

# Q3 2016

QUARTERLY REPORT 3<sup>RD</sup> QUARTER 2016



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# Q3 2016



## 3<sup>RD</sup> QUARTER IN BRIEF

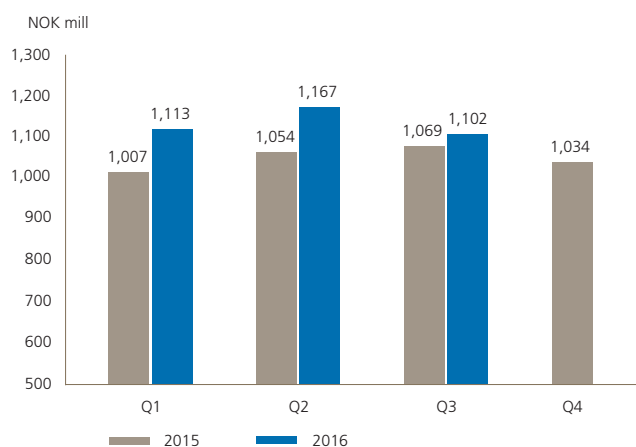
- *All-time high EBITA adj.<sup>1</sup> for the Group*
- *Improved results in all business areas*
- *Positive currency effects*
- *Strong cash flow*

<sup>1</sup> Non-GAAP measure, see page 20 for definition.

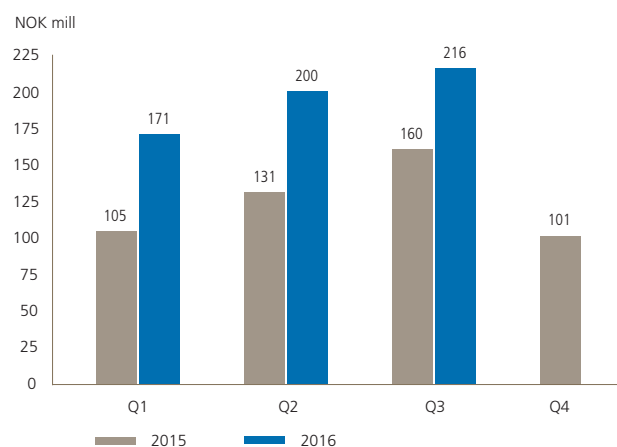
# THE GROUP

Amounts in NOK million	NOTE	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2016	2015	2016	2015	2015
Operating revenues	2	1,102	1,069	3,382	3,130	4,164
EBITDA adj. <sup>1</sup>		283	225	788	590	758
EBITA adj. <sup>1</sup>	2	216	160	587	396	497
Profit/loss before taxes		205	151	573	376	506
Earnings per share (NOK)		1.57	1.12	4.32	2.78	3.86
Net interest-bearing debt	10	373	716	373	716	624
Equity ratio (%)		57.7	51.4	57.7	51.4	49.4
Leverage ratio <sup>1</sup>		0.39	0.96	0.39	0.96	0.82
Return on capital employed <sup>1</sup> (%)		20.3	15.6	20.3	15.6	15.6

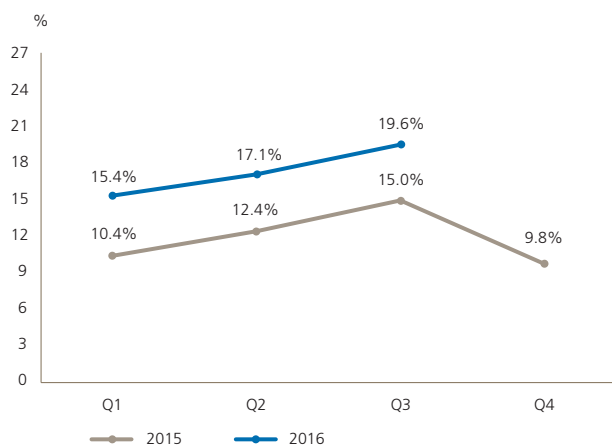
## OPERATING REVENUES



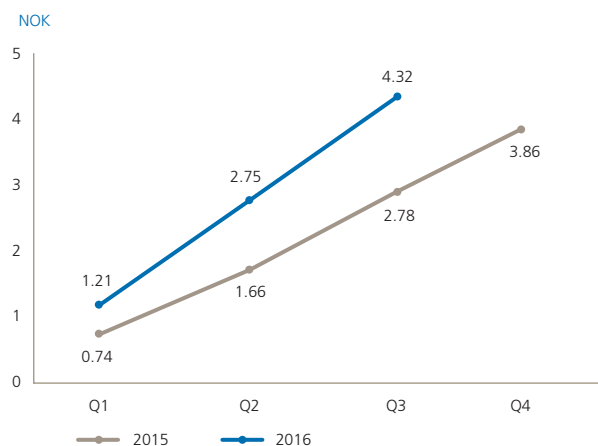
## EBITA ADJ.<sup>1</sup>



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



## EARNINGS PER SHARE CUMULATIVE



<sup>1</sup> Non-GAAP measure, see page 20 for definition.

### THIRD QUARTER

Borregaard's operating revenues were NOK 1,102 million (NOK 1,069 million)<sup>2</sup> in the 3<sup>rd</sup> quarter of 2016. EBITA adj.<sup>1</sup> increased to NOK 216 million (NOK 160 million), an all-time high quarterly result. Compared with the 3<sup>rd</sup> quarter of 2015, all business areas improved their EBITA adj.<sup>1</sup>. Currency, including hedging effects, contributed positively by approximately NOK 40 million, benefitting all business areas. Hedging effects were NOK -24 million (NOK -55 million). Energy conservation measures continued to contribute positively at the Sarpsborg site. The Group achieved its best ever lost-time injury rate with an H1 value<sup>3</sup> of 0.5 for a rolling twelve-month period.

Performance Chemicals improved its EBITA adj.<sup>1</sup> level mainly due to positive currency and mix effects. Currency effects, lower energy consumption and bioethanol contribution explain the progress in Speciality Cellulose. The higher EBITA adj.<sup>1</sup> in Other Businesses was due to positive currency effects and a stronger quarter for Ingredients.

Net financial items were NOK -10 million (NOK -9 million). Group profit before tax was NOK 205 million (NOK 151 million). Tax expense was NOK -49 million (NOK -40 million), giving a tax rate of 24% (26%).

Earnings per share increased by 40% to NOK 1.57 (NOK 1.12).

Cash flow from operations<sup>1</sup> was NOK 332 million (NOK 199 million). The improvement was mainly due to a high EBITDA adj.<sup>1</sup> level and a decrease in net working capital.

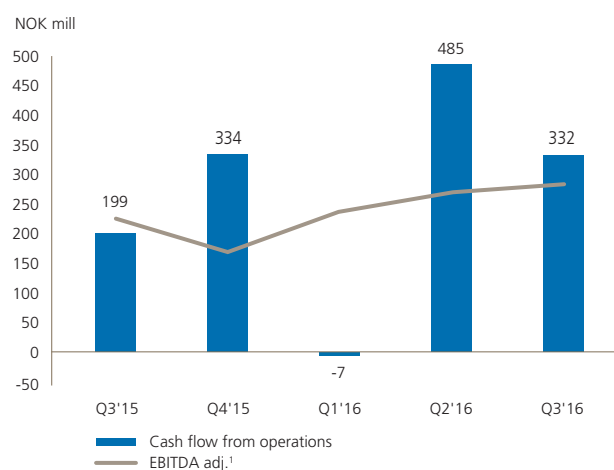
### YEAR-TO-DATE (1.1-30.9)

In the first nine months of 2016, Borregaard's operating revenues were NOK 3,382 million (NOK 3,130 million). EBITA adj.<sup>1</sup> was NOK 587 million (NOK 396 million). Results improved in all business areas, most notably in Speciality Cellulose and Performance Chemicals. Currency was the main contributor to higher results. Overall, total costs were stable in local currencies. Hedging effects were NOK -91 million (NOK -179 million).

Other income and expenses<sup>1</sup> were NOK 13 million (NOK 0 million). Net financial items amounted to NOK -24 million (NOK -20 million). Profit before tax increased to NOK 573 million (NOK 376 million). The tax expense was NOK 143 million (NOK 100 million), giving a tax rate of 25% (27%).

Earnings per share increased by 55% to NOK 4.32 (NOK 2.78).

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



<sup>1</sup> Non-GAAP measure, see page 20 for definition.

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

<sup>3</sup> Number of injuries resulting in sick-leave per million hours worked.

# THE BUSINESS AREAS

## PERFORMANCE CHEMICALS

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2016	2015	2016	2015	2015
Operating revenues	515	488	1,649	1,506	2,008
EBITA adj. <sup>1</sup>	132	111	410	349	447
EBITA adj. margin <sup>1</sup> (%)	25.6	22.7	24.9	23.2	22.3

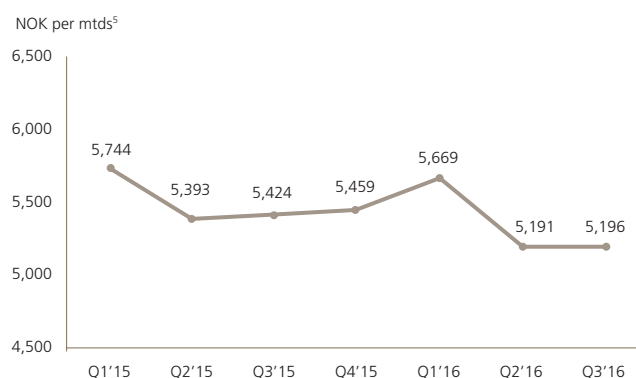
### THIRD QUARTER

Performance Chemicals had 3<sup>rd</sup> quarter operating revenues of NOK 515 million (NOK 488 million). EBITA adj.<sup>1</sup> was NOK 132 million (NOK 111 million). Sales volume increased by 8%, slightly less than the added Flambeau business. Market conditions were still challenging with reduced demand and strong price competition in some geographical regions. Sales prices were slightly lower in sales currency in the construction and miscellaneous products segments. Reallocation efforts continued. Product mix, excluding the Flambeau volume, improved with continued progress for agrochemicals.

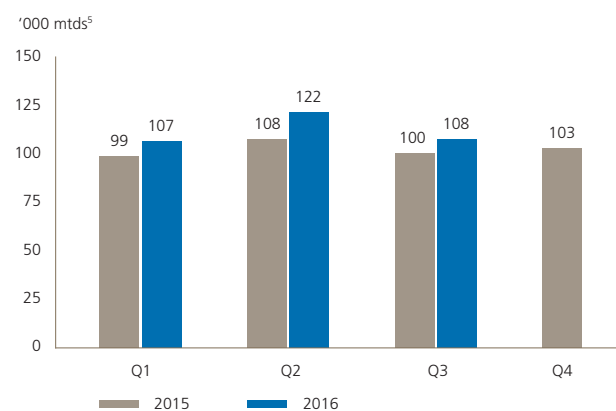
### YEAR-TO-DATE (1.1-30.9)

In the first nine months of 2016, Performance Chemicals had operating revenues of NOK 1,649 million (NOK 1,506 million). EBITA adj.<sup>1</sup> reached NOK 410 million (NOK 349 million), the improvement being largely due to currency effects. Market conditions were generally challenging with lower demand, stronger competition and price pressure in key applications and certain regions. Sales volume was 10% above the corresponding period of 2015, largely driven by the added Flambeau volume. Sales volume for specialities was slightly higher than in 2015.

### GROSS AVERAGE SALES PRICE<sup>4</sup>



### SALES VOLUME<sup>4</sup>



<sup>1</sup> Non-GAAP measure, see page 20 for definition.

<sup>4</sup> Average sales price and sales volume reflect 100% of sales and volume from the J/V in South Africa. Average sales price is calculated using actual FX rates, excluding hedging impact.

<sup>5</sup> Metric tonne dry solid.

## SPECIALITY CELLULOSE

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2016	2015	2016	2015	2015
Operating revenues	416	389	1,184	1,090	1,436
EBITA adj. <sup>1</sup>	82	56	203	82	104
EBITA adj. margin <sup>1</sup> (%)	19.7	14.4	17.1	7.5	7.2

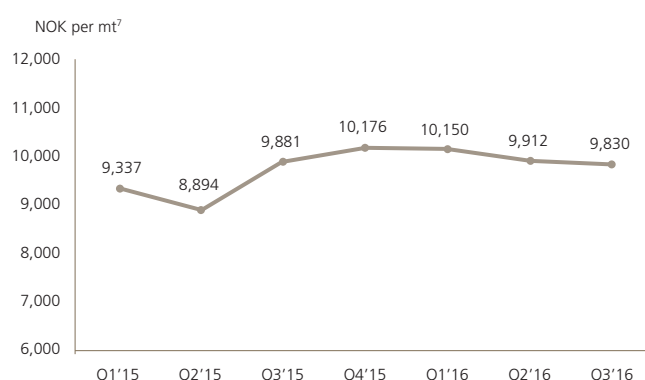
### THIRD QUARTER

Speciality Cellulose 3<sup>rd</sup> quarter operating revenues increased to NOK 416 million (NOK 389 million). EBITA adj.<sup>1</sup> increased to NOK 82 million (NOK 56 million). The result improvement was due to beneficial currency effects and a slightly higher sales volume, as well as lower energy consumption and higher contribution from bioethanol. Slightly lower prices in sales currency contributed negatively. Hedging effects were NOK -13 million (NOK -28 million). Product mix was similar to the corresponding quarter of 2015.

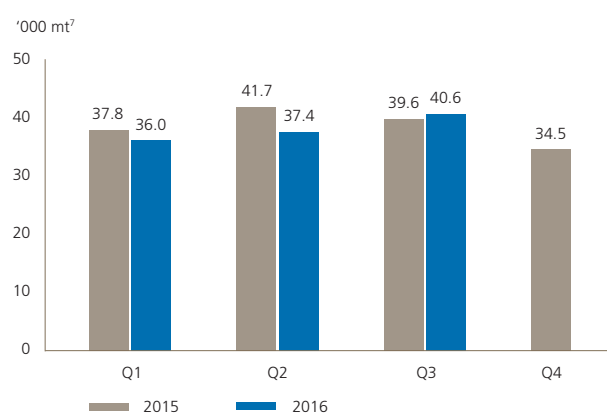
### YEAR-TO-DATE (1.1-30.9)

Operating revenues in the first nine months of 2016 were NOK 1,184 million (NOK 1,090 million). EBITA adj.<sup>1</sup> increased to NOK 203 million (NOK 82 million). Positive currency effects and an improved product mix more than compensated for slightly lower prices in sales currency and a reduced sales volume. Hedging effects were NOK -46 million (NOK -97 million).

### GROSS AVERAGE SALES PRICE<sup>6</sup>



### SALES VOLUME



<sup>1</sup> Non-GAAP measure, see page 20 for definition.

<sup>6</sup> Average sales price is calculated using actual FX rates, excluding hedging impact.

<sup>7</sup> Metric tonne.

## OTHER BUSINESSES

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2016	2015	2016	2015	2015
Operating revenues	179	199	575	558	755
EBITA adj. <sup>1</sup>	2	-7	-26	-35	-54
EBITA adj. margin <sup>1</sup> (%)	1.1	-3.5	-4.5	-6.3	-7.2

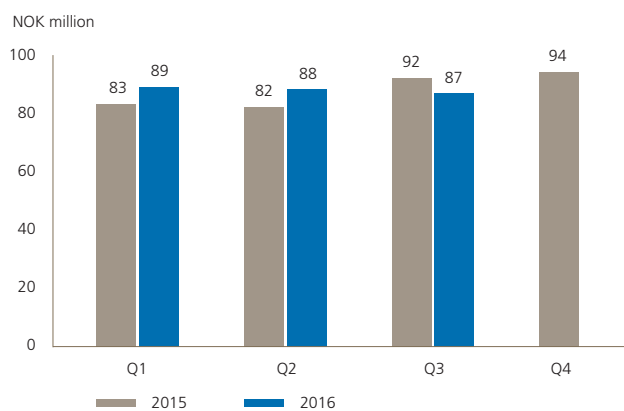
### THIRD QUARTER

Other Businesses had total operating revenues of NOK 179 million (NOK 199 million) and an EBITA adj.<sup>1</sup> of NOK 2 million (NOK -7 million) in the 3<sup>rd</sup> quarter of 2016. EBITA adj.<sup>1</sup> in Ingredients improved mainly due to currency effects and improved production compared with the 3<sup>rd</sup> quarter of last year. Fine Chemicals had lower sales due to uneven delivery patterns, but benefitted from positive currency effects. The new Exilva plant investment proceeded according to plan, and net project costs (including EU grant) were in line with the corresponding quarter last year.

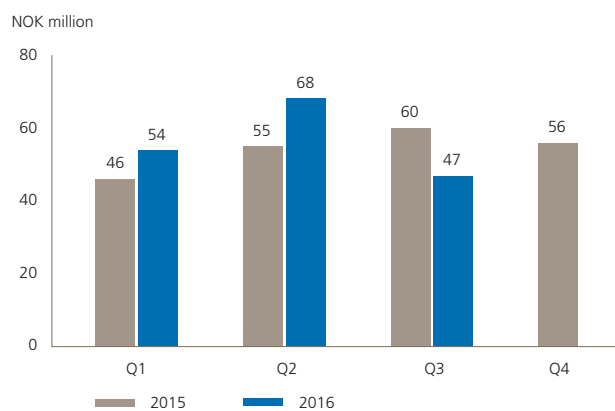
### YEAR-TO-DATE (1.1-30.9)

Operating revenues in Other Businesses were NOK 575 million (NOK 558 million) in the first nine months of 2016. EBITA adj.<sup>1</sup> improved to NOK -26 million (NOK -35 million). Beneficial currency effects for both Ingredients and Fine Chemicals and a positive sales development in Fine Chemicals were off-set by higher net costs in the Exilva project.

### INGREDIENTS – SALES REVENUES



### FINE CHEMICALS – SALES REVENUES



<sup>1</sup> Non-GAAP measure, see page 20 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 3<sup>rd</sup> quarter of 2015, the net positive impact of foreign exchange on EBITA adj.<sup>1</sup>, including hedging effects, was approximately NOK 40 million. Hedging effects were NOK -24 million (NOK -55 million) in the 3<sup>rd</sup> quarter.

Compared with the first nine months of 2015, the net positive impact of foreign exchange on EBITA adj.<sup>1</sup>, including hedging effects, was approximately

NOK 205 million. Hedging effects were NOK -91 million (NOK -179 million).

Assuming FX rates as of 20 October 2016 (USD 8.16 and EUR 8.96) and based on currency exposure forecasts, Borregaard expects the net positive impact of foreign exchange on EBITA adj.<sup>1</sup>, compared with the same periods last year, to be approximately NOK 25 million in the 4<sup>th</sup> quarter of 2016 and NOK 230 million for the full year of 2016.

## CASH FLOW AND FINANCIAL SITUATION

### THIRD QUARTER

Cash flow from operating activities in the 3<sup>rd</sup> quarter of 2016 was NOK 339 million (NOK 198 million). The strong cash flow was mainly due to higher profit before taxes and a decrease in net working capital.

### YEAR-TO-DATE (1.1-30.9)

In the first nine months of 2016, cash flow from operating activities was NOK 703 million (NOK 262 million). The increase was due to higher profit before taxes and a decrease in net working capital compared with the first nine months of 2015. Investments amounted to NOK 328 million (NOK 230 million). Replacement investments were impacted by the construction of new wood chip seasoning silos

(see note 13). Expansion investments were at a higher level than last year and were mainly related to the Exilva and Ice Bear projects. Dividend of NOK 149 million (NOK 124 million) was paid out in the 2<sup>nd</sup> quarter. Realised effect of hedging of net investments in subsidiaries was NOK 45 million (NOK -50 million). The Group has sold and repurchased treasury shares with a net payment of NOK 5 million (NOK 0 million).

On 30 September 2016, the Group had net interest-bearing debt totalling NOK 373 million (NOK 716 million), a decrease of NOK 237 million from the 2<sup>nd</sup> quarter and NOK 251 million from year-end 2015. The Group was well capitalised with an equity ratio of 57.7% and a leverage ratio of 0.39.

<sup>1</sup> Non-GAAP measure, see page 20 for definition.

## SHARE INFORMATION

During the 3<sup>rd</sup> quarter of 2016, 87,855 share options were exercised at strike prices of NOK 15.18. At the same time Borregaard repurchased 7,355 treasury shares at an average price of NOK 66.75 per share.

Total number of shares outstanding on 30 September 2016 was 100 million, including 368,380 treasury shares. Total number of shareholders was 7,666.

Borregaard ASA's share price was NOK 71.75 at the end of the 3<sup>rd</sup> quarter, compared with NOK 62.50 at the end of the 2<sup>nd</sup> quarter of 2016 and NOK 49.40 at the end of 2015.

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## OTHER MATTERS AND SUBSEQUENT EVENTS

### NEW LIGNIN OPERATION IN FLORIDA IN FINAL PHASE OF APPROVAL

A final decision on the investment by the board of directors of Borregaard and Rayonier Advanced Materials is anticipated during the 4<sup>th</sup> quarter of 2016. If the companies elect to proceed, operations are expected to commence approximately 18 months later. Cost of construction of the lignin plant is expected to be USD 135 million over two phases of the project. See Borregaard's stock exchange notices from 28 June 2016, 17 December 2015 and 1 June 2015.

### SUPPLY OF LIGNIN RAW MATERIAL FROM SNIACE TO LIGNOTECH IBÉRICA RESUMED

The Sniace Group re-started its pulp production mid October, and lignin raw material supply to LignoTech Ibérica has therefore been resumed. After achieving a stable operation of the pulp mill, it is expected that supply of lignin raw material will correspond to an annual lignin production of about 35,000 tonnes. See Borregaard's stock exchange notices from 19 October, 27 May and 21 March 2016, 8 September, 25 July and 26 June 2013.

## OUTLOOK

Efforts to reallocate lignin volumes from markets affected by increased competition and reduced demand are ongoing. In the 4<sup>th</sup> quarter of 2016, sales volume and product mix for Performance Chemicals are forecast to be in line with the preceding quarter.

In the 4<sup>th</sup> quarter, total sales volume and sales of highly specialised cellulose grades are expected to be lower than in the preceding quarter, partly due to the annual maintenance stop in October. Average cellulose price in sales currency is expected to be in line with the corresponding quarter last year, which brings the average cellulose price in sales currency for the full year approximately 1% below the 2015 level.

No major changes are expected in market conditions for Ingredients and Fine Chemicals. In the 4<sup>th</sup> quarter, Exilva project costs, net of EU grant, are expected to be slightly below the corresponding quarter of 2015. Other corporate costs will remain at largely the same level as in 2015.

Currency, including hedging impact, is expected to contribute positively in all business areas in the 4<sup>th</sup> quarter of 2016 compared with the same quarter last year.

The 4<sup>th</sup> quarter is normally Borregaard's weakest quarter due to the annual maintenance stop at the Sarpsborg site, and higher energy and payroll costs.

*Sarpsborg, 20 October 2016  
The Board of Directors of Borregaard ASA*

## THE GROUP'S CONDENSED INCOME STATEMENT

### INTERIM CONDENSED INCOME STATEMENT

Amounts in NOK million	NOTE	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2016	2015	2016	2015	2015
<b>OPERATING REVENUES</b>	2	1,102	1,069	3,382	3,130	4,164
Operating expenses		-819	-844	-2,594	-2,540	-3,406
Depreciation property, plant and equipment		-67	-65	-201	-194	-261
Amortisation intangible assets		-1	-	-3	-	-1
Other income and expenses <sup>1</sup>	3	-	-	13	-	37
<b>OPERATING PROFIT</b>		215	160	597	396	533
Financial items, net		-10	-9	-24	-20	-27
<b>PROFIT BEFORE TAXES</b>		205	151	573	376	506
Income tax expense	4	-49	-40	-143	-100	-122
<b>PROFIT FOR THE PERIOD</b>		156	111	430	276	384
Profit attributable to non-controlling interests		-1	-1	-2	-2	-2
Profit attributable to owners of the parent		157	112	432	278	386
EBITDA adj. <sup>1</sup>		283	225	788	590	758
<b>EBITA ADJ.<sup>1</sup></b>	2	216	160	587	396	497

## EARNINGS PER SHARE

### INTERIM EARNINGS PER SHARE

Amounts in NOK million	NOTE	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2016	2015	2016	2015	2015
Earnings per share (100 mill. shares)	5	1.57	1.12	4.32	2.78	3.86
Diluted earnings per share	5	1.57	1.12	4.32	2.79	3.87

## THE GROUP'S CONDENSED COMPREHENSIVE INCOME STATEMENT

### INTERIM CONDENSED COMPREHENSIVE INCOME STATEMENT

Amounts in NOK million	NOTE	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2016	2015	2016	2015	2015
<b>PROFIT FOR THE PERIOD</b>		156	111	430	276	384
<b>ITEMS NOT TO BE RECLASSIFIED TO P&amp;L</b>						
Actuarial gains and losses (after tax)		-	-	-	-	-19
<b>TOTAL</b>		-	-	-	-	-19
<b>ITEMS TO BE RECLASSIFIED TO P&amp;L</b>						
Change in hedging-reserve after tax (cash flow)	7	140	-182	351	-113	-156
Change in hedging-reserve after tax (net investment in subsidiaries)	7	18	-35	39	-43	-52
Translation effects		-25	43	-54	58	66
<b>TOTAL</b>		133	-174	336	-98	-142
<b>THE GROUP'S COMPREHENSIVE INCOME</b>		289	-63	766	178	223
Comprehensive income non-controlling interests		1	0	-1	-2	-3
Comprehensive income owners of the parent		288	-63	767	180	226

<sup>1</sup> Non-GAAP measure, see page 20 for definition.

# THE GROUP'S CONDENSED BALANCE SHEET

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	30.9.2016	31.12.2015
Intangible assets	12	123	137
Property, plant and equipment	12	2,243	2,122
Other assets	8	176	121
Investments in joint venture		118	106
<b>NON-CURRENT ASSETS</b>		<b>2,660</b>	<b>2,486</b>
Inventories		660	676
Receivables	8	938	838
Cash and cash deposits	10	385	169
<b>CURRENT ASSETS</b>		<b>1,983</b>	<b>1,683</b>
<b>TOTAL ASSETS</b>		<b>4,643</b>	<b>4,169</b>
Group equity	9	2,677	2,056
Non-controlling interests		4	5
<b>EQUITY</b>		<b>2,681</b>	<b>2,061</b>
Provisions and other liabilities		312	408
Interest-bearing liabilities	8, 10	769	802
<b>NON-CURRENT LIABILITIES</b>		<b>1,081</b>	<b>1,210</b>
Interest-bearing liabilities	8, 10	9	9
Other current liabilities	8	872	889
<b>CURRENT LIABILITIES</b>		<b>881</b>	<b>898</b>
<b>EQUITY AND LIABILITIES</b>		<b>4,643</b>	<b>4,169</b>
Equity ratio		57.7 %	49.4%

## CHANGES IN EQUITY

### INTERIM CONDENSED CHANGE IN EQUITY

Amounts in NOK million	Note	1.1 - 30.9.2016			1.1 - 31.12.2015		
		Controlling interests	Non-controlling interests	Total equity	Controlling interests	Non-controlling interests	Total equity
Equity 1 January		2,056	5	2,061	1,941	8	1,949
<b>PROFIT/LOSS FOR THE PERIOD</b>		<b>432</b>	<b>-2</b>	<b>430</b>	<b>386</b>	<b>-2</b>	<b>384</b>
Items in Comprehensive Income	6	335	1	336	-160	-1	-161
<b>THE GROUP'S COMPREHENSIVE INCOME</b>	<b>6</b>	<b>767</b>	<b>-1</b>	<b>766</b>	<b>226</b>	<b>-3</b>	<b>223</b>
Paid dividend		-149	-	-149	-124	-	-124
Buy-back of treasury shares		-10	-	-10	-5	-	-5
Exercise of share options		10	-	10	3	-	3
Shares to employees		-	-	-	12	-	12
Reduced tax payable of exercised share options		-	-	-	-	-	-
Option costs (share based payment)		3	-	3	3	-	3
<b>EQUITY AT THE CLOSE OF THE PERIOD</b>		<b>2,677</b>	<b>4</b>	<b>2,681</b>	<b>2,056</b>	<b>5</b>	<b>2,061</b>

## THE GROUP'S CONDENSED CASH FLOW STATEMENT

### INTERIM CONDENSED CASH FLOW STATEMENT

Amounts in NOK million	NOTE	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2016	2015	2016	2015	2015
Profit before taxes		205	151	573	376	506
Amortisation, depreciation and impairment charges		69	65	204	194	269
Changes in net working capital, etc.		48	-26	9	-228	-106
Dividend (share of profit) from JV		31	16	-7	-2	-14
Taxes paid		-14	-8	-76	-78	-92
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>339</b>	<b>198</b>	<b>703</b>	<b>262</b>	<b>563</b>
Investments property, plant and equipment and intangible assets*		-115	-71	-328	-230	-430
Other capital transactions		1	2	3	5	5
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-114</b>	<b>-69</b>	<b>-325</b>	<b>-225</b>	<b>-425</b>
Dividends		-	-	-149	-124	-124
Proceeds from exercise of share options	9	2	-	5	-	11
Buy-back of shares	6	-1	-	-10	-	-5
Gain/(loss) on hedges for net investments in subsidiaries		16	-40	45	-50	-76
<b>NET PAID TO/FROM SHAREHOLDERS</b>		<b>17</b>	<b>-40</b>	<b>-109</b>	<b>-174</b>	<b>-194</b>
Proceeds from interest-bearing liabilities	10	-	-	100	100	100
Repayment from interest-bearing liabilities	10	-3	-52	-107	-56	-109
Change in interest-bearing receivables/other liabilities	10	-11	29	-26	17	21
<b>CHANGE IN NET INTEREST-BEARING LIABILITIES</b>		<b>-14</b>	<b>-23</b>	<b>-33</b>	<b>61</b>	<b>12</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>3</b>	<b>-63</b>	<b>-142</b>	<b>-113</b>	<b>-182</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>228</b>	<b>66</b>	<b>236</b>	<b>-76</b>	<b>-44</b>
Cash and cash equivalents at beginning of period		163	36	169	168	168
Change in cash and cash equivalents		228	66	236	-76	-44
Currency effects cash and cash equivalents		-6	23	-20	33	45
<b>CASH AND CASH EQUIVALENTS AT THE CLOSE OF THE PERIOD</b>	<b>10</b>	<b>385</b>	<b>125</b>	<b>385</b>	<b>125</b>	<b>169</b>
* Investment by category						
Replacement investments		65	56	194	156	246
Expansion investments <sup>1</sup>		50	15	134	74	184

<sup>1</sup> Non-GAAP measure, see page 20 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 2015 for the Borregaard Group.

### Use of estimates

The same use of estimates has been applied as in the Consolidated Financial Statements for 2015.

## NOTE 02 Segments

### OPERATING REVENUES

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2016	2015	2016	2015	2015
<b>BORREGAARD</b>	<b>1,102</b>	<b>1,069</b>	<b>3,382</b>	<b>3,130</b>	<b>4,164</b>
Performance Chemicals	515	488	1,649	1,506	2,008
Speciality Cellulose	416	389	1,184	1,090	1,436
Other Businesses	179	199	575	558	755
Eliminations	-8	-7	-26	-24	-35

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

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2016	2015	2016	2015	2015
<b>BORREGAARD</b>	<b>216</b>	<b>160</b>	<b>587</b>	<b>396</b>	<b>497</b>
Performance Chemicals	132	111	410	349	447
Speciality Cellulose	82	56	203	82	104
Other Businesses	2	-7	-26	-35	-54
<b>RECONCILIATION AGAINST OPERATING PROFIT &amp; PROFIT BEFORE TAX</b>					
<b>EBITA ADJ.<sup>1</sup></b>	<b>216</b>	<b>160</b>	<b>587</b>	<b>396</b>	<b>497</b>
Amortisation intangible assets	-1	-	-3	-	-1
Other income and expenses	-	-	13	-	37
<b>OPERATING PROFIT</b>	<b>215</b>	<b>160</b>	<b>597</b>	<b>396</b>	<b>533</b>
Financial items, net	-10	-9	-24	-20	-27
<b>PROFIT BEFORE TAXES</b>	<b>205</b>	<b>151</b>	<b>573</b>	<b>376</b>	<b>506</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 20 for definition.

### NOTE 03 Other income and expenses

There are no Other income and expenses in the 3<sup>rd</sup> quarter of 2016.

Other income and expenses were NOK 13 million in the first nine months of 2016, of which NOK 73 million reflects additional insurance compensation for property

damage caused by the fire at the production site in Sarpsborg in October 2015, and NOK -60 million has been recognised as a provision for measures to strengthen ground water barriers and for handling polluted soil around the chlor-alkali plant in Sarpsborg.

### NOTE 04 Income tax expense

The tax rate of 25% for the first nine months of 2016 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 27% to 25% from 1 January 2016. Borregaard's normal tax rate is expected to be in the range 23 - 26%. The Norwegian Government has proposed a reduction of the tax rate in Norway from the current 25% to 24% from 1 January 2017. This is not

yet reflected, but will be considered in the calculation of deferred tax as of 31 December 2016 if the proposal is approved by the Norwegian Parliament.

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 368,380 treasury shares. As of 30 September 2016, there are 99,971,888 diluted shares

(99,735,212 as of 31 December 2015). Earnings per diluted share were NOK 1.57 in the 3<sup>rd</sup> quarter of 2016 (NOK 1.12 in the 3<sup>rd</sup> quarter of 2015)

### NOTE 06 Stock options

During the 3<sup>rd</sup> quarter of 2016, 87,855 share options were exercised at a strike price of NOK 15.18.

The Group Executive Management and other key employees hold a total of 1,005,000 stock options in three different share option programmes in Borregaard. The first programme has a total of 25,000 outstanding stock options at a strike price of NOK 15.18. The strike price has been adjusted for dividends in 2013, 2014, 2015 and 2016, NOK 4.85 in total. The share options for the first programme was vested on 18 October 2013 and can be exercised until the end of October 2016.

The second option programme, comprising 480,000 stock options granted in October 2014, has a strike price of NOK 46.50 adjusted for dividends in 2015 and 2016, NOK 2.75. The third option programme, comprising 500,000 stock options granted in October 2015, has a strike price of NOK 49.99 adjusted for dividend of NOK 1.50 in 2016. Options in programme two and three will expire after five years, the vesting period is three years and the options can be exercised during the last two years.



## 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 nine months of 2016 relating to the hedging reserves amounts to NOK 3 million for cash

flow hedges (NOK -111 million) and NOK -23 million for hedges of net investments in subsidiaries (NOK -36 million). Total hedging reserve included in equity as of 30 September 2016 (after tax) amounts to NOK 7 million and NOK -73 million respectively (NOK -301 million and NOK -103 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 2015 to the 3<sup>rd</sup> quarter of 2016. 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 September 2016:

### FINANCIAL ASSETS

Amounts in NOK million	LEVEL	30.9.2016		31.12.2015	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Non-current financial receivables	2	65	65	71	71
Non-current derivatives	2	88	88	-	-
Current derivatives	2	30	30	8	8
<b>TOTAL FINANCIAL ASSETS</b>		<b>183</b>	<b>183</b>	<b>79</b>	<b>79</b>

### FINANCIAL LIABILITIES

Non-current financial liabilities	2, 3	778	778	821	821
Non-current derivatives	2	37	37	258	258
Current financial liabilities	2	9	9	9	9
Current derivatives	2	68	68	212	212
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>892</b>	<b>892</b>	<b>1,300</b>	<b>1,300</b>

### FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million		LEVEL 1	LEVEL 2	LEVEL 3
<b>FINANCIAL INSTRUMENTS</b>	<b>30.9.2016</b>	<b>-709</b>	<b>-309</b>	<b>-400</b>
<b>FINANCIAL INSTRUMENTS</b>	<b>31.12.2015</b>	<b>-1,221</b>	<b>-821</b>	<b>-400</b>

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	30.9.2016	31.12.2015
Share capital	100	100
Treasury shares	-	-1
Share premium	1,346	1,346
Other paid-in capital	397	385
Translation effects	34	89
Hedging reserve	-66	-456
Actuarial gains/losses	-23	-23
Retained earnings	889	616
<b>GROUP EQUITY (CONTROLLING INTERESTS)</b>	<b>2,677</b>	<b>2,056</b>

As of 30 September 2016, the company held 368,380 treasury shares at an average cost of NOK 53.52.

## NOTE 10 Net interest-bearing debt

The various elements of net interest-bearing debt are shown in the following table:

Amounts in NOK million	30.9.2016	31.12.2015
Non-current interest-bearing liabilities	769	802
Current interest-bearing liabilities including overdraft of cashpool	9	9
Non-current interest-bearing receivables (included in "Other Assets")	-20	-18
Cash and cash deposits	-385	-169
<b>NET INTEREST-BEARING DEBT</b>	<b>373</b>	<b>624</b>

## NOTE 11 Related parties

The members of the Group Executive Management of Borregaard hold a total of 575,000 stock options in the Company as of 30 September 2016.

## 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 3<sup>rd</sup> quarter of 2016.

## NOTE 13 Other matters and subsequent events

### NEW LIGNIN OPERATION IN FLORIDA IN FINAL PHASE OF APPROVAL

A final decision on the investment by the board of directors of Borregaard and Rayonier Advanced Materials is anticipated during the 4<sup>th</sup> quarter of 2016. If the companies elect to proceed, operations are expected to commence approximately 18 months later. Cost of construction of the lignin plant is expected to be USD 135 million over two phases of the project. See Borregaard's stock exchange notices from 28 June 2016, 17 December 2015 and 1 June 2015,

### SUPPLY OF LIGNIN RAW MATERIAL FROM SNIACE TO LIGNOTECH IBÉRICA RESUMED

The Sniace Group re-started its pulp production mid October, and lignin raw material supply to LignoTech Ibérica has therefore been resumed. After achieving a stable operation of the pulp mill, it is expected that supply of lignin raw material will correspond to an annual lignin production of about 35,000 tonnes. See Borregaard's stock exchange notices from 19 October, 27 May and 21 March 2016, 8 September, 25 July and 26 June 2013.

### SILO FIRE INCIDENT

The property damage coverage related to the silo fire incident has been recognised as other income and expenses, see note 3.

Actual losses related to the silo fire incident in October 2015 were insignificant in the 3<sup>rd</sup> quarter of 2016. Insurance compensation for actual losses in previous quarters has been recognised in the relevant quarters. An estimate of the total business interruption losses is difficult to make. Therefore, no future insurance compensation has been recognised, but will be recognised in the periods if and when business interruption losses occur.

### OTHER MATTERS

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

## 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 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.

### 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.

### 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.

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.

	1.1 - 30.9	1.1 - 31.12	
Capital employed end of	2016	2015	2015
Q3, 2014		2,949	
Q4, 2014		2,983	2,983
Q1, 2015		3,198	3,198
Q2, 2015		3,235	3,235
Q3, 2015	3,283	3,283	3,283
Q4, 2015	3,279		3,279
Q1, 2016	3,524		
Q2, 2016	3,481		
Q3, 2016	3,413		
<b>AVERAGE</b>	<b>3,396</b>	<b>3,130</b>	<b>3,196</b>
<b>EBITA ADJ. (LTM)</b>	<b>688</b>	<b>488</b>	<b>497</b>
<b>ROCE (%)</b>	<b>20.3</b>	<b>15.6</b>	<b>15.6</b>









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