate amount of NOK 600 million from and including the IPO completion date until one month prior to the facility termination date, which will be 36 months after the date of the relevant Bank Facility Agreement; and (ii) a 5-year revolving loan facility in the aggregate amount of NOK 1,200 million available from and including the IPO completion date, until one month prior to the facility termination date, which will be 60 months after the date of the relevant Bank Facility Agreement.

Borregaard intends to make initial drawings under the Bank Facilities Agreements in the aggregate amount of NOK 1,100 million on or about the first day of trading of the Shares on the Oslo Stock Exchange, and will use such proceeds to repay in full its remaining indebtedness to Orkla.

Each revolving loan made available to Borregaard under the Bank Facilities Agreements must be repaid on the last day of an interest period selected by Borregaard. 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.

There have otherwise been no events after the balance sheet date that would have had an impact on the financial statements or the assessments carried out.

State Authorised Public Accountants
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Member of the Norwegian Institute of Public Accountants

To the Board of directors of Borregaard ASA

## AUDITOR'S REPORT

### Report on the financial statement

We have audited the accompanying financial statement of Borregaard ASA. The financial statement comprise the statement of financial position as at 31 August 2012, the income statement, changes in equity and cash flows for the period from 22 to 31 August 2012 as well as a summary of significant accounting policies and other explanatory information.

*The Board of Directors' responsibility for the financial statement*

The Board of Directors are responsible for the preparation and fair presentation of the financial statement in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statement for Borregaard ASA.

ERNST & YOUNG



*Opinion*

In our opinion, the financial statement of Borregaard ASA has been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of Borregaard ASA as at 31 August 2012 and their financial performance and cash flows for the period from 22 to 31 August 2012 in accordance with the International Financial Reporting Standards as adopted by the EU.

Oslo, 17 September 2012
ERNST & YOUNG AS

Jan Wellum Svensen
State Authorised Public Accountant (Norway)

# APPENDIX E:

# APPLICATION FORM FOR THE RETAIL OFFERING

**APPLICATION FORM FOR THE RETAIL OFFERING**

**General information**: The terms and conditions for the Retail Offering are set out in the prospectus dated 2 October 2012 (the "**Prospectus**") which has been issued in connection with the secondary sale of shares of Borregaard ASA (the "**Company**") by BRG Holding AS (the "**Selling Shareholder**") and the listing of the Company's Shares on the Oslo Stock Exchange. All capitalised terms not defined herein shall have the meaning as assigned to them in the Prospectus.

**Application procedure**: Applicants in the Retail Offering who are residents of Norway with a Norwegian personal identification number can apply for Offer Shares by using the following internet pages: www.abgsc.no, www.dnb.no/emisjoner, www.handelsbanken.no/aktiviteter and www.sebenskilda.no. Applications in the Retail Offering can also be made on this Retail Application Form (see definition in Section 19.4 of the Prospectus). Retail Application Forms must be correctly completed and submitted to one of the following application offices (the "**Application Offices**"):

| | | | |
|---|---|---|---|
| ABG Sundal Collier | DNB Markets | Handelsbanken Capital Markets | SEB Enskilda |
| Munkedamsveien 45E | Stranden21 | Tjuvholmen Allé 11 | Filipstad Brygge 1 |
| 0115 Oslo | 0021 Oslo | 0110 Oslo | 0123 Oslo |
| Norway | Norway | Norway | Norway |
| Tel: +47 22 01 60 00 | Tel: +47 23 26 81 01 | Tel: +47 22 39 70 00 | Tel: +47 21 00 85 00 |
| Fax: +47 22 01 60 60 | Fax: +47 22 48 29 80 | Fax: +47 22 39 70 68 | Fax: +47 21 00 89 06 |

The applicant is responsible for the correctness of the information filled in on this Retail Application Form. Retail Application Forms that are incomplete or incorrectly completed, electronically or physically, or that are received after expiry of the Application Period, and any application that may be unlawful, may be disregarded without further notice to the applicant. **Subject to any extension of the Application Period, applications made through the VPS online application system must be duly registered before 12:00 hours (CET) on 17 October 2012, while applications made on Retail Application Forms must be received by one of the Application Offices by the same time**. Neither the Selling Shareholder nor any of the Managers may be held responsible for postal delays, unavailable fax lines, internet lines or servers or other logistical or technical matters that may result in applications not being received in time or at all by any of the Application Offices. All applications made in the Retail Offering will be irrevocable and binding, and cannot be withdrawn, cancelled or modified by the applicant upon registration of the application in the VPS online application system, or in the case of applications on Retail Application Forms, receipt of a duly completed Retail Application Form by an Application Office (the "**Registration**"), irrespective of any extension of the Application Period.

**Price of Offer Shares**: The indicative price range (the "**Indicative Price Range**") for the Offering is from NOK 20 to NOK 25 per Offer Share. The Selling Shareholder will determine the final Offer Price on the basis of orders received and not withdrawn in the Institutional Offering during the bookbuilding process and the number of applications received in the Retail Offering. The Offer Price will be determined on or about 17 October 2012. The Offer Price may be set below or above the Indicative Price Range. Each applicant in the Retail Offering will be permitted, but not required, to indicate on the VPS online application system or on the Retail Application Form that the applicant does not wish to be allocated Offer Shares should the Offer Price be set higher than the highest price in the Indicative Price Range. If the applicant does not expressly stipulate such reservation on the VPS online application system or on the Retail Application Form, the application will be binding regardless of whether the Offer Price is set within or above (or below) the Indicative Price Range. Each investor subscribing for an amount of NOK 10,500 or more in the Retail Offering will receive a discount of NOK 1,500 on the aggregate Offer Price for the Offer Shares allocated to such investor.

**Allocation, payment and delivery of Offer Shares**: DNB Markets, acting as settlement agent for the Retail Offering, expects to issue notifications of allocation of Offer Shares in the Retail Offering on or about 18 October 2012, by issuing allocation notes to the applicants by mail. Any applicant wishing to know the precise number of Offer Shares allocated to it, may contact one of the Application Offices from on or about 18 October 2012 during business hours. Applicants who have access to investor services through an institution that operates the applicant's VPS account should be able to see how many Offer Shares they have been allocated from on or about 18 October 2012. In registering an application through the VPS online application system or by completing a Retail Application Form, each applicant in the Retail Offering will authorise DNB Markets (on behalf of the Managers) to debit the applicant's Norwegian bank account for the total amount due for the Offer Shares allocated to the applicant. Accounts will be debited on or about 22 October 2012 (the payment date), and there must be sufficient funds in the stated bank account from and including 19 October 2012. Applicants who do not have a Norwegian bank account must ensure that payment for the allocated Offer Shares is made on or before the payment date (22 October 2012). Further details and instructions will be set out in the allocation notes to the applicant to be issued on or about 18 October 2012, or can be obtained by contacting DNB Markets at +47 23 26 81 01. DNB Markets (on behalf of the Managers) is only authorised to debit each account once, but reserves the right (but has no obligation) to make up to three debit attempts through 26 October 2012 if there are insufficient funds on the account on the Payment Date. Should any applicant have insufficient funds on his or her account, or should payment be delayed for any reason, or if it is not possible to debit the account, overdue interest will accrue and other terms will apply as set out under the heading "Overdue and missing payment" below. Subject to timely payment by the applicant, delivery of the Offer Shares allocated in the Retail Offering is expected to take place on or about 22 October 2012.

**Guidelines for the applicant**: Please refer to the second page of this Retail Application Form for further application guidelines.

| **Applicant's VPS-account (12 digits):** | **I apply for shares for a total of NOK (minimum NOK 10,500 and maximum NOK 999,999)** | **Applicant's bank account to be debited (11 digits):** |
|---|---|---|
| | | |

| | |
|---|---|
| **OFFER PRICE:** My/our application is conditional upon the final Offer Price not being set above the upper end of the Price Range (insert cross) **(must only be completed if the application is conditional upon the final Offer Price not being set above the upper end of the Price Range):** | |

I/we hereby irrevocably (i) apply for the number of Offer Shares allocated to me/us, at the Offer Price, up to the aggregate application amount as specified above subject to the terms and conditions set out in this Retail Application Form and in the Prospectus, (ii) authorise and instruct each of the Managers (or someone appointed by any of them) acting jointly or severally to subscribe for the Offer Shares allocated to me/us and to take all actions required to transfer such Offer Shares to the VPS Registrar and ensure delivery of the beneficial interests to such Offer Shares to me/us in the VPS, on my/our behalf, (iii) authorise DNB Markets to debit my/our bank account as set out in this Retail Application Form for the amount payable for the Offer Shares allotted to me/us, and (iv) confirm and warrant to have read the Prospectus and that I/we are eligible to subscribe for Offer Shares under the terms set forth therein.

| **Date and place***: | **Binding signature****: |
|---|---|
| | |

* Must be dated during the Application Period ** The applicant must be of legal age. If the Retail Application Form is signed by a proxy, documentary evidence of authority to sign must be attached in the form of a Power of Attorney or Company Registration Certificate

| **DETAILS OF THE APPLICANT — ALL FIELDS MUST BE COMPLETED** | |
|---|---|
| First name | Surname/Family name/Company name |
| Home address (for companies: registered business address) | Zip code and town |
| Identity number (11 digits) | Nationality |
| Telephone number (daytime) | E-mail address |

**GUIDELINES FOR THE APPLICANT**

**THIS RETAIL APPLICATION FORM IS NOT FOR DISTRIBUTION OR RELEASE, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES, CANADA, AUSTRALIA OR JAPAN OR ANY OTHER JURISDICTION IN WHICH THE DISTRIBUTION OR RELEASE WOULD BE UNLAWFUL. OTHER RESTRICTIONS ARE APPLICABLE. PLEASE SEE "SELLING RESTRICTIONS" BELOW.**

**Regulatory issues:** Legislation passed throughout the EEA pursuant to the Markets and Financial Instruments Directive ("**MiFID**") implemented in the Norwegian Securities Trading Act, imposes requirements in relation to business investment. In this respect the Managers must categorise all new clients in one of three categories: Eligible counterparties, Professional and Non-professional clients. All applicants subscribing for Offer Shares in the Offering who/which are not existing clients of one of the Managers will be categorised as Non-professional clients. The applicant can by written request to the Managers ask to be categorised as a Professional client if the applicant fulfills the provisions of the Norwegian Securities Trading Act. For further information about the categorisation the applicant may contact the Managers. The applicant represents that it has sufficient knowledge, sophistication and experience in financial and business matters to be capable of evaluating the merits and risks of an investment decision to invest in the Company by applying for Offer Shares, and the applicant is able to bear the economic risk, and to withstand a complete loss of an investment in the Company.

**Execution only:** As the Managers are not in the position to determine whether the application for Offer Shares is suitable for the applicant, the Managers will treat the application as an execution only instruction from the applicant to apply for Offer Shares in the Offering. Hence, the applicant will not benefit from the corresponding protection of the relevant conduct of business rules in accordance with the Norwegian Securities Trading Act.

**Information barriers:** The Managers are securities firms, offering a broad range of investment services. In order to ensure that assignments undertaken in the Managers' corporate finance departments are kept confidential, the Managers' other activities, including analysis and stock broking, are separated from their corporate finance departments by information barriers known as "Chinese walls". The applicant acknowledges that the Managers' analysis and stock broking activity may act in conflict with the applicant's interests with regard to transactions in the Offer Shares as a consequence of such Chinese walls.

**VPS account and anti-money laundering procedures:** The Offering is subject to applicable anti-money laundering legislation, including the Norwegian Money Laundering Act No. 11 of 6 March 2009 and the Norwegian Money Laundering Regulation No. 302 of 13 March 2009 (collectively the "**Anti-Money Laundering Legislation"**). Applicants who are not registered as existing customers of one of the Managers must verify their identity to one of the Managers in accordance with requirements of the Anti-Money Laundering Legislation, unless an exemption is available. Applicants who have designated an existing Norwegian bank account and an existing VPS account on the Retail Application Form are exempted, unless verification of identity is requested by a Manager. Applicants who have not completed the required verification of identity prior to the expiry of the Application Period will not be allocated Offer Shares. Participation in the Offering is conditional upon the applicant holding a VPS account. The VPS account number must be stated in the Retail Application Form. VPS accounts can be established with authorised VPS registrars, who can be Norwegian banks, authorised securities brokers in Norway and Norwegian branches of credit institutions established within the EEA. Establishment of a VPS account requires verification of identity to the VPS registrar in accordance with the Anti-Money Laundering Legislation. However, non-Norwegian investors may use nominee VPS accounts registered in the name of a nominee. The nominee must be authorised by the Norwegian FSA.

**Selling restrictions:** The Offering is subject to specific legal or regulatory restrictions in certain jurisdictions, see to Section 20 "Selling and transfer restrictions" in the Prospectus. Neither the Company nor the Selling Shareholder assumes any responsibility in the event there is a violation by any person of such restrictions. The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or under any securities laws of any state or other jurisdiction of the United States and may not be taken up, offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within, into or from the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with the securities laws of any state or other jurisdiction of the United States. There will be no public offer in the United States. The Offer Shares will, and may, not be offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within, into or from any jurisdiction where the offer or sale of the Offer Shares is not permitted, or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any jurisdiction where the offer or sale is not permitted, except pursuant to an applicable exemption. In the Retail Offering, the Offer Shares are being offered and sold to certain persons outside the United States in offshore transactions within the meaning of and in compliance with Rule 903of Regulation S under the U.S. Securities Act.

The Company has not authorised any offer to the public of its securities in any Member State of the European Economic Area other than Norway. With respect to each Member State of the European Economic Area other than Norway and which has implemented the EU Prospectus Directive (each, a "**Relevant Member State**"), no action has been undertaken or will be undertaken to make an offer to the public of the Offer Shares requiring a publication of a prospectus in any Relevant Member State. Any offers outside Norway will only be made in circumstances where there is no obligation to produce a prospectus.

**Stabilisation:** In connection with the Offering, UBS Limited (as "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot shares or effect transactions with a view to supporting the market price of the shares at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final price of the Offer Shares is made and, if begun, may be ended at any time, but it must end no later than 30 days after allotment of the Offer Shares.

**Investment decisions based on full Prospectus:** Investors must neither accept any offer for, nor acquire any Offer Shares, on any other basis than on the complete Prospectus.

**Terms and conditions for Payment by direct debiting - securities trading:** Payment by direct debiting is a service provided by cooperating banks in Norway. In the relationship between the payer and the payer's bank the following standard terms and conditions apply.

1. The service "Payment by direct debiting — securities trading" is supplemented by the account agreement between the payer and the payer's bank, in particular Section C of the account agreement, General terms and conditions for deposit and payment instructions.
2. Costs related to the use of "payment by direct debiting — securities trading" appear from the bank's prevailing price list, account information and/or information is given by other appropriate manner. The bank will charge the indicated account for incurred costs.
3. The authorisation for direct debiting is signed by the payer and delivered to the beneficiary. The beneficiary will deliver the instructions to its bank who in turn will charge the payer's bank account.
4. In case of withdrawal of the authorisation for direct debiting the payer shall address this issue with the beneficiary. Pursuant to the Financial Contracts Act the payer's bank shall assist if payer withdraws a payment instruction which has not been completed. Such withdrawal may be regarded as a breach of the agreement between the payer and the beneficiary.
5. The payer cannot authorise for payment a higher amount than the funds available at the payer's account at the time of payment. The payer's bank will normally perform a verification of available funds prior to the account being charged. If the account has been charged with an amount higher than the funds available, the difference shall be covered by the payer immediately.
6. The payer's account will be charged on the indicated date of payment. If the date of payment has not been indicated in the authorisation for direct debiting, the account will be charged as soon as possible after the beneficiary has delivered the instructions to its bank. The charge will not, however, take place after the authorisation has expired as indicated above. Payment will normally be credited the beneficiary's account between one and three working days after the indicated date of payment/delivery.
7. If the payer's account is wrongfully charged after direct debiting, the payer's right to repayment of the charged amount will be governed by the account agreement and the Financial Contracts Act.

**Overdue and missing payments:** Overdue payments will be charged with interest at the applicable rate under the Norwegian Act on Interest on Overdue Payments of 17 December 1976, No. 100, which at the date of the Prospectus is 8.50% per annum. If the applicant fails to comply with the terms of payment or should payments not be made when due, the applicant will remain liable for payment of the Offer Shares allocated to it and the Offer Shares allocated to such applicant will not be delivered to the applicant. In such case the Selling Shareholder and DNB Markets reserve the right to, at any time and at the risk and cost of the applicant, re-allot, cancel or reduce the order and the allocation of the allocated Offer Shares, or, if payment has not been made when due, the Offer shares will not be delivered to the applicant and the Managers reserves the right to at any time and without further notice sell, assume ownership to or otherwise dispose of the allocated Offer Shares in accordance with applicable law. If Offer Shares are sold on behalf of the applicant, such sale will be for the applicant's account and risk and the applicant will be liable for any loss, costs, charges and expenses suffered or incurred by the Selling Shareholder and/or DNB Markets as a result of, or in connection with, such sales. The Selling Shareholder and/or DNB Markets may enforce payment for any amounts outstanding in accordance with applicable law.

## APPENDIX F:

## APPLICATION FORM FOR THE RETAIL OFFERING IN NORWEGIAN

**BESTILLINGSBLANKETT FOR OFFENTLIG TILBUD OM KJØP AV AKSJER**

**Generell Informasjon**: Vilkårene og betingelsene for det Offentlige Tilbudet fremgår av prospekt datert 2. oktober 2012 ("**Prospektet**") som også inneholder et norsk sammendrag, som er utarbeidet i forbindelse med BRG Holding AS' ("**Selgende Aksjonær**") salg av aksjer i Borregaard ASA ("**Selskapet**"), og noteringen av Selskapets aksjer på Oslo Børs. Alle definerte ord og uttrykk (angitt med stor bokstav) som ikke er definert i denne bestillingsblanketten, skal ha samme betydning som i Prospektet.

**Bestillingsprosedyre**: Bestillere i det Offentlige Tilbudet som er norske statsborgere med et norsk personnummer kan foreta bestilling av Tilbudsaksjer gjennom følgende internettsider: www.abgsc.no, www.dnb.no/emisjoner, www.handelsbanken.no/aktiviteter and www.sebenskilda.no. Bestillinger i det Offentlige Tilbudet kan også foretas på denne bestillingsblanketten som er vedlagt Prospektet som Appendix F (Application Form for the Retail Offering in Norwegian) eller Appendix E (Application form for the Retail Offering). Korrekt utfylt bestillingsblankett må være mottatt av en av følgende bestillingskontorer ("**Bestillingskontorene**"):

| | | | |
|---|---|---|---|
| ABG Sundal Collier<br>Munkedamsveien 45E<br>0115 Oslo<br>Tlf: +47 22 01 60 00<br>Faks: +47 22 01 60 60 | DNB Markets<br>Stranden21<br>0021 Oslo<br>Tel: +47 23 26 81 01<br>Fax: +47 22 48 29 80 | Handelsbanken Capital Markets<br>Tjuvholmen Allé 11<br>0110 Oslo<br>Tel: +47 22 39 70 00<br>Fax: +47 22 39 70 68 | SEB Enskilda<br>Filipstad Brygge 1<br>0123 Oslo<br>Tel: +47 21 00 85 00<br>Fax: +47 21 00 89 06 |

Bestilleren er ansvarlig for riktigheten av informasjonen som er fylt inn i bestillingsblanketten. Bestillingsblanketter som er ufullstendige eller uriktig utfylt, elektronisk eller på papir, eller som mottas etter utløpet av Bestillingsperioden, og enhver bestilling som kan være ulovlig, kan bli avvist uten nærmere varsel til bestilleren. **Bestillinger som gjøres gjennom det VPS nettbaserte bestillingssystemet må være registrert, og bestillinger som gjøres på bestillingsblanketter må være mottatt av en av Bestillingskontorene, innen kl 12.00 norsk tid den 17. oktober 2012, med mindre Bestillingsperioden forlenges**. Verken Selgende Aksjonær eller noen av Tilretteleggerne kan holdes ansvarlig forsinkelser i postgang, utilgjengelige fakslinjer, internettlinjer eller servere eller andre logistikkproblemer eller tekniske problemer som kan resultere i at bestillinger ikke blir mottatt i tide eller i det hele tatt av Bestillingskontorene. Alle bestillinger i det Offentlige Tilbudet er ugjenkallelige og bindende og kan ikke trekkes, kanselleres eller endres av bestilleren etter at bestillingen er registrert i VPS' nettbaserte bestillingssystem eller hvis bestilling gjøres på tegningsblankett, når komplett utfylt bestillingsblankett er mottatt av et Bestillingskontor ("**Registrering**"), uavhengig av en eventuell forkortelse eller forlengelse av Bestillingsperioden.

**Pris på Tilbudsaksjene**: Det indikative prisintervallet (det "**Indikative Prisintervallet**") for Tilbudet er fra NOK 20 til NOK 25 per Tilbudsaksje. Den endelige prisen per Tilbudsaksje vil bli fastsatt av Selgende Aksjonær på basis av ordre som mottas og ikke trekkes tilbake i det Institusjonelle Tilbudet gjennom bookbuilding-prosessen og antallet bestillinger mottatt i det Offentlige Tilbudet. Tilbudsprisen vil fastsettes rundt den 17. oktober 2012. Prisen per Tilbudsaksje kan fastsettes over eller under det Indikative Prisintervallet. Hver bestiller i det Offentlige Tilbudet kan, men må ikke, indikere i VPS' nettbaserte bestillingssystem eller på bestillingsblanketten at bestilleren ikke ønsker å bli tildelt Tilbudsaksjer dersom prisen per Tilbudsaksje blir fastsatt høyere enn den høyeste prisen i det Indikative Prisintervallet. Dersom bestilleren ikke uttrykkelig gir uttrykk for en slik reservasjon i VPS' nettbaserte bestillingssystem eller på bestillingsblanketten, vil bestillingen være bindende uavhengig av om prisen per Tilbudsaksje fastsettes over, under eller innenfor det Indikative Prisintervallet. Hver investor som tegner aksjer for minst NOK 10 500 i det Offentlige Tilbudet vil få en rabatt på NOK 1 500 av den samlede Tilbudsprisen for Tilbudsaksjene som tildeles den respektive investoren.

**Allokering, betaling og levering av Tilbudsaksjer:** DNB Markets, som oppgjørsagent for det Offentlige Tilbudet, forventer å sende tildelingsbrev med informasjon om tildeling av Tilbudsaksjer i det Offentlige Tilbudet per post rundt 18. oktober 2012. Dersom noen bestillere ønsker å få opplyst det eksakte antallet Tilbudsaksjer som er tildelt, kan bestilleren kontakte et av Bestillingskontorene fra rundt den 18. oktober 2012 innenfor ordinær arbeidstid. Bestillere som har tilgang til investorservice gjennom en institusjon som er kontofører for bestillerens VPS-konto, vil fra eller rundt den 18. oktober 2012 og fremover også på denne måten kunne se hvor mange Tilbudsaksjer som er tildelt. Ved å registrere en bestilling i VPS' nettbaserte bestillingssystem eller ved å fylle ut og sende inn en bestillingsblankett, gir hver bestiller i det Offentlige Tilbudet fullmakt til DnB Markets (på vegne av Tilretteleggerne) til å debitere bestillerens norske bankkonto for et beløp som tilsvarer den samlede kjøpesummen for de Tilbudsaksjene som bestilleren får tildelt. Bankkontoen vil debiteres på eller rundt den 22. oktober 2012 (betalingsdato), og det må være tilstrekkelige innestående på den aktuelle kontoen fra og med 19. oktober 2012. Bestillere som ikke har en norsk bankkonto må forsikre seg om at betaling for tildelte Aksjer foretas senest på betalingsdato (22. oktober 2012). Ytterligere betalingsdetaljer og instruksjoner vil fremgå av tildelingsbrevet som sendes ut rundt den 18. oktober 2012, og kan også fås ved å kontakte DNB Markets på +47 23 26 81 01. DnB Markets (på vegne av Tilretteleggerne) er bare berettiget til å belaste kontoen en gang, men forbeholder seg retten (men har ingen forpliktelse) til å gjøre inntil tre debiteringsforsøk frem til og med 26. oktober 2012 dersom det er utilstrekkelig med midler på kontoen på Betalingsdagen. Dersom en bestiller ikke har tilstrekkelig innestående på den aktuelle bankkontoen, eller betaling er forsinket av en eller annen årsak, eller dersom det ikke er mulig å debitere kontoen, vil det påløpe forsinkelsesrente og andre vilkår vil gjelde som fastsatt under overskriften "Forsinket og manglende betaling" under. Dersom betaling for tildelte Tilbudsaksjer er mottatt på betalingsdagen, vil levering av tildelte Tilbudsaksjer i det Offentlige Tilbudet foretas rundt den 22. oktober 2012.

**Retningslinjer for bestilleren:** For ytterligere retningslinjer for bestillingen henstilles bestilleren til å lese side 2 av denne bestillingsblanketten.

| **Bestillerens VPS-konto (12 siffer):** | **Jeg/vi bestiller herved aksjer for totalt NOK (min. NOK 10 500 og max. NOK 999 999):** | **Bestillerens bankkonto som skal debiteres (11 siffer):** |
|---|---|---|
| **TILBUDSPRISEN:** Min/vår bestilling er betinget av at den endelige prisen for Tilbudsaksjene ikke fastsettes over det øvre nivået i Prisintervallet (kryss av) **(Dette feltet skal kun fylles ut dersom bestillingen er betinget av at den endelige tilbudsprisen ikke fastsettes over den øvre prisen i Prisintervallet):** | | |
| Herved (i) foretar jeg/vi, i henhold til vilkårene og betingelsene som fremgår av denne Bestillingsblanketten og av Prospektet, en ugjenkallelig bestilling av det antall Tilbudsaksjer tildelt meg/oss til tilbudsprisen, opp til det samlede bestillingsbeløpet angitt ovenfor, (ii) gir jeg/vi hver av Tilretteleggerne (eller noen utpekt av dem) fullmakt og instruerer hver av dem til sammen eller hver for seg, å tegne de Tilbudsaksjer som tildeles meg/oss, og til å gjennomføre enhver handling som er nødvendig for å overføre disse Tilbudsaksjer til en VPS kontofører og sikre levering av rettighetene til disse Tilbudsaksjene i VPS på mine/våre vegne, (iii) gir jeg/vi DNB Market fullmakt til å debitere min/vår bankkonto som angitt ovenfor for den samlede kjøpesummen for de Tilbudsaksjene som jeg/vi får tildelt, og (iv) bekrefter og garanterer jeg/vi å ha lest Prospektet og at jeg/vi er kvalifiserte til å tegne Tilbudsaksjer på de vilkår som der fremgår. | | |
| **Dato og sted *:** | **Bindende signatur**:** | |

* Må være datert i bestillingsperioden **Undertegneren må være myndig. Dersom Bestillingsblanketten undertegnes på vegne av bestilleren, må det vedlegges dokumentasjon i form av firmaattest eller fullmakt for at undertegner har slik kompetanse.

| **INFORMASJON OM BESTILLEREN — ALLE FELT MÅ FYLLES UT** | |
|---|---|
| Fornavn | Etternavn/Foretaksnavn |
| Adresse (for foretak: registrert forretningsadresse) | Postnummer og sted |
| Fødselsnummer (11 siffer) /organisasjonsnr | Nasjonalitet |
| Telefonnr (dagtid) | E-postadresse |

**RETNINGSLINJER FOR BESTILLEREN**

**DENNE BESTILLINGSBLANKETTEN SKAL IKKE DISTRIBUERES ELLER OFFENTLIGGJØRES, VERKEN DIREKTE ELLER INDIREKTE, I ELLER TIL USA, CANADA, AUSTRALIA ELLER JAPAN ELLER NOEN ANNEN JURISDIKSJON DER SLIK DISTRIBUSJONEN ELLER OFFENTLIGGJØRING VIL VÆRE ULOVLIG. ANDRE RESTRIKSJONER GJELDER OGSÅ, SE PUNKTET "SALGSRESTRIKSJONER" NEDENFOR.**

**Regulatoriske forhold:** I overensstemmelse med EU-direktivet "Markets in Financial Instruments" ("MiFID"), oppstiller lov 29. juni 2007 nr 75 om verdipapirhandel ("**Verdipapirhandelloven**") med tilhørende forskrifter, krav relatert til finansielle investeringer. I den forbindelse må Tilretteleggerne kategorisere alle nye kunder i en av tre kategorier; kvalifiserte motparter, profesjonelle og ikke-profesjonelle kunder. Alle bestillere som bestiller Tilbudsaksjer i det Offentlige Tilbudet og som ikke allerede er kunde hos en av Tilretteleggerne, vil bli kategorisert som ikke-profesjonell kunde. Bestilleren kan ved skriftlig henvendelse til Tilretteleggerne anmode om å bli kategorisert som profesjonell kunde dersom Verdipapirhandellovens vilkår for dette er oppfylt. For ytterligere informasjon om kundekategorisering kan bestilleren kontakte Tilretteleggerne. Bestilleren bekrefter herved å inneha tilstrekkelig kunnskap og erfaring om finansielle og forretningsmessige forhold for å kunne evaluere risikoen ved å investere i Selskapet gjennom å bestille Tilbudsaksjer i det Offentlige Tilbudet, og bestilleren bekrefter å være i stand til å bære et fullstendig tap av sin investering i Selskapet.

**Kun ordreutførelse:** Tilretteleggerne vil behandle bestillingen av Tilbudsaksjer som en instruksjon om utførelse av ordre ("execution only") fra bestilleren, ettersom Tilretteleggerne ikke vil være i stand til å avgjøre om bestillingen er hensiktsmessig for bestilleren. Bestilleren vil derfor ikke kunne påberope seg Verdipapirhandellovens regler om investorbeskyttelse.

**Informasjonsbarrierer:** Tilretteleggerne er verdipapirforetak som tilbyr et bredt spekter av investeringstjenester. For å sikre at oppdrag som gjennomføres av Tilretteleggernes "corporate finance"-avdelinger holdes konfidensielle, er disse avdelingene adskilt fra Tilretteleggernes andre avdelinger, herunder avdelinger for analyse og aksjemegling, gjennom bruk av informasjonsbarrierer også kjent om "chinese walls". Bestilleren erkjenner at som en konsekvens av dette kan Tilretteleggernes analyse- og aksjemeglingsavdelinger komme til å opptre i strid med bestillerens interesser i forbindelse med transaksjoner i Aksjene.

**VPS-konto og pålagte hvitvaskingingsprosedyrer:** Det Offentlige Tilbudet er underlagt gjeldende hvitvaskingslovgivning, herunder kravene i lov 6. mars 2009 nr 11 om tiltak mot hvitvasking og terrorfinansiering samt hvitvaskingsforskriften av 13. mars 2009 nr. 302 ("**Hvitvaskingslovgivningen**"). Bestillere som ikke er registrert som kunde hos en av Tilretteleggerne må bekrefte sin identitet til en av Tilretteleggerne, i samsvar med Hvitvaskingslovgivningen, med mindre det gjelder spesielle unntak. Bestillere som har oppgitt en eksisterende norsk bankkonto og en eksisterende VPS-konto på bestillingsblanketten er unntatt med mindre verifikasjon av bestillerens identitet blir krevet av en av Tilretteleggerne. Bestillere som ikke har gjennomført tilstrekkelig verifikasjon av identitet før utløpet av Bestillingsperioden vil ikke bli tildelt Tilbudsaksjer. Deltakelse i Tilbudet er beting av at bestilleren har en VPS konto. VPS kontonummeret må være angitt i bestillingsblanketten. En VPS- konto kan etableres ved en autorisert VPS-kontofører som kan være en norsk bank, autorisert verdipapirforetak i Norge og norske avdelinger av finansinstitusjoner i EØS. Etablering av en VPS-konto krever verifikasjon på identitet overfor kontoføreren i henhold til Hvitvaskingsreglene. Utlandske investorer kan imidlertid benytte en forvalterkonto registrert i VPS i forvalterens navn. Forvalteren må være autorisert av Finanstilsynet.

**Salgsrestriksjoner:** Tilbudet er underlagt salgsrestriksjoner i enkelte jurisdiksjoner. Se Prospektet, kapittel 20 "Selling and transfer restrictions". Verken Selgende Aksjonær eller Selskapet påtar seg noe ansvar dersom noen bryter disse restriksjonene. Tilbudsaksjene har ikke vært, og vil ikke bli, registrert i henhold til United States Securities Act av 1933 med endringer ("**U.S. Securities Act**") eller i henhold til noen verdipapirlovgivning i noen stat eller annen jurisdiksjon i USA og kan ikke tas opp, tilbys, selges, videreselges, overføres, leveres eller distribueres, verken direkte eller indirekte, innenfor, til eller fra USA bortsett fra i henhold til et gjeldende unntak fra, eller i en transaksjon som ikke er underlagt, registreringsbestemmelsene i U.S. Securities Act og i overensstemmelse med verdipapirlovgivningen i enhvert stat eller annen jurisdiksjon i USA. Det vil ikke forekomme noe offentlig tilbud i USA. Tilbudsaksjene vil, og kan ikke, tilbys, selges, videreselges, overføres, leveres eller distribueres, verken direkte eller indirekte, innenfor, til eller fra noen jurisdiksjon der tilbud eller salg av Tilbudsaksjer ikke er tillatt, eller til, eller på vegne av eller til fordel for, enhver person med registrert adresse i, eller som bor eller vanligvis bor i, eller er innbygger i, noen jurisdiksjon der tilbud eller salg ikke er tillatt, bortsatt fra i henhold til et gjeldende unntak. I dette Offentlige Tilbudet tilbys og selges Tilbudsaksjene til enkelte personer utenfor USA i offshore-transaksjoner innenfor betydningen av og i overensstemmelse med Rule 903 i Regulation S i U.S. Securities Act.

Det er ikke gitt tillatelse til noe offentlig tilbud av Selskapets verdipapirer i noe medlemsland av det Europeiske Økonomiske Samarbeidsområdet bortsett fra Norge. Når det gjelder andre medlemsland i det Europeiske Økonomiske Samarbeidsområdet enn Norge som har implementert Prospektdirektivet (kalt "**Aktuelle Medlemsland**"), har det ikke og vil ikke bli gjort noe for å fremsette et offentlig tilbud av Selskapets verdipapirer som krever publisering av et prospekt i noen av de Aktuelle Medlemsland. Alle tilbud utenfor Norge vil derfor skje i henhold til unntak fra krav om prospekt.

**Stabilisering:** I forbindelse med Tilbudet kan UBS Limited (som "**Stabiliserende Tilrettelegger**") (eller personer som opptrer på vegne av Stabiliserende Tilrettelegger) overtildele aksjer eller utføre transaksjoner med tanke på å støtte markedskursen på aksjene til et høyere nivå enn det som ellers kan tenkes å ville gjelde. Dette er imidlertid ingen sikkerhet for at Stabiliserende Tilrettelegger (eller personer som opptrer på vegne av Stabiliserende Tilrettelegger) vil foreta stabiliserende handlinger. Stabilisering kan begynne på eller etter datoen for når tilstrekkelig informasjon om den endelige tilbudsprisen er offentliggjort og, hvis stabilisering begynner, kan den avsluttes når som helst, men senest innen 30 dager fra allokering av aksjene.

**Investeringsbeslutninger må baseres på Prospektet:** Investorer må ikke akseptere noe tilbud om eller erverv av verdipapirer i Selskapet, på annet grunnlag enn det fullstendige Prospektet.

**Vilkår for Betaling med engangsfullmakt — verdipapirhandel:** Betaling med engangsfullmakt er en banktjeneste som bankene i Norge samarbeider om. I forholdet mellom betaler og betalers bank gjelder følgende standard vilkår:

1. Tjenesten Betaling med engangsfullmakt — verdipapirhandel suppleres av kontoavtalen mellom betaler og betalers bank, se særlig kontoavtalen del C, Generelle vilkår for innskudd og betalingsoppdrag.
2. Kostnader ved å bruke Betaling med engangsfullmakt — verdipapirhandel fremgår av bankens gjeldende prisliste, kontoinformasjon og/eller opplyses på annen egnet måte. Banken vil belaste oppgitt konto for påløpte kostnader.
3. Engangsfullmakten signeres av betaler og leveres til betalingsmottaker. Betalingsmottaker vil levere belastningsoppdraget til sin bank som igjen kan belaste betalers bank.
4. Ved et eventuelt tilbakekall av engangsfullmakten skal betaler først ta forholdet opp med betalingsmottaker. Etter finansavtaleloven skal betalers bank medvirke hvis betaler tilbakekaller et betalingsoppdrag som ikke er gjennomført. Slikt tilbakekall kan imidlertid anses som brudd på avtalen mellom betaler og betalingsmottaker.
5. Betaler kan ikke angi et større beløp på engangsfullmakten enn det som på belastningstidspunktet er disponibelt på konto. Betalers bank vil normalt gjennomføre dekningskontroll før belastning. Belastning ut over disponibelt beløp skal betaler dekke inn umiddelbart.
6. Betalers konto vil bli belastet på angitt belastningsdag. Dersom belastningsdag ikke er angitt i engangsfullmakten vil kontobelastning skje snarest mulig etter at betalingsmottaker har levert oppdraget til sin bank. Belastningen vil likevel ikke skje etter engangsfullmaktens gyldighetsperiode som er angitt foran. Betaling vil normalt være godskrevet betalingsmottaker en til tre virkedager etter angitt belastningsdag/innleveringsdag.
7. Dersom betalers konto blir urettmessig belastet på grunnlag av en engangsfullmakt, vil betalers rett til tilbakeføring av belastet beløp bli regulert av kontoavtalen og finansavtaleloven.

**Forsinket og manglende betaling:** Forsinket betaling belastes med gjeldende forsinkelsesrente i henhold til forsinkelsesrenteloven av 17. desember 1976 nr. 100, som per dato for Prospektet er 8,50 % p.a. Dersom en tegner ikke oppfyller betalingsvilkårene, eller dersom betaling ikke skjer ved forfall, vil tegneren fortsette å hefte for betalingen for Tilbudsaksjene tildelt vedkommende og Tilbudsaksjene vil ikke bli levert til tegneren. I så tilfelle forbeholder Selskapet og Tilretteleggerne seg retten til, når som helst og for tegnerens regning og risiko, å reallokere, kansellere eller redusere tegningen og tildelingen av de tildelte Tilbudsaksjene, eller, dersom betaling ikke er mottatt den ved forfall, vil Tilbudsaksjene ikke bli tildelt bestilleren og Tilretteleggerne forbeholder seg rett til å til enhver tid og uten videre underretning, å selge, selv overta eller på annen måte disponere over Tilbudsaksjene i henhold til gjeldende lov. Dersom Tilbudsaksjer selges på vegne av tegneren, vil slikt salg være for tegnerens regning og risiko, og tegneren vil være ansvarlig for ethvert tap, samt kostnader, gebyrer og utgifter, gjennomgått eller pådratt av Selgende Aksjonær og/eller DNB Markets som følge av eller i tilknytning til slikt salg. Selskapet og/eller Tilretteleggerne kan inndrive betaling for alle utestående beløp i henhold til gjeldende lovgivning.

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