

# Q2 2017

QUARTERLY REPORT 2<sup>ND</sup> QUARTER 2017



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# Q2 2017

## 2<sup>ND</sup> QUARTER IN BRIEF

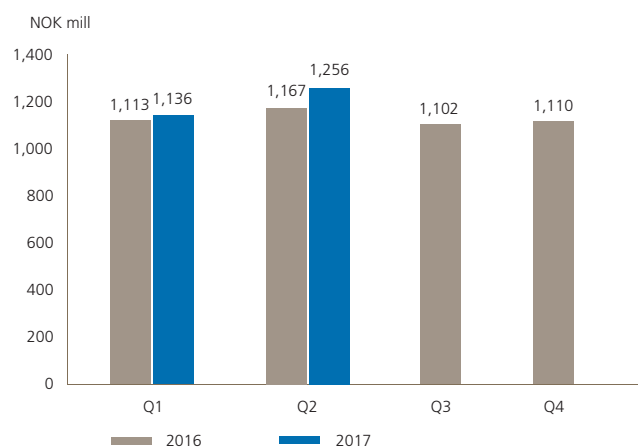
- *All-time high EBITA adj.<sup>1</sup> for the Group*
- *Favourable product mix in Performance Chemicals*
- *Increased prices, high sales volume and improved product mix in Speciality Cellulose*
- *Strong quarter for Fine Chemicals*
- *Increased energy, raw material and chemicals costs*
- *Cash flow from operations<sup>1</sup> affected by increased net working capital*

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

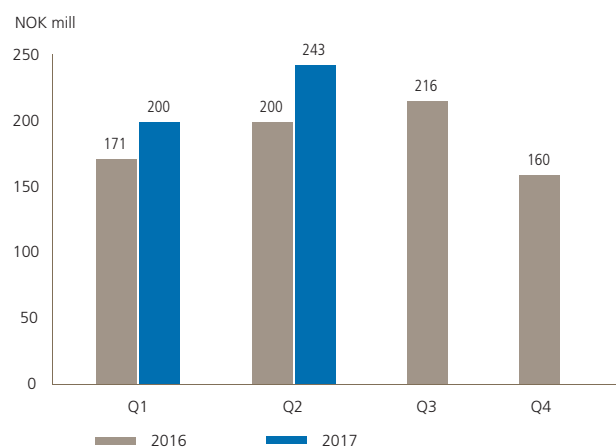
# THE GROUP

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2017	2016	2017	2016	2016
Operating revenues	2	1,256	1,167	2,392	2,280	4,492
EBITDA adj. <sup>1</sup>		318	269	592	505	1,021
EBITA adj. <sup>1</sup>	2	243	200	443	371	747
Profit/loss before taxes		241	207	436	368	724
Earnings per share (NOK)		1.81	1.54	3.29	2.75	5.55
Net interest-bearing debt <sup>1</sup>	10	795	610	795	610	300
Equity ratio <sup>1</sup> (%)		56.3	54.2	56.3	54.2	58.1
Leverage ratio <sup>1</sup>		0.72	0.68	0.72	0.68	0.29
Return on capital employed <sup>1</sup> (%)		22.5	18.8	22.5	18.8	21.7

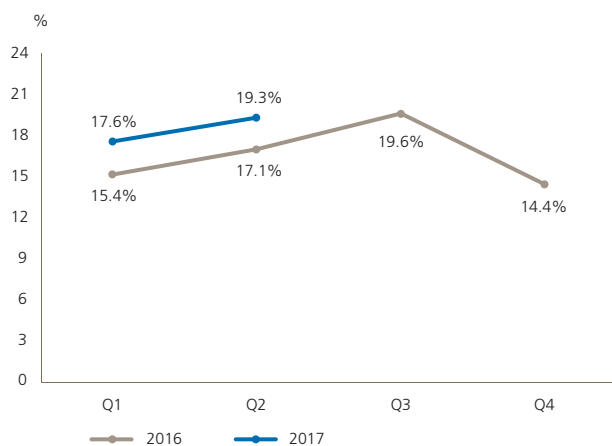
## OPERATING REVENUES



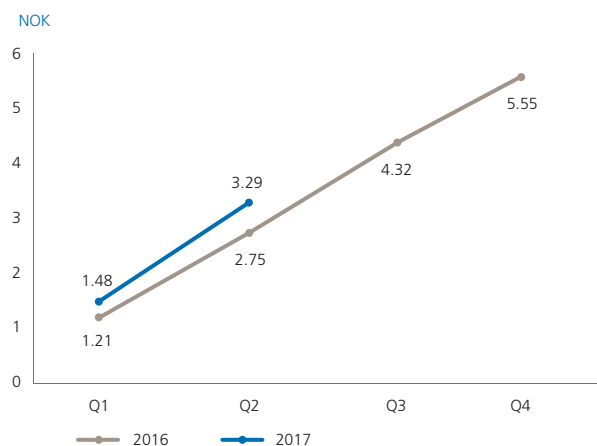
## EBITA ADJ.<sup>1</sup>



## EBITA ADJ. MARGIN<sup>1</sup>



## EARNINGS PER SHARE CUMULATIVE



<sup>1</sup> Non-GAAP measure, see page 21 for definition.

## SECOND QUARTER

Borregaard's operating revenues reached NOK 1,256 million (NOK 1,167 million)<sup>2</sup> in the 2<sup>nd</sup> quarter of 2017. EBITA adj.<sup>1</sup> increased to NOK 243 million (NOK 200 million), an all-time high quarterly result. Compared with the 2<sup>nd</sup> quarter of 2016, all business areas improved their EBITA adj.<sup>1</sup>. Final insurance settlement for business interruption related to the seasoning silos had a positive impact on EBITA adj.<sup>1</sup> in the quarter. Net currency impact, including hedging effects, was slightly positive. Energy, raw material and chemicals costs increased compared with the corresponding quarter of 2016. Depreciation increased mainly as a result of recent expansion investments.

Performance Chemicals achieved an all-time high quarterly EBITA adj.<sup>1</sup> as positive reallocation effects and favourable mix within Specialities offset the effect of cost increases and a 3% reduction in sales volume. The improved result in Speciality Cellulose was due to increased sales prices, high sales volume and improved product mix. The increased EBITA adj.<sup>1</sup> in Other Businesses was primarily due to a strong quarter for Fine Chemicals.

Other income and expenses<sup>1</sup> were NOK 0 million (NOK 13 million). Net financial items were NOK -1 million (NOK -5 million). The change from last year was due to lower interest expense and an improvement in foreign exchange effects. Group profit before tax was NOK 241 million (NOK 207 million). Tax expense was NOK -60 million (NOK -53 million), giving a tax rate of 25% (26%).

Earnings per share were NOK 1.81 (NOK 1.54).

## FIRST HALF

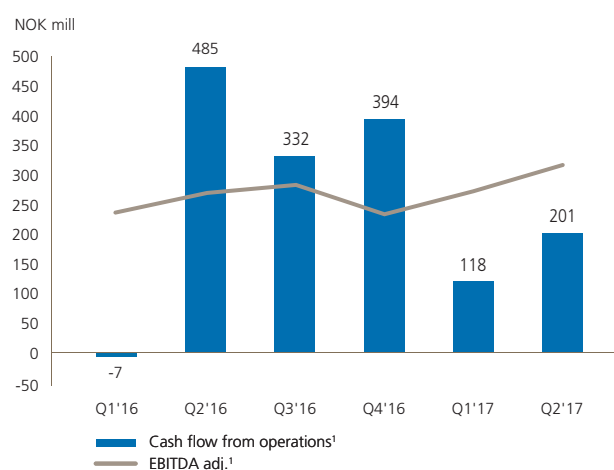
In the 1<sup>st</sup> half of 2017, Borregaard's operating revenues increased to NOK 2,392 million (NOK 2,280 million). EBITA adj.<sup>1</sup> reached NOK 443 million (NOK 371 million). Results improved in Speciality Cellulose and Other Businesses, whereas Performance Chemicals was in line with last year. Net currency impact was negligible. Energy, raw material and chemicals costs increased compared with the corresponding period of 2016. Depreciation increased mainly as a result of recent expansion investments.

Other income and expenses<sup>1</sup> were NOK 0 million (NOK 13 million). Net financial items amounted to NOK -5 million (NOK -14 million). Profit before tax increased to NOK 436 million (NOK 368 million). Tax expense was NOK -108 million (NOK -94 million), giving a tax rate of 25% (26%).

Earnings per share were NOK 3.29 (NOK 2.75).

Cash flow from operations<sup>1</sup> was NOK 319 million (NOK 478 million). The reduced cash flow was mainly due to increased net working capital.

## CASH FLOW FROM OPERATIONS<sup>1</sup>



<sup>1</sup> Non-GAAP measure, see page 21 for definition.

<sup>2</sup> Figures in parentheses are for the corresponding period in the previous year.

# THE BUSINESS AREAS

## PERFORMANCE CHEMICALS

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2017	2016	2017	2016	2016
Operating revenues	582	584	1,132	1,134	2,161
EBITA adj. <sup>1</sup>	141	140	273	278	517
EBITA adj. margin <sup>1</sup> (%)	24.2	24.0	24.1	24.5	23.9

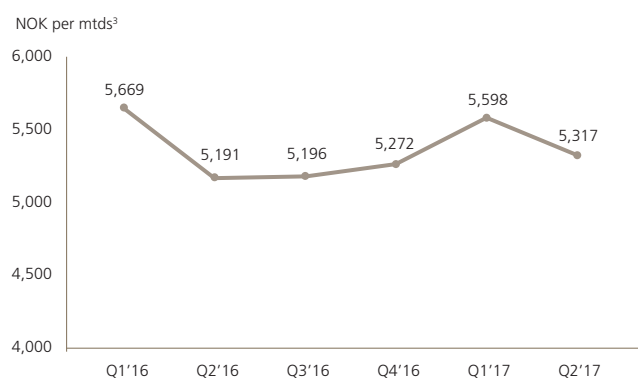
### SECOND QUARTER

Performance Chemicals had 2<sup>nd</sup> quarter operating revenues of NOK 582 million (NOK 584 million). EBITA adj.<sup>1</sup> was NOK 141 million (NOK 140 million), an all-time high result for a single quarter. Total sales volume decreased by 3%. There was a decline in sales to the construction sector, where market conditions continue to be challenging in certain regions. Inventories were stable due to reallocation efforts supported by flexibility in raw material supply from external sources. Sales volume of specialities were in line with the 2<sup>nd</sup> quarter of 2016, but with a favourable product mix. Raw material and energy costs were stable, while other operating expenses increased compared with the 2<sup>nd</sup> quarter of 2016 due to resumed activity in Spain and increased manning in USA related to the Florida project. Currency impact was negligible in the 2<sup>nd</sup> quarter.

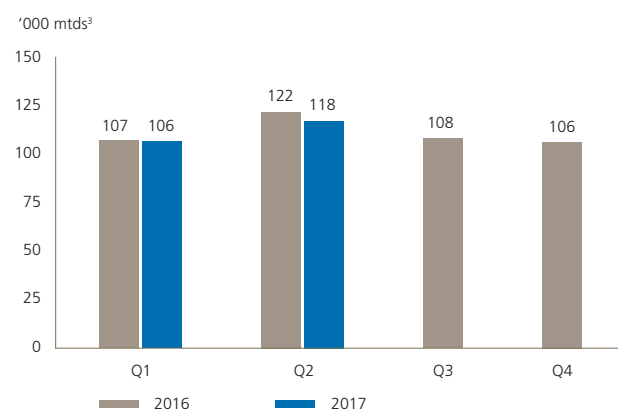
### FIRST HALF

In the 1<sup>st</sup> half of 2017, Performance Chemicals had operating revenues of NOK 1,132 million (NOK 1,134 million). EBITA adj.<sup>1</sup> was NOK 273 million (NOK 278 million). Total sales volume decreased by 2% due to challenging market conditions for Construction in certain regions. Lower prices in these areas and a slightly negative currency impact were largely compensated by volume reallocation and improved product mix. In total, costs were slightly higher than in the corresponding period of 2016.

### GROSS AVERAGE SALES PRICE



### SALES VOLUME



<sup>1</sup> Non-GAAP measure, see page 21 for definition.

<sup>3</sup> Metric tonne dry solid.

## SPECIALITY CELLULOSE

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2017	2016	2017	2016	2016
Operating revenues	468	385	880	768	1,590
EBITA adj. <sup>1</sup>	103	68	192	121	250
EBITA adj. margin <sup>1</sup> (%)	22.0	17.7	21.8	15.8	15.7

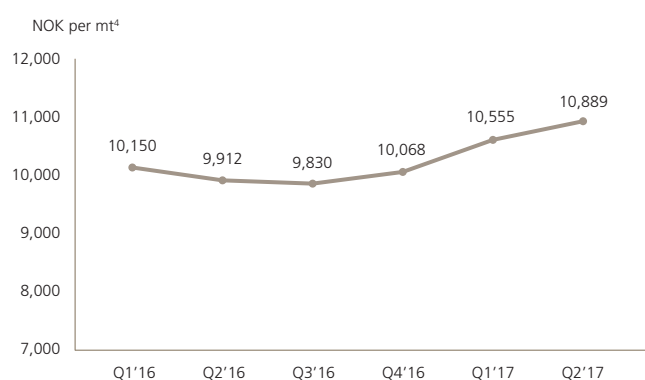
### SECOND QUARTER

Speciality Cellulose 2<sup>nd</sup> quarter operating revenues increased to NOK 468 million (NOK 385 million). EBITA adj.<sup>1</sup> reached NOK 103 million (NOK 68 million). The result improvement was primarily due to increased invoiced sales prices, high sales volume and improved product mix. Energy, raw material and chemicals costs increased compared with the corresponding quarter of 2016. Currency impact was slightly positive. In the 2<sup>nd</sup> quarter, there were high deliveries of acetate cellulose and continued strong demand for ether grades. Market prices for textile cellulose declined during the quarter, but this did not affect Borregaard's 2<sup>nd</sup> quarter sales prices to this segment. Contribution from bioethanol increased slightly.

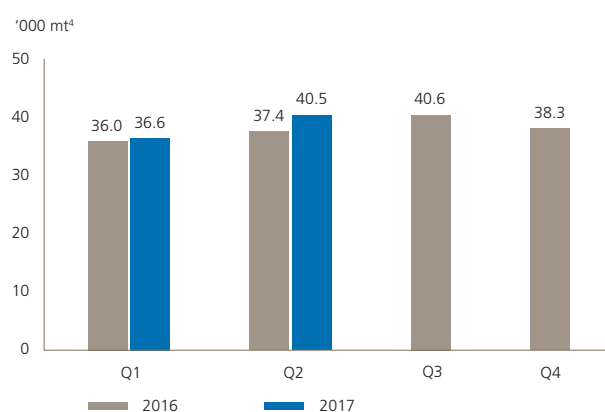
### FIRST HALF

Operating revenues in the 1<sup>st</sup> half of 2017 were NOK 880 million (NOK 768 million). EBITA adj.<sup>1</sup> increased to NOK 192 million (NOK 121 million). Higher sales prices, increased sales volume and improved product mix were the main contributors to the improved result, while energy, raw material and chemicals costs increased. Currency effects were slightly positive.

### GROSS AVERAGE SALES PRICE



### SALES VOLUME



<sup>1</sup> Non-GAAP measure, see page 21 for definition.

<sup>4</sup> Metric tonne.

## OTHER BUSINESSES

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2017	2016	2017	2016	2016
Operating revenues	213	206	396	396	776
EBITA adj. <sup>1</sup>	-1	-8	-22	-28	-20
EBITA adj. margin <sup>1</sup> (%)	-0.5	-3.9	-5.6	-7.1	-2.6

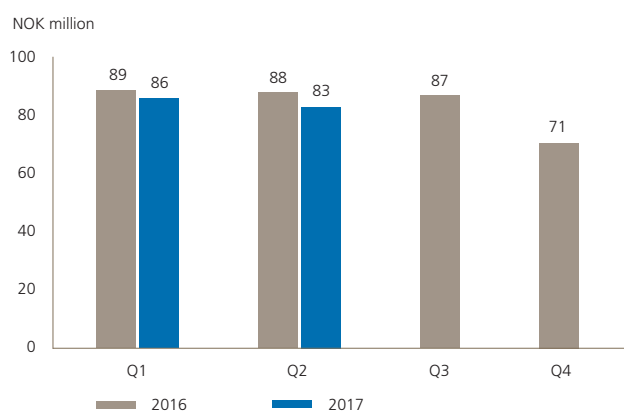
### SECOND QUARTER

Other Businesses had total operating revenues of NOK 213 million (NOK 206 million) and an EBITA adj.<sup>1</sup> of NOK -1 million (NOK -8 million) in the 2<sup>nd</sup> quarter of 2017. The improvement was primarily due to high deliveries of key products in Fine Chemicals. The result in Ingredients declined slightly due to lower sales volume and increased costs. For Cellulose Fibrils, the result and net costs (including EU grant) were in line with the corresponding quarter of 2016. Currency impact was slightly positive.

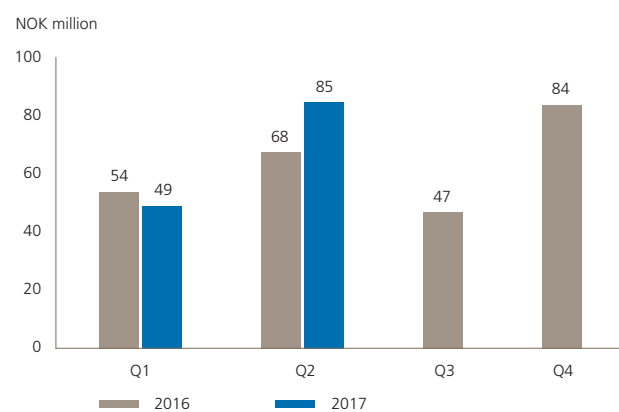
### FIRST HALF

Operating revenues in Other Businesses were NOK 396 million (NOK 396 million) in the 1<sup>st</sup> half of 2017. EBITA adj.<sup>1</sup> was NOK -22 million (NOK -28 million). Higher sales volume in Fine Chemicals and slightly lower net costs (full effect of EU grant) in 2017 in Cellulose Fibrils more than offset the impact of a lower result in Ingredients. Currency effects were slightly positive in both Ingredients and Fine Chemicals.

### INGREDIENTS – SALES REVENUES



### FINE CHEMICALS – SALES REVENUES



<sup>1</sup> Non-GAAP measure, see page 21 for definition.



## FOREIGN EXCHANGE AND HEDGING

Borregaard has a significant currency exposure which is hedged according to the company's hedging strategy. Compared with the 2<sup>nd</sup> quarter of 2016, the net positive impact of foreign exchange on EBITA adj.<sup>1</sup>, including hedging effects, was approximately NOK 5 million. Hedging effects were NOK -35 million (NOK -24 million) in the 2<sup>nd</sup> quarter.

Compared with the 1<sup>st</sup> half of 2016, the net positive

impact of foreign exchange on EBITA adj.<sup>1</sup>, including hedging effects, was approximately NOK 0 million. Hedging effects were NOK -57 million (NOK -67 million) in the 1<sup>st</sup> half. Assuming FX rates as of 17 July 2017 (USD 8.16 and EUR 9.36) and based on currency exposure forecasts, Borregaard expects the net positive impact of foreign exchange on EBITA adj.<sup>1</sup> to be approximately NOK 0 million in the 3<sup>rd</sup> quarter of 2017 and NOK 15 million for the full year of 2017.

## CASH FLOW AND FINANCIAL SITUATION

Cash flow from operating activities in the 2<sup>nd</sup> quarter of 2017 was NOK 158 million (NOK 433 million). The decrease was mainly due to an increase in net working capital from a low level at the end of the 1<sup>st</sup> quarter of 2017. The increase was mainly related to strong sales and increased accounts receivable towards the end of the 2<sup>nd</sup> quarter. In the 2<sup>nd</sup> quarter of 2016, cash flow from operations<sup>1</sup> was positively impacted by an up-front payment of an EU grant to the Exilva project.

In the 1<sup>st</sup> half of 2017, cash flow from operating activities was NOK 240 million (NOK 364 million). The decline was mainly due to an increase in net working capital partly offset by improved results. Investments in the 1<sup>st</sup> half of 2017 amounted to NOK 374 million (NOK 213 million). Replacement

investments were in line with the 1<sup>st</sup> half of 2016, while expansion investments<sup>1</sup> increased mainly due to the Florida project. Dividend of NOK 349 million (NOK 149 million) was paid out in the 2<sup>nd</sup> quarter. Realised effect of hedging of net investments in subsidiaries was NOK 13 million in the 1<sup>st</sup> half of 2017 (NOK 29 million). The Group has sold and repurchased treasury shares in the 1<sup>st</sup> half of 2017 with a net payment of NOK 18 million (NOK 6 million).

On 30 June 2017, the Group had net interest-bearing debt<sup>1</sup> totalling NOK 795 million (NOK 610 million), an increase of NOK 411 million from the 1<sup>st</sup> quarter and NOK 495 million from year-end 2016. The Group was well capitalised with an equity ratio<sup>1</sup> of 56.3% and a leverage ratio<sup>1</sup> of 0.72.

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

## SHARE INFORMATION

Total number of shares outstanding on 30 June 2017 was 100 million, including 484,065 treasury shares. Total number of shareholders was 8,708. Borregaard ASA's share price was NOK 103.00 at the end of the

2<sup>nd</sup> quarter, compared with NOK 96.25 at the end of the 1<sup>st</sup> quarter of 2017 and NOK 84.50 at the end of 2016. The share was traded ex dividend on 21 April 2017. Dividend was paid out on 3 May 2017.

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## OTHER MATTERS AND SUBSEQUENT EVENTS

### LOAN AGREEMENT FOR LIGNOTECH FLORIDA

LignoTech Florida has entered into a USD 60 million loan agreement with Skandinaviska Enskilda Banken (SEB). The loan facility is guaranteed 70% by the Norwegian Export Credit Guarantee Agency (GIEK) and has a tenor of eight and a half years from project completion. The owners, Borregaard (55%) and Rayonier Advanced Materials (45%), will guarantee the loan facility on a pro rata basis until 12 months after project completion. See stock exchange notice of 12 June 2017.

### INSURANCE SETTLEMENT FOR SEASONING SILOS COMPLETED

The insurance payment related to property damage and business interruption after the silo fire incident in October 2015 has now been settled. The property damage compensation has been recognised as other income and expenses<sup>1</sup>. No such income has been recognised in the 2<sup>nd</sup> quarter of 2017.

Business interruption losses have been covered by insurance and recognised on an on-going basis. No further business interruption compensation will be recognised as the insurance claim has been finally settled.

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

## OUTLOOK

Sales of lignin products to the construction sector will be affected by strong competition with increasing price pressure in certain regions in the 2<sup>nd</sup> half of 2017. Reallocation efforts will continue. Total sales volume in 2017 is forecast to be in the 450-470,000 mtds range. Sales volume in the 3<sup>rd</sup> quarter is expected to be higher than in the 3<sup>rd</sup> quarter of 2016. Flexibility in raw material supply from external sources will contribute to market optimisation and stable inventory levels.

Average cellulose price in 2017 in sales currency is expected to be 3-5% above the level in 2016. Product mix in 2017 is forecast to improve from 2016. In the 3<sup>rd</sup> quarter, textile cellulose prices will be lower than

in the 2<sup>nd</sup> quarter of 2017. Total sales volume and sales of highly specialised grades are expected to be lower than in the preceding quarter.

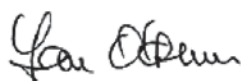
Market conditions for Ingredients are still affected by general overcapacity, but a slightly positive development is seen following recent price increases from Chinese producers. In the 3<sup>rd</sup> quarter, deliveries of key products within Fine Chemicals are forecast to be lower than in the preceding quarter, but higher than in the 3<sup>rd</sup> quarter of 2016. For Cellulose Fibrils, no major changes in net costs are expected in the 2<sup>nd</sup> half of 2017 compared with the 1<sup>st</sup> half of 2017.

## STATEMENT BY THE BOARD OF DIRECTORS

We confirm that, to the best of our knowledge, the unaudited interim condensed financial statements for the period 1 January to 30 June 2017, have been prepared in accordance with IAS 34 Interim Financial Reporting, and that the information in the financial statements gives a true and fair view of the business of the Group and the Group's assets, liabilities, financial position and overall results, and that

the half year report provides a fair overview of the information set out in the Norwegian Securities Trading Act section 5-6, fourth paragraph.

Sarpsborg, 17 July 2017  
The Board of Directors of Borregaard ASA



JAN ANDERS OKSUM

*Chair*



TERJE ANDERSEN



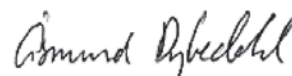
JON ERIK REINHARDSEN



KRISTINE RYSSDAL



MARTHA KOLD BAKKEVIG



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLIE

*President and CEO*

# THE GROUP'S CONDENSED INCOME STATEMENT

## INTERIM CONDENSED INCOME STATEMENT

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2017	2016	2017	2016	2016
<b>OPERATING REVENUES</b>	2	1,256	1,167	2,392	2,280	4,492
Operating expenses		-938	-898	-1,800	-1,775	-3,471
Depreciation property, plant and equipment		-75	-69	-149	-134	-274
Amortisation intangible assets		-1	-1	-2	-2	-4
Other income and expenses <sup>1</sup>	3	-	13	-	13	13
<b>OPERATING PROFIT</b>		242	212	441	382	756
Financial items, net		-1	-5	-5	-14	-32
<b>PROFIT BEFORE TAXES</b>		241	207	436	368	724
Income tax expense	4	-60	-53	-108	-94	-171
<b>PROFIT FOR THE PERIOD</b>		181	154	328	274	553
Profit attributable to non-controlling interests		-	-	-1	-1	-2
Profit attributable to owners of the parent		181	154	329	275	555
EBITDA adj. <sup>1</sup>		318	269	592	505	1 021
<b>EBITA ADJ.<sup>1</sup></b>	2	243	200	443	371	747

## EARNINGS PER SHARE

### INTERIM EARNINGS PER SHARE

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2017	2016	2017	2016	2016
Earnings per share (100 mill. shares)	5	1.81	1.54	3.29	2.75	5.55
Diluted earnings per share	5	1.81	1.54	3.29	2.75	5.55

# THE GROUP'S CONDENSED COMPREHENSIVE INCOME STATEMENT

## INTERIM CONDENSED COMPREHENSIVE INCOME STATEMENT

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2017	2016	2017	2016	2016
<b>PROFIT FOR THE PERIOD</b>		181	154	328	274	553
<b>ITEMS NOT TO BE RECLASSIFIED TO P&amp;L</b>						
Actuarial gains and losses (after tax)		-	-	-	-	7
<b>TOTAL</b>		-	-	-	-	7
<b>ITEMS TO BE RECLASSIFIED TO P&amp;L</b>						
Change in hedging-reserve after tax (cash flow)	7	26	-1	40	211	227
Change in hedging-reserve after tax (net investment in subsidiaries)	7	4	-4	4	21	14
Translation effects		-8	11	-2	-28	-3
<b>TOTAL</b>		22	6	42	204	238
<b>THE GROUP'S COMPREHENSIVE INCOME</b>		203	160	370	478	798
Comprehensive income non-controlling interests		-	-2	-	-2	-2
Comprehensive income owners of the parent		203	162	370	480	800

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

# THE GROUP'S CONDENSED BALANCE SHEET

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	30.6.2017	31.12.2016
Intangible assets	12	118	125
Property, plant and equipment	12	2,692	2,471
Other assets	8	97	115
Investments in joint venture		127	121
<b>NON-CURRENT ASSETS</b>		<b>3,034</b>	<b>2,832</b>
Inventories		661	626
Receivables	8	1,066	948
Cash and cash deposits	10	75	265
<b>CURRENT ASSETS</b>		<b>1,802</b>	<b>1,839</b>
<b>TOTAL ASSETS</b>		<b>4,836</b>	<b>4,671</b>
Group equity	9	2,642	2,679
Non-controlling interests		81	34
<b>EQUITY</b>		<b>2,723</b>	<b>2,713</b>
Provisions and other liabilities		288	299
Interest-bearing liabilities	8, 10	765	525
<b>NON-CURRENT LIABILITIES</b>		<b>1,053</b>	<b>824</b>
Interest-bearing liabilities	8, 10	106	61
Other current liabilities	8	954	1,073
<b>CURRENT LIABILITIES</b>		<b>1,060</b>	<b>1,134</b>
<b>EQUITY AND LIABILITIES</b>		<b>4,836</b>	<b>4,671</b>
Equity ratio <sup>1</sup>		56.3%	58.1%

## CHANGES IN EQUITY

### INTERIM CONDENSED CHANGE IN EQUITY

Amounts in NOK million	Note	1.1 - 30.6.17			1.1 - 31.12.16		
		Controlling interests	Non-controlling interests	Total equity	Controlling interests	Non-controlling interests	Total equity
Equity 1 January		2,679	34	2,713	2,056	5	2,061
<b>PROFIT/LOSS FOR THE PERIOD</b>		<b>329</b>	<b>-1</b>	<b>328</b>	<b>555</b>	<b>-2</b>	<b>553</b>
Items in Comprehensive Income	6	41	1	42	245	-	245
<b>THE GROUP'S COMPREHENSIVE INCOME</b>	<b>6</b>	<b>370</b>	<b>-</b>	<b>370</b>	<b>800</b>	<b>-2</b>	<b>798</b>
Paid dividend		-349	-	-349	-149	-	-149
Buy-back of treasury shares		-29	-	-29	-10	-	-10
Exercise of share options		-	-	-	9	-	9
Shares to employees		15	-	15	-	-	-
Option costs/share based payments		3	-	3	4	-	4
Transactions with non-controlling interests		-47	47	-	-31	31	-
<b>EQUITY AT THE END OF THE PERIOD</b>		<b>2,642</b>	<b>81</b>	<b>2,723</b>	<b>2,679</b>	<b>34</b>	<b>2,713</b>

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

# THE GROUP'S CONDENSED CASH FLOW STATEMENT

## INTERIM CONDENSED CASH FLOW STATEMENT

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2017	2016	2017	2016	2016
Profit before taxes		241	207	436	368	724
Amortisation, depreciation and impairment charges		76	69	151	135	278
Changes in net working capital, etc.		-117	204	-273	-39	170
Dividend (share of profit) from JV		-1	-16	-3	-38	-1
Taxes paid		-41	-31	-71	-62	-90
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>158</b>	<b>433</b>	<b>240</b>	<b>364</b>	<b>1,081</b>
Investments property, plant and equipment and intangible assets*		-215	-142	-374	-213	-622
Other capital transactions		5	1	7	2	5
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-210</b>	<b>-141</b>	<b>-367</b>	<b>-211</b>	<b>-617</b>
Dividends		-349	-149	-349	-149	-149
Proceeds from exercise of options/shares to employees	9	-	2	11	3	7
Buy-back of shares	6	-	-9	-29	-9	-10
Gain/(loss) on hedges for net investments in subsidiaries		-11	18	-2	29	13
<b>NET PAID TO/FROM SHAREHOLDERS</b>		<b>-360</b>	<b>-138</b>	<b>-369</b>	<b>-126</b>	<b>-139</b>
Proceeds from interest-bearing liabilities	10	258	100	263	100	106
Repayment from interest-bearing liabilities	10	-2	-102	-29	-104	-309
Change in interest-bearing receivables/other liabilities	10	15	-6	38	-15	-23
<b>CHANGE IN NET INTEREST-BEARING LIABILITIES</b>		<b>271</b>	<b>-8</b>	<b>272</b>	<b>-19</b>	<b>-226</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>-89</b>	<b>-146</b>	<b>-97</b>	<b>-145</b>	<b>-365</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-141</b>	<b>146</b>	<b>-224</b>	<b>8</b>	<b>99</b>
Cash and cash equivalents at beginning of period		182	18	265	169	169
Change in cash and cash equivalents		-141	146	-224	8	99
Currency effects cash and cash equivalents		2	-1	2	-14	-3
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>10</b>	<b>43</b>	<b>163</b>	<b>43</b>	<b>163</b>	<b>265</b>

\* Investment by category

Replacement investments		46	95	124	129	358
Expansion investments <sup>1</sup>		169	47	250	84	264

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

# NOTES

## NOTE 01 Organisation and basis for preparation

### GENERAL INFORMATION

Borregaard ASA is incorporated and domiciled in Norway. The address of its registered office is Hjalmar Wessels vei 6, Sarpsborg.

Borregaard ASA was listed on the Oslo Stock Exchange on 18 October 2012 and was incorporated as a public limited liability company on 22 August 2012.

### Basis for preparation

These unaudited Interim Condensed Consolidated Financial Statements are prepared in accordance with

IAS 34 Interim Financial Reporting. Borregaard ASA is the parent company of the Borregaard Group presented in these Interim Condensed Consolidated Financial Statements.

The same accounting principles and methods of calculation have been applied as in the Consolidated Financial Statements for 2016 for the Borregaard Group.

### Use of estimates

The same use of estimates has been applied as in the Consolidated Financial Statements for 2016.

## NOTE 02 Segments

### OPERATING REVENUES

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2017	2016	2017	2016	2016
<b>BORREGAARD</b>	<b>1,256</b>	<b>1,167</b>	<b>2,392</b>	<b>2,280</b>	<b>4,492</b>
Performance Chemicals	582	584	1,132	1 134	2,161
Speciality Cellulose	468	385	880	768	1,590
Other Businesses	213	206	396	396	776
Eliminations	-7	-8	-16	-18	-35

### EBITA ADJ.<sup>1</sup>

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2017	2016	2017	2016	2016
<b>BORREGAARD</b>	<b>243</b>	<b>200</b>	<b>443</b>	<b>371</b>	<b>747</b>
Performance Chemicals	141	140	273	278	517
Speciality Cellulose	103	68	192	121	250
Other Businesses	-1	-8	-22	-28	-20
<b>RECONCILIATION AGAINST OPERATING PROFIT &amp; PROFIT BEFORE TAX</b>					
<b>EBITA ADJ.<sup>1</sup></b>	<b>243</b>	<b>200</b>	<b>443</b>	<b>371</b>	<b>747</b>
Amortisation intangible assets	-1	-1	-2	-2	-4
Other income and expenses <sup>1</sup>	-	13	-	13	13
<b>OPERATING PROFIT</b>	<b>242</b>	<b>212</b>	<b>441</b>	<b>382</b>	<b>756</b>
Financial items, net	-1	-5	-5	-14	-32
<b>PROFIT BEFORE TAXES</b>	<b>241</b>	<b>207</b>	<b>436</b>	<b>368</b>	<b>724</b>

There are limited intercompany sales between the different segments and eliminations consist essentially

of allocations from the corporate headquarter.

<sup>1</sup> Non-GAAP measure, see page 21 for definition.



### NOTE 03 Other income and expenses<sup>1</sup>

There are no Other income and expenses<sup>1</sup> in the 2<sup>nd</sup> quarter of 2017.

### NOTE 04 Income tax expense

The tax rate of 24.8% (25.5%) for the first six months of 2017 is a compilation of the tax rates in the various countries in which Borregaard operates and has taxable income. The tax rate in Norway is reduced from 25% to 24% from 1 January 2017. Borregaard's normal tax rate is expected to be in the range 23-26%.

As the profit after tax from the joint venture is accounted for as part of operating profit (due to IFRS 11), this does not impact the Group's tax expense and thus reduces the Group's tax rate.

### NOTE 05 Earnings per share (EPS)

The share capital consists of 100 million shares. The company holds 484,065 treasury shares. As of 30 June 2017, there are 100,078,313 diluted shares

(100,076,679 as of 31 December 2016). Earnings per diluted share were NOK 1.81 in the 2<sup>nd</sup> quarter of 2017 (NOK 1.54 in the 2<sup>nd</sup> quarter of 2016).

### NOTE 06 Stock options

The Group Executive Management and other key employees hold a total of 1,344,000 stock options in three different share option programmes in Borregaard.

The first option programme, comprising 480,000 stock options granted in October 2014, has a strike price of NOK 43.00 adjusted for dividends in 2015, 2016 and 2017, NOK 6.25. The second option programme, comprising 500,000 stock options granted in October

2015, has a strike price of NOK 46.49 adjusted for dividends in 2016 and 2017, NOK 5.00. The third option programme, comprising 364,000 stock options granted in February 2017, has a strike price of NOK 100.61 adjusted for dividend of NOK 3.50 in 2017. The share options in the three different programmes will expire after five years, the vesting period is three years and the options can be exercised during the last two years.

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

## NOTE 07 Statement of comprehensive income

The statement of comprehensive income shows changes in the value of hedging instruments, both cash flow hedges and hedges of net investments in subsidiaries (hedging reserve). These figures are presented after tax. The tax effect for the first six months of 2017 relating to the hedging reserves amounts to NOK -22 million for

cash flow hedges (NOK -44 million) and NOK -38 million for hedges of net investments in subsidiaries (NOK -34 million). Total hedging reserve included in equity as of 30 June 2017 (after tax) amounts to NOK -77 million and NOK -94 million respectively (NOK -133 million and NOK -92 million).

## NOTE 08 Fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

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

- Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities
- Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

- Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

There were no transfers from one level to another in the measurement hierarchy from 2016 to the 2<sup>nd</sup> quarter of 2017. Borregaard has no items defined as level 1. The bond is determined as measurement level 3. The fair value of the bond is deemed to equal its book value.

Set out below is a comparison of the carrying amount and the fair value of financial instruments as of 30 June 2017:

### FINANCIAL ASSETS

Amounts in NOK million	LEVEL	30.6.2017		31.12.2016	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Non-current financial receivables	2	41	41	65	65
Non-current derivatives	2	35	35	29	29
Current derivatives	2	34	34	9	9
<b>TOTAL FINANCIAL ASSETS</b>		<b>110</b>	<b>110</b>	<b>103</b>	<b>103</b>

### FINANCIAL LIABILITIES

Non-current financial liabilities	2, 3	775	775	535	535
Non-current derivatives	2	57	57	72	72
Current financial liabilities	2	73	73	61	61
Current derivatives	2	101	101	118	118
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>1,006</b>	<b>1,006</b>	<b>786</b>	<b>786</b>

### FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million		LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL INSTRUMENTS	30.6.2017	-896	-696	-200
FINANCIAL INSTRUMENTS	31.12.2016	-683	-483	-200

The financial instruments are measured based on observable spot exchange rates, the yield curves of

the respective currencies as well as the currency basis spreads between the respective currencies.

## NOTE 09 Compilation of Equity

Amounts in NOK million	30.6.2017	31.12.2016
Share capital	100	100
Treasury shares	-	-
Share premium	1,346	1,346
Other paid-in capital	415	397
Translation effects	83	86
Hedging reserve (after tax)	-171	-215
Actuarial gains/losses	-16	-16
Retained earnings	885	981
<b>GROUP EQUITY (CONTROLLING INTERESTS)</b>	<b>2,642</b>	<b>2,679</b>

As of 30 June 2017, the company held 484,065 treasury shares at an average cost of NOK 82.17.

## NOTE 10 Net interest-bearing debt<sup>1</sup>

The various elements of net interest-bearing debt<sup>1</sup> are shown in the following table:

Amounts in NOK million	30.6.2017	31.12.2016
Non-current interest-bearing liabilities	765	525
Current interest-bearing liabilities including overdraft of cashpool	106	61
Non-current interest-bearing receivables (included in "Other Assets")	-1	-21
Cash and cash deposits	-75	-265
<b>NET INTEREST-BEARING DEBT<sup>1</sup></b>	<b>795</b>	<b>300</b>

## NOTE 11 Related parties

The members of the Group Executive Management of Borregaard held a total of 765,000 stock options in the Company as of 30 June 2017.

## NOTE 12 Assessments relating to impairment

No impairment indicators have been identified in the Borregaard Group's property, plant and equipment or intangible assets in the 2<sup>nd</sup> quarter of 2017.

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

## NOTE 13 Other matters and subsequent events

### LOAN AGREEMENT FOR LIGNOTECH FLORIDA

LignoTech Florida has entered into a USD 60 million loan agreement with Skandinaviska Enskilda Banken (SEB). The loan facility is guaranteed 70% by the Norwegian Export Credit Guarantee Agency (GIEK) and has a tenor of eight and a half years from project completion. The owners, Borregaard (55%) and Rayonier Advanced Materials (45%), will guarantee the loan facility on a pro rata basis until 12 months after project completion. See stock exchange notice of 12 June 2017.

### INSURANCE SETTLEMENT FOR SEASONING SILOS COMPLETED

The insurance payment related to property damage and business interruption after the silo fire incident in October 2015 has now been settled. The property damage compensation has been recognised as other income and expenses<sup>1</sup>. No such income has been recognised in the 2<sup>nd</sup> quarter of 2017.

Business interruption losses have been covered by insurance and recognised on an on-going basis. No further business interruption compensation will be recognised as the insurance claim has been finally settled.

### OTHER MATTERS

There have been no events after the balance sheet date that would have had a material impact on the financial statements or the assessments carried out.

<sup>1</sup> Non-GAAP measure, see page 21 for definition.

## NON-GAAP MEASURES

In the discussion of the reported operating results, financial position and cash flows, Borregaard refers to certain measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. Borregaard management makes regular use of these non-GAAP measures and is of the opinion that this information, along with comparable GAAP measures, is useful to investors who wish to evaluate the company's operating performance, ability to repay debt and capability to pursue new business opportunities. Such non-GAAP measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

### CASH FLOW FROM OPERATIONS

Cash flow from operations is defined by Borregaard as:

	Cash flow from operating activities (IFRS)
+	Tax paid
+/-	Net financial items
+/-	Dividend (share of profit) from JV
=	Cash flow from operations

### EBITA ADJUSTED (EBITA ADJ.)

EBITA adj. is defined by Borregaard as operating profit before amortisation and other income and expenses.

### EBITA ADJ. MARGIN

EBITA adj. margin is defined by Borregaard as EBITA adj. divided by operating revenues.

### EBITDA ADJUSTED (EBITDA ADJ.)

EBITDA adj. is defined by Borregaard as operating profit before depreciation, amortisation and other income and expenses.

### EQUITY RATIO

Equity ratio is defined by Borregaard as equity (including non-controlling interests) divided by equity and liabilities.

### EXPANSION INVESTMENTS

Expansion investments is defined by Borregaard as investments made in order to expand production capacity, produce new products or to improve the performance of existing products. Such investments include business acquisitions, pilot plants, capitalised research and development costs and new distribution set-ups.

### OTHER INCOME AND EXPENSES

Other income and expenses is defined by Borregaard as non-recurring items or items related to other periods or to a discontinued business or activity. These items are not viewed as reliable indicators of future earnings based on the business areas' normal operations. These items will be included in the Group's operating profit.

### LEVERAGE RATIO

Leverage ratio is defined by Borregaard as net interest-bearing debt (see note 10) divided by last twelve months' (LTM) EBITDA adj.

### NET INTEREST-BEARING DEBT

Net interest-bearing debt is defined by Borregaard as interest-bearing liabilities minus interest-bearing assets (see Note 10).

### CAPITAL EMPLOYED

Capital employed is defined by Borregaard as the total of net working capital, intangible assets, property, plant and equipment and investment in joint venture minus net pension liabilities and deferred tax excess value.

### RETURN ON CAPITAL EMPLOYED (ROCE)

Return on capital employed (ROCE) is defined by Borregaard as last twelve months' (LTM) EBITA adj. divided by average capital employed based on the ending balance of the last five quarters.

	1.1 - 30.6		1.1 - 31.12
Capital employed end of	2017	2016	2016
Q2, 2015		3,235	
Q3, 2015		3,283	
Q4, 2015		3,279	3,279
Q1, 2016		3,524	3,524
Q2, 2016	3,481	3,481	3,481
Q3, 2016	3,413		3,413
Q4, 2016	3,508		3,508
Q1, 2017	3,754		
Q2, 2017	4,003		
<b>AVERAGE</b>	<b>3,632</b>	<b>3,360</b>	<b>3,441</b>
<b>EBITA ADJ. (LTM)</b>	<b>819</b>	<b>632</b>	<b>747</b>
<b>ROCE (%)</b>	<b>22.5</b>	<b>18.8</b>	<b>21.7</b>







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