

# Q 1 2018

QUARTERLY REPORT 1<sup>ST</sup> QUARTER 2018



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# Q1 2018

## 1<sup>ST</sup> QUARTER IN BRIEF

- *EBITA adj.<sup>1</sup> NOK 177 million (NOK 200 million)*
- *Improved product mix in Performance Chemicals*
- *Lower acetate sales for Speciality Cellulose*
- *Higher sales in Ingredients and Fine Chemicals*
- *Increased costs for wood, caustic soda, lignin distribution and manning in Florida*
- *Florida project on track*

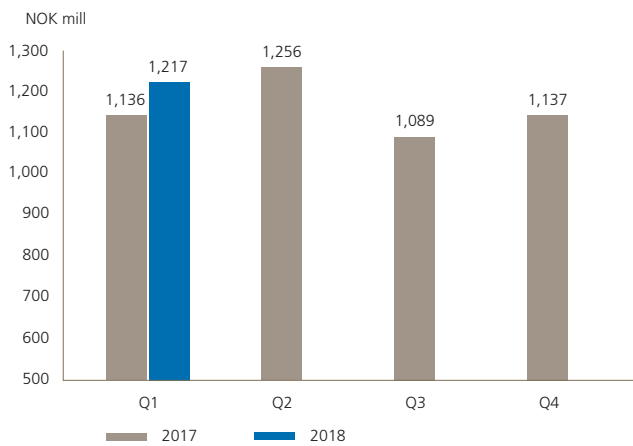


<sup>1</sup> Non-GAAP measure, see page 19 for definition.

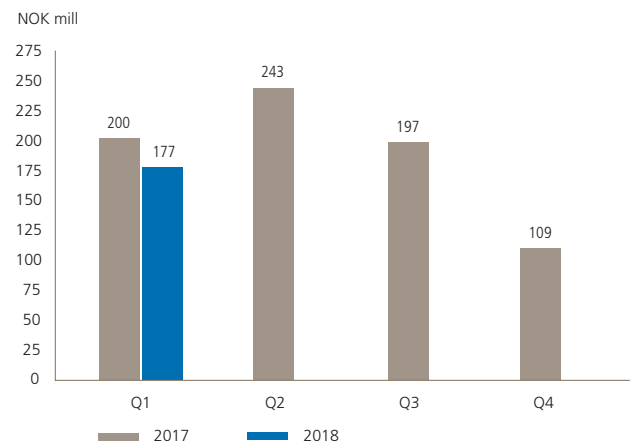
# THE GROUP

Amounts in NOK million	NOTE	1.1 - 31.3		1.1 - 31.12
		2018	2017	2017
Operating revenues	2	1,217	1,136	4,618
EBITDA adj. <sup>1</sup>		252	274	1,055
EBITA adj. <sup>1</sup>	2	177	200	749
Profit/loss before taxes		169	195	715
Earnings per share (NOK)		1.37	1.48	5.66
Net interest-bearing debt <sup>1</sup>	10	944	384	845
Equity ratio <sup>1</sup> (%)		59.5	60.9	56.2
Leverage ratio <sup>1</sup>		0.91	0.36	0.8
Return on capital employed <sup>1</sup> (%)		17.7	21.9	19.1

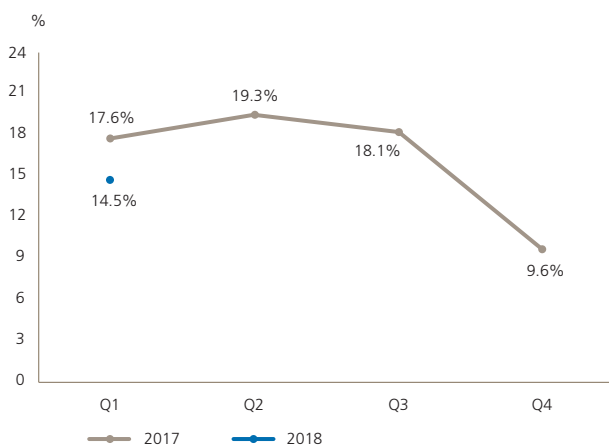
## OPERATING REVENUES



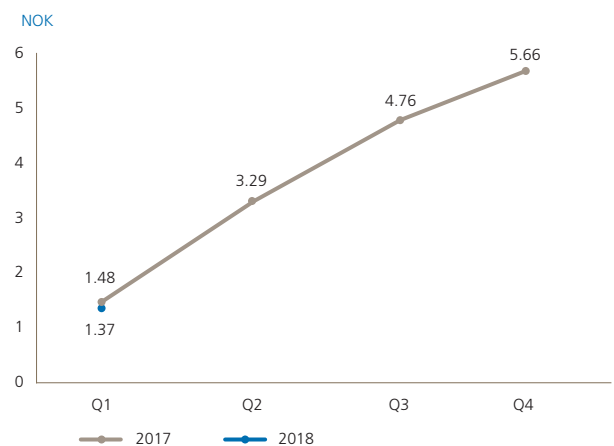
## EBITA ADJ.<sup>1</sup>



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



## EARNINGS PER SHARE CUMULATIVE



<sup>1</sup> Non-GAAP measure, see page 19 for definition.

## FIRST QUARTER

Borregaard's operating revenues reached NOK 1,217 million (NOK 1,136 million)<sup>2</sup> in the 1<sup>st</sup> quarter of 2018. EBITA adj.<sup>1</sup> was NOK 177 million (NOK 200 million). Other Businesses had an improved result compared with the corresponding quarter of 2017, whereas Performance Chemicals and Speciality Cellulose had a decline. Costs increased by approximately NOK 25 million due to higher wood and caustic soda prices. Higher lignin distribution costs and increasing manning related to the Florida project amounted to approximately NOK 15 million. The net currency impact was insignificant.

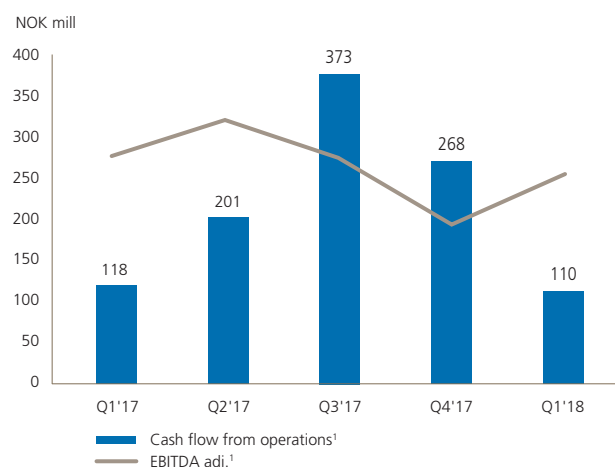
In Performance Chemicals, increased sales of specialities and improved product mix compensated for the negative impact from strong price competition in certain regional construction markets as well as increased costs. For Speciality Cellulose, higher wood and caustic soda prices and lower sales of acetate cellulose were the main reasons for the lower EBITA adj.<sup>1</sup>. Other Businesses had an improved EBITA adj.<sup>1</sup> due to higher sales in Ingredients and Fine Chemicals, partly off-set by increased net costs in Cellulose Fibrils.

Net financial items were NOK -7 million (NOK -4 million). The increase was due to unfavourable foreign exchange effects and increased interest expenses as a result of higher net interest-bearing debt. Profit before tax was NOK 169 million (NOK 195 million). Tax expense was NOK -37 million (NOK -48 million), giving a tax rate of 22% (25%).

Earnings per share were NOK 1.37 (NOK 1.48).

Cash flow from operations<sup>1</sup> was NOK 110 million (NOK 118 million). The cash effect of a lower EBITDA adj.<sup>1</sup> was largely off-set by a favourable development in net working capital compared with the 1<sup>st</sup> quarter of 2017.

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



<sup>1</sup> Non-GAAP measure, see page 19 for definition.

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

# THE BUSINESS AREAS

## PERFORMANCE CHEMICALS

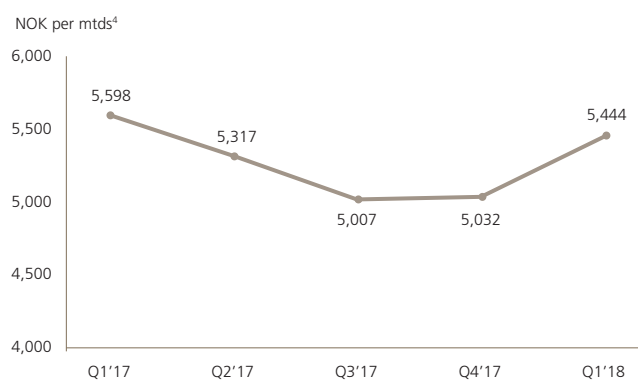
Amounts in NOK million	1.1 - 31.3		1.1 - 31.12
	2018	2017	2017
Operating revenues	555	550	2,176
EBITA adj. <sup>1</sup>	115	132	449
EBITA adj. margin <sup>1</sup> (%)	20.7	24.0	20.6

Performance Chemicals' 1<sup>st</sup> quarter operating revenues reached NOK 555 million (NOK 550 million). EBITA adj.<sup>1</sup> was NOK 115 million (NOK 132 million). Increased sales of specialities and improved product mix compensated for the negative impact from strong price competition in certain regional construction markets. Higher distribution costs, increasing manning related to the Florida project and an unfavourable net currency impact had a negative impact compared with the 1<sup>st</sup> quarter of 2017.

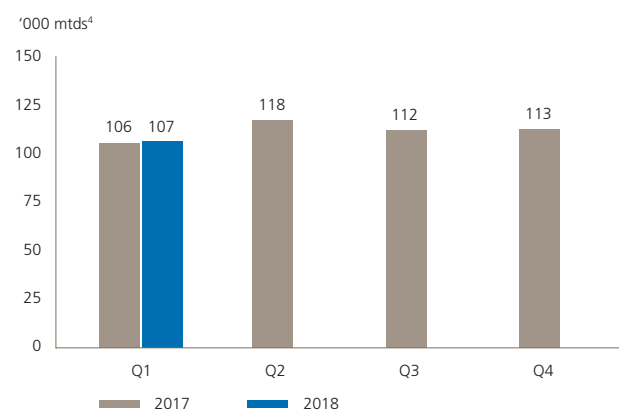
The average price in sales currency was in line with the same quarter last year. Increased sales to batteries, agro and oilfield chemicals off-set the negative impact from certain regional construction markets. Construction sales was below normal for the season due to cold weather in important markets. However, total sales volume increased by 1%.

The Florida project is on time and cost, and start-up of operation is expected mid-year 2018.

### GROSS AVERAGE SALES PRICE<sup>3</sup>



### SALES VOLUME<sup>3</sup>



<sup>1</sup> Non-GAAP measure, see page 19 for definition.

<sup>3</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>4</sup> Metric tonne dry solid.

## SPECIALITY CELLULOSE

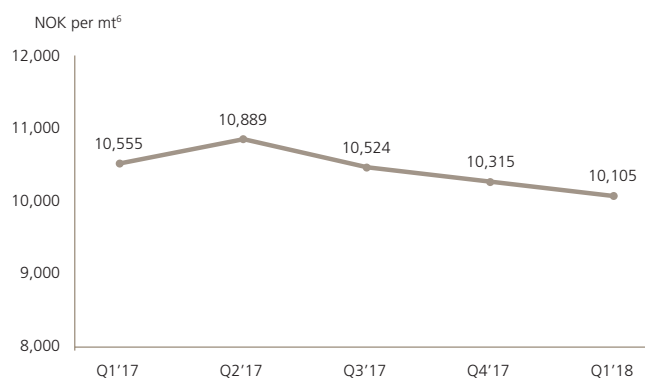
Amounts in NOK million	1.1 - 31.3		1.1 - 31.12
	2018	2017	2017
Operating revenues	434	412	1,698
EBITA adj. <sup>1</sup>	64	89	350
EBITA adj. margin <sup>1</sup> (%)	14.7	21.6	20.6

Operating revenues in Speciality Cellulose increased to NOK 434 million (NOK 412 million) in the 1<sup>st</sup> quarter of 2018. EBITA adj.<sup>1</sup> was NOK 64 million (NOK 89 million). Increased prices for wood and caustic soda and weaker product mix due to lower sales of acetate cellulose were the main reasons for the EBITA adj.<sup>1</sup> decline compared with the same quarter last year. A positive net currency impact and a higher sales volume contributed favourably.

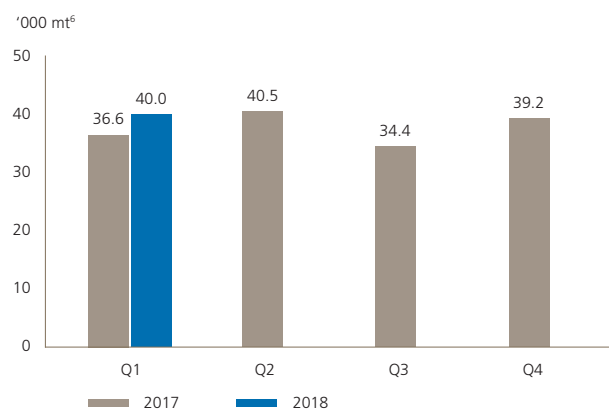
Average cellulose sales price was 4% lower mainly due to the weaker product mix. The cellulose ether market continues to grow, while the cellulose acetate market remains challenging.

Bioethanol had higher sales prices and a lower sales volume. The result was in line with the same quarter last year. The new dehydration plant for bioethanol started up in the 1<sup>st</sup> quarter.

### GROSS AVERAGE SALES PRICE<sup>5</sup>



### SALES VOLUME



<sup>1</sup> Non-GAAP measure, see page 19 for definition.

<sup>5</sup> Average sales price is calculated using actual FX rates, excluding hedging impact.

<sup>6</sup> Metric tonne.

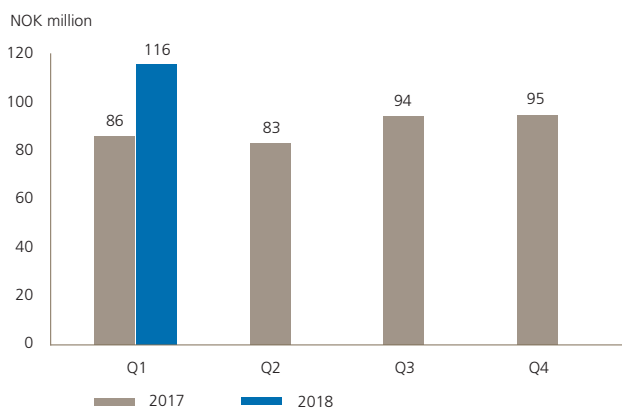
## OTHER BUSINESSES

Amounts in NOK million	1.1 - 31.3		1.1 - 31.12
	2018	2017	2017
Operating revenues	239	183	783
EBITA adj. <sup>1</sup>	-2	-21	-50
EBITA adj. margin <sup>1</sup> (%)	-0.8	-11.5	-6.4

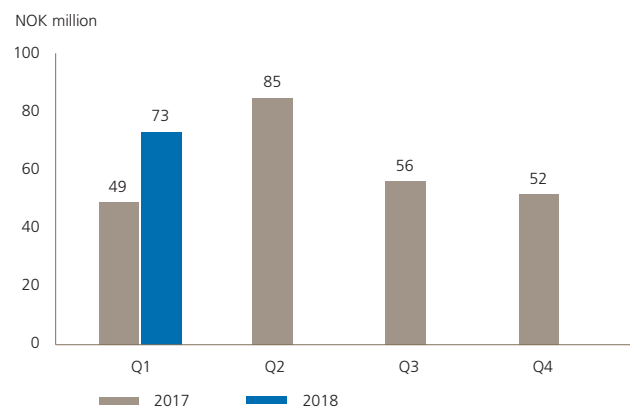
Other Businesses' operating revenues increased to NOK 239 million (NOK 183 million) and EBITA adj.<sup>1</sup> improved to NOK -2 million (NOK -21 million). Ingredients and Fine Chemicals had stronger results while Cellulose Fibrils had a decline due to higher net costs compared with the 1<sup>st</sup> quarter of 2017. The net currency impact in Other Businesses was insignificant.

In Ingredients, a high sales volume and a positive market trend for wood-based vanillin more than compensated for the effect of increased caustic soda prices. Fine Chemicals improved mainly due to higher deliveries of key products. Cellulose Fibrils had higher net costs as a result of continued plant optimisation and strengthening of the marketing organisation. Net corporate costs were in line with the corresponding quarter of 2017.

### INGREDIENTS – SALES REVENUES



### FINE CHEMICALS – SALES REVENUES



<sup>1</sup> Non-GAAP measure, see page 19 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 1<sup>st</sup> quarter of 2017, the net impact of foreign exchange on EBITA adj.<sup>1</sup>, including hedging effects, was negligible. Hedging effects were NOK 3 million (NOK -22 million) in the 1<sup>st</sup> quarter.

Assuming currency rates as of 25 April 2018 (USD 7.96 and EUR 9.71) and based on currency exposure forecasts, Borregaard expects a net impact of foreign exchange on EBITA adj.<sup>1</sup> of approximately NOK 5 million in the 2<sup>nd</sup> quarter and NOK 35 million for the full year compared with the same period last year.

## CASH FLOW AND FINANCIAL SITUATION

Cash flow from operating activities in the 1<sup>st</sup> quarter was NOK 31 million (NOK 82 million). The reduction was due to higher tax payments and a lower EBITDA adj.<sup>1</sup>, partly off-set by a favourable development in net working capital compared with the corresponding quarter last year.

On 31 March 2018, the Group had net interest-bearing debt<sup>1</sup> totalling NOK 944 million (NOK 384 million), an increase of NOK 99 million from year-end 2017.

At the end of the 1<sup>st</sup> quarter, the Group was well capitalised with an equity ratio<sup>1</sup> of 59.5% and a leverage ratio<sup>1</sup> of 0.91.

Investments amounted to NOK 177 million (NOK 159 million). Replacement investments were at a low level in the 1<sup>st</sup> quarter while expansion investments<sup>1</sup> increased, mainly due to the Florida lignin project.

## SHARE INFORMATION

In February, 400,000 share options at a strike price of NOK 80.00 were granted under the long-term incentive programme. The options will expire after five years, the vesting period is three years and the options may be exercised during the last two years. For more details, see notification to Oslo Stock Exchange on 7 February 2018.

During the 1<sup>st</sup> quarter of 2018, Borregaard repurchased a total of 300,000 treasury shares at an average price of NOK 73.59. See notifications to Oslo Stock Exchange from 19 February until 9 March 2018.

As part of the employee share programme, Borregaard sold a total of 309,301 shares to employees in February 2017. The net price was NOK 55.05 per share after deduction of a 25% discount. For more details, see notifications to Oslo Stock Exchange on 5, 12 and 28 February 2018.

Total number of shares outstanding on 31 March 2018 was 100 million, including 474,764 treasury shares. Total number of shareholders was 8,891. Borregaard ASA's share price was NOK 74.00 at the end of the 1<sup>st</sup> quarter (NOK 81.50 at the end of 2017).

<sup>1</sup> Non-GAAP measure, see page 19 for definition.

## OTHER MATTERS AND SUBSEQUENT EVENTS

### GENERAL MEETING

Borregaard ASA held its General Meeting on 12 April 2018. The financial statements of Borregaard ASA and the Group, including the proposal to pay an ordinary dividend of NOK 2.00 per share were approved.

The General Meeting re-elected the chair of the Board of Directors, Jan Oksum. Terje Andersen was re-elected as a member of the Board. Tove Andersen, Margrethe Hauge and Helge Aasen were elected as new members of the Board.

## OUTLOOK

Sales of lignin products to the construction sector is expected to be affected by continued strong competition and price pressure in certain regions. Reallocation efforts will continue in order to balance sales and supply in challenging markets. The higher distribution costs are expected to continue. Total sales volume in 2018 is forecast to increase by 5-10% compared with 2017. The positive development seen for Specialities in the 1<sup>st</sup> quarter is expected to continue. In the 2<sup>nd</sup> quarter of 2018, sales volume is expected to be higher than in the corresponding period last year. Manning related to the Florida project will increase further during the 2<sup>nd</sup> quarter and depreciation will commence from start-up.

Average cellulose price in sales currency is expected to be in line with the 2017 level. Price uncertainty is mainly related to textile cellulose. Product mix in 2018 is forecast to be weaker than in 2017 due to lower sales volume of acetate cellulose. In the 2<sup>nd</sup> quarter, both total

sales volume and sales of highly specialised grades are expected to be lower than in the 1<sup>st</sup> quarter of 2018.

In Ingredients, there is a positive market trend for wood-based vanillin. No major changes are expected in the market conditions for Fine Chemicals. Sales will gradually increase for Cellulose Fibrils, but long lead-times for conversion of sales prospects are expected. Fixed costs and depreciation in Cellulose Fibrils are expected to be largely in line with 2017. Corporate costs will remain at the same level as in 2017.

Wood and caustic soda costs are expected to be significantly higher than in 2017, affecting mainly Speciality Cellulose and Ingredients (caustic soda only).

Borregaard has significant currency exposure. The impact of currency rate fluctuations will be delayed as a result of the company's currency hedging policy.

*Sarpsborg, 25 April 2018  
The Board of Directors of Borregaard ASA*

# THE GROUP'S CONDENSED INCOME STATEMENT

## INTERIM CONDENSED INCOME STATEMENT

Amounts in NOK million	NOTE	1.1 - 31.3		1.1 - 31.12
		2018	2017	2017
<b>OPERATING REVENUES</b>	2	1,217	1,136	4,618
Operating expenses		-965	-862	-3,563
Depreciation property, plant and equipment		-75	-74	-306
Amortisation intangible assets		-1	-1	-4
Other income and expenses <sup>1</sup>	3	-	-	-9
<b>OPERATING PROFIT</b>		176	199	736
Financial items, net		-7	-4	-21
<b>PROFIT BEFORE TAXES</b>		169	195	715
Income tax expense	4	-37	-48	-157
<b>PROFIT FOR THE PERIOD</b>		132	147	558
Profit attributable to non-controlling interests		-5	-1	-8
Profit attributable to owners of the parent		137	148	566
<hr/>				
EBITDA adj. <sup>1</sup>		252	274	1,055
EBITA adj. <sup>1</sup>	2	177	200	749

## EARNINGS PER SHARE

### INTERIM EARNINGS PER SHARE

Amounts in NOK million	NOTE	1.1 - 31.3		1.1 - 31.12
		2018	2017	2017
Earnings per share (100 mill. shares)	5	1.37	1.48	5.66
Diluted earnings per share	5	1.37	1.48	5.66

# THE GROUP'S CONDENSED COMPREHENSIVE INCOME STATEMENT

## INTERIM CONDENSED COMPREHENSIVE INCOME STATEMENT

Amounts in NOK million	NOTE	1.1 - 31.3		1.1 - 31.12
		2018	2017	2017
<b>PROFIT FOR THE PERIOD</b>		132	147	558
<b>ITEMS NOT TO BE RECLASSIFIED TO P&amp;L</b>				
Actuarial gains and losses (after tax)		-	-	-6
<b>TOTAL</b>		-	-	-6
<hr/>				
<b>ITEMS TO BE RECLASSIFIED TO P&amp;L</b>				
Change in hedging-reserve after tax (cash flow)	7	105	14	82
Change in hedging-reserve after tax (net investment in subsidiaries)	7	17	-	13
Translation effects		-36	6	-7
<b>TOTAL</b>		86	20	88
<hr/>				
<b>THE GROUP'S COMPREHENSIVE INCOME</b>		218	167	640
Comprehensive income non-controlling interests		-11	-	-11
Comprehensive income owners of the parent		229	167	651

<sup>1</sup> Non-GAAP measure, see page 19 for definition.

# THE GROUP'S CONDENSED BALANCE SHEET

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	31.3.2018	31.12.2017
Intangible assets	12	105	111
Property, plant and equipment	12	3,197	3,126
Other assets	8	123	93
Investment in joint venture		118	118
<b>NON-CURRENT ASSETS</b>		<b>3,543</b>	<b>3,448</b>
Inventories		718	734
Receivables	8	1,059	971
Cash and cash deposits	10	92	180
<b>CURRENT ASSETS</b>		<b>1,869</b>	<b>1,885</b>
<b>TOTAL ASSETS</b>		<b>5,412</b>	<b>5,333</b>
Group equity	9	3,091	2,889
Non-controlling interests		128	107
<b>EQUITY</b>		<b>3,219</b>	<b>2,996</b>
Provisions and other liabilities		282	277
Interest-bearing liabilities	8, 10	757	743
<b>NON-CURRENT LIABILITIES</b>		<b>1,039</b>	<b>1,020</b>
Interest-bearing liabilities	8, 10	279	283
Other current liabilities	8	875	1,034
<b>CURRENT LIABILITIES</b>		<b>1,154</b>	<b>1,317</b>
<b>EQUITY AND LIABILITIES</b>		<b>5,412</b>	<b>5,333</b>
Equity ratio <sup>1</sup>		59.5 %	56.2 %

## CHANGES IN EQUITY

### INTERIM CONDENSED CHANGE IN EQUITY

Amounts in NOK million	NOTE	1.1 - 31.3.2018			1.1 - 31.12.2017		
		Controlling interests	Non-controlling interests	Total equity	Controlling interests	Non-controlling interests	Total equity
Equity 1 January		2,889	107	2,996	2,679	34	2,713
<b>PROFIT/LOSS FOR THE PERIOD</b>		<b>137</b>	<b>-5</b>	<b>132</b>	<b>566</b>	<b>-8</b>	<b>558</b>
Items in Comprehensive Income	7	92	-6	86	85	-3	82
<b>THE GROUP'S COMPREHENSIVE INCOME</b>	<b>7</b>	<b>229</b>	<b>-11</b>	<b>218</b>	<b>651</b>	<b>-11</b>	<b>640</b>
Paid dividend		-	-	-	-349	-	-349
Buy-back of treasury shares		-22	-	-22	-29	-	-29
Exercise of share options		-	-	-	-	-	-
Shares to employees		23	-	23	15	-	15
Option costs (share based payment)		1	-	1	6	-	6
Transaction with non-controlling interest		-29	32	3	-84	84	-
<b>EQUITY AT THE END OF THE PERIOD</b>		<b>3,091</b>	<b>128</b>	<b>3,219</b>	<b>2,889</b>	<b>107</b>	<b>2,996</b>

<sup>1</sup> Non-GAAP measure, see page 19 for definition.

# THE GROUP'S CONDENSED CASH FLOW STATEMENT

## INTERIM CONDENSED CASH FLOW STATEMENT

Amounts in NOK million	NOTE	1.1 - 31.3		1.1 - 31.12
		2018	2017	2017
Profit before taxes		169	195	715
Amortisation, depreciation and impairment charges		76	75	316
Changes in net working capital, etc.		-142	-156	-92
Dividend (share of profit) from JV		-	-2	11
Taxes paid		-72	-30	-170
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>31</b>	<b>82</b>	<b>780</b>
Investments property, plant and equipment and intangible assets*		-177	-159	-968
Other capital transactions		4	2	10
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-173</b>	<b>-157</b>	<b>-958</b>
Dividends		-	-	-349
Proceeds from exercise of options/shares to employees		17	11	11
Buy-back of shares	6	-22	-29	-29
Gain/(loss) on hedges for net investments in subsidiaries		40	9	8
<b>NET PAID TO/FROM SHAREHOLDERS</b>		<b>35</b>	<b>-9</b>	<b>-359</b>
Proceeds from interest-bearing liabilities	10	233	5	668
Repayment of interest-bearing liabilities	10	-202	-27	-258
Change in interest-bearing receivables/other liabilities	10	-7	23	46
<b>CHANGE IN NET INTEREST-BEARING LIABILITIES</b>		<b>24</b>	<b>1</b>	<b>456</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>59</b>	<b>-8</b>	<b>97</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-83</b>	<b>-83</b>	<b>-81</b>
Cash and cash equivalents at beginning of period		180	265	265
Change in cash and cash equivalents		-83	-83	-81
Currency effects cash and cash equivalents		-5	-	-4
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>10</b>	<b>92</b>	<b>182</b>	<b>180</b>
* Investment by category				
Replacement investments		32	78	344
Expansion investments <sup>1</sup>		145	81	624

<sup>1</sup> Non-GAAP measure, see page 19 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 2017 for the Borregaard Group.

IFRS 15, Revenue from contracts with customers, and IFRS 9, Financial Instruments, were implemented from 1 January 2018. As described in the Consolidated Financial Statements for 2017, implementation had no significant impact on the income statement, the statement of financial position or on equity.

### Use of estimates

The same use of estimates has been applied as in the Consolidated Financial Statements for 2017.

## NOTE 02 Segments

### OPERATING REVENUES

Amounts in NOK million	1.1 - 31.3		1.1 - 31.12
	2018	2017	2017
<b>BORREGAARD</b>	<b>1,217</b>	<b>1,136</b>	<b>4,618</b>
Performance Chemicals	555	550	2,176
Speciality Cellulose	434	412	1,698
Other Businesses	239	183	783
Eliminations	-11	-9	-39

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

of allocations from the corporate headquarter.

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## cont. NOTE 02 Segments

EBITA ADJ.<sup>1</sup>

Amounts in NOK million	1.1 - 31.3		1.1 - 31.12
	2018	2017	2017
<b>BORREGAARD</b>	<b>177</b>	<b>200</b>	<b>749</b>
Performance Chemicals	115	132	449
Speciality Cellulose	64	89	350
Other Businesses	-2	-21	-50
<b>RECONCILIATION AGAINST OPERATING PROFIT &amp; PROFIT BEFORE TAX</b>			
<b>EBITA ADJ.<sup>1</sup></b>	<b>177</b>	<b>200</b>	<b>749</b>
Amortisation intangible assets	-1	-1	-4
Other income and expenses <sup>1</sup>	-	-	-9
<b>OPERATING PROFIT</b>	<b>176</b>	<b>199</b>	<b>736</b>
Financial items, net	-7	-4	-21
<b>PROFIT BEFORE TAXES</b>	<b>169</b>	<b>195</b>	<b>715</b>

## SALES REVENUES

Amounts in NOK million	1.1 - 31.3		1.1 - 31.12
	2018	2017	2017
<b>BORREGAARD</b>	<b>1,195</b>	<b>1,110</b>	<b>4,522</b>
Performance Chemicals	542	535	2,117
Cellulose	406	379	1,566
Bioethanol	28	30	121
Fine Chemicals	73	49	242
Ingredients	116	86	358
Other	30	31	118

Operating revenues consist of sales revenues and other revenues such as commissions, revenues from waste received for incineration etc.

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

There are no Other income and expenses<sup>1</sup> in the 1<sup>st</sup> quarter of 2018.

## NOTE 04 Income tax expense

The tax rate of 21.9% (24.6%) for the first three months of 2018 is a compilation of the tax rates in the various countries in which Borregaard operates and has taxable income. The tax rate in Norway was reduced from 24% to 23% from 1 January 2018 and in USA the tax rate was reduced from 35% to 21%. Borregaard's normal tax rate is expected to be in the range 20-23%.

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.

<sup>1</sup> Non-GAAP measure, see page 19 for definition.

**NOTE 05** Earnings per share (EPS)

The share capital consists of 100 million shares. The company holds 474,764 treasury shares. As of 31 March 2018, there are 99,726,317 diluted shares

(99,957,469 as of 31 December 2017). Earnings per diluted share were NOK 1.37 in the 1<sup>st</sup> quarter (NOK 1.48 in the 1<sup>st</sup> quarter of 2017).

**NOTE 06** Stock options

During the 1<sup>st</sup> quarter of 2018, 400,000 stock options were granted at a strike price of NOK 80.00. See Note 11.

The Group Executive Management and other key employees hold a total of 1,744,000 stock options in four 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 41.00 adjusted for dividends in 2015-2018, NOK 8.25. The second option programme, comprising 500,000 stock options granted in October 2015, has a strike price of NOK 44.49 adjusted for dividends in 2016-2018, NOK 7.00. The third option programme, comprising 364,000 stock options granted in February

2017, has a strike price of NOK 98.61 adjusted for dividends in 2017 and 2018 of NOK 5.50. The fourth option programme, comprising 400,000 stock options granted in February 2018, has a strike price of NOK 78.00 adjusted for dividend in 2018. The share options in the four different programmes will expire after five years, the vesting period is three years and the options can be exercised during the last two years.

As part of the employee share programme, Borregaard has sold a total of 309,301 shares to employees in February 2018. The share price was NOK 55.05 per share after deduction of a 25% discount. Cost in 2018, including administration costs, related to the share purchase programme amounts to approximately NOK 6.5 million.

**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.

Amounts in NOK million	31.3.2018		31.3.2017	
	Cash flow hedges	Hedges of net investments in subsidiaries	Cash flow hedges	Hedges of net investments in subsidiaries
Tax effect ytd	22	-28	-32	-37
Hedging reserve after tax	70	-68	-103	-98

<sup>1</sup> Non-GAAP measure, see page 19 for definition.

## 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 2017 to the 1<sup>st</sup> quarter of 2018. 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 31 March 2018:

### FINANCIAL ASSETS

Amounts in NOK million	LEVEL	31.3.2018		31.12.2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial receivables	2	33	33	36	36
Non-current derivatives	2	80	80	48	48
Current derivatives	2	93	93	58	58
<b>TOTAL FINANCIAL ASSETS</b>		<b>206</b>	<b>206</b>	<b>142</b>	<b>142</b>

### FINANCIAL LIABILITIES

Non-current financial liabilities	2, 3	766	766	753	753
Non-current derivatives	2	38	38	61	61
Current financial liabilities	2	279	279	283	283
Current derivatives	2	56	56	75	75
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>1,139</b>	<b>1,139</b>	<b>1,172</b>	<b>1,172</b>

### FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million		LEVEL 1	LEVEL 2	LEVEL 3	
<b>FOREIGN CURRENCY FORWARD CONTRACTS</b>	<b>31.3.2018</b>	<b>-933</b>	<b>-</b>	<b>-733</b>	<b>-200</b>
<b>FINANCIAL INSTRUMENTS</b>	<b>31.12.2017</b>	<b>-1,030</b>	<b>-</b>	<b>-830</b>	<b>-200</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	31.3.2018	31.12.2017
Share capital	100	100
Treasury shares	-	-
Share premium	1,346	1,346
Other paid-in capital	442	418
Translation effects	52	82
Hedging reserve (after tax)	2	-120
Actuarial gains/losses	-22	-22
Retained earnings	1,171	1,085
<b>GROUP EQUITY (CONTROLLING INTERESTS)</b>	<b>3,091</b>	<b>2,889</b>

As of 31 March 2018, the company held 474,764 treasury shares at an average cost of NOK 82.28.

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

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

Amounts in NOK million	31.3.2018	31.12.2017
Non-current interest-bearing liabilities	757	743
Current interest-bearing liabilities including overdraft of cashpool	279	283
Non-current interest-bearing receivables (included in "Other Assets")	-	-1
Cash and cash deposits	-92	-180
<b>NET INTEREST-BEARING DEBT<sup>1</sup></b>	<b>944</b>	<b>845</b>

## NOTE 11 Related parties

The members of the Group Executive Management of Borregaard held a total of 970,000 stock options in the Company as of 31 March 2018.

## 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 1<sup>st</sup> quarter of 2018.

## NOTE 13 Other matters and subsequent events

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 19 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 are 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 are 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.

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 - 31.3		1.1 - 31.12
Capital employed end of	2018	2017	2017
Q1, 2016		3,524	
Q2, 2016		3,481	
Q3, 2016		3,413	
Q4, 2016		3,508	3,508
Q1, 2017	3,754	3,754	3,754
Q2, 2017	4,003		4,003
Q3, 2017	4,044		4,044
Q4, 2017	4,256		4,256
Q1, 2018	4,454		
<b>AVERAGE</b>	<b>4,102</b>	<b>3,536</b>	<b>3,913</b>
<b>EBITA ADJ. (LTM)</b>	<b>726</b>	<b>776</b>	<b>749</b>
<b>ROCE (%)</b>	<b>17.7</b>	<b>21.9</b>	<b>19.1</b>



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