

# 3<sup>RD</sup> QUARTER 2019

INTERIM REPORT



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# Q3 2019



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

- *EBITA adj.<sup>1</sup> NOK 180 million (NOK 145 million)<sup>2</sup>*
- *Improved results in all business areas*
- *Favourable product mix but lower volume for Performance Chemicals*
- *Improved product mix and higher production in Speciality Cellulose*
- *Continued strong improvement in Ingredients*
- *Positive net currency impact*

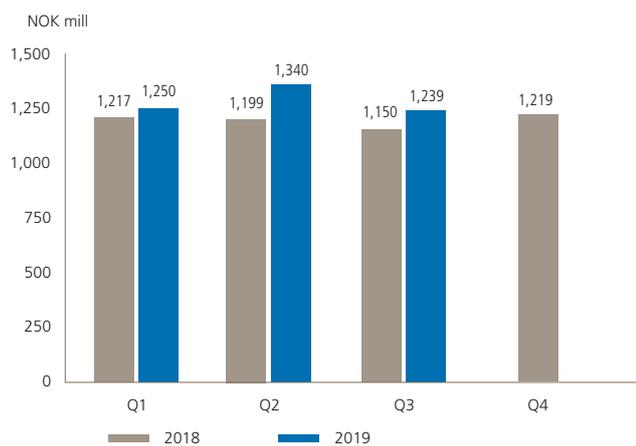
<sup>1</sup> Alternative performance measure, see page 22 for definition.

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

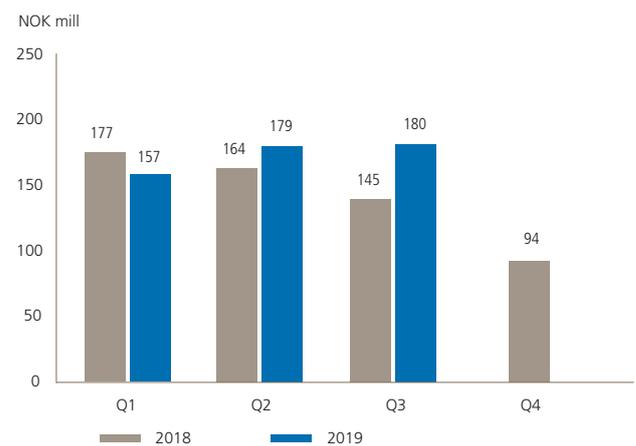
# THE GROUP

Amounts in NOK million	Note	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2019	2018	2019	2018	2018
Operating revenues	2	1,239	1,150	3,829	3,566	4,785
EBITDA adj. <sup>1</sup>		286	229	824	720	903
EBITA adj. <sup>1</sup>	2	180	145	516	486	580
Profit/loss before taxes		156	150	437	478	562
Earnings per share (NOK)		1.31	1.27	3.79	3.96	4.76
Net interest-bearing debt <sup>1</sup>	11	1,576	1,096	1,576	1,096	1,297
Equity ratio <sup>1</sup> (%)		49.5	55.8	49.5	55.8	55.8
Leverage ratio <sup>1</sup>		1.65	1.20	1.65	1.20	1.44
Return on capital employed <sup>1</sup> (%)		11.7	13.6	11.7	13.6	12.7

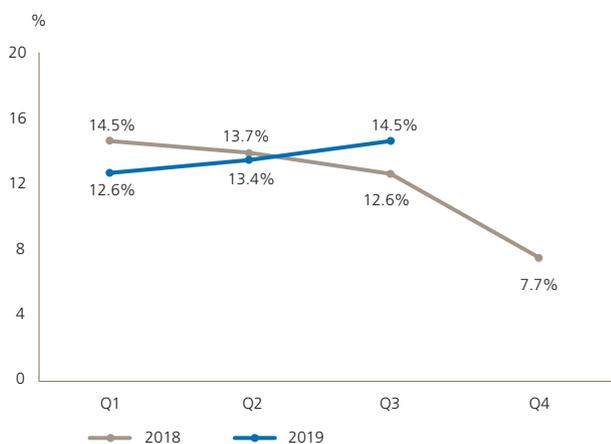
## OPERATING REVENUES



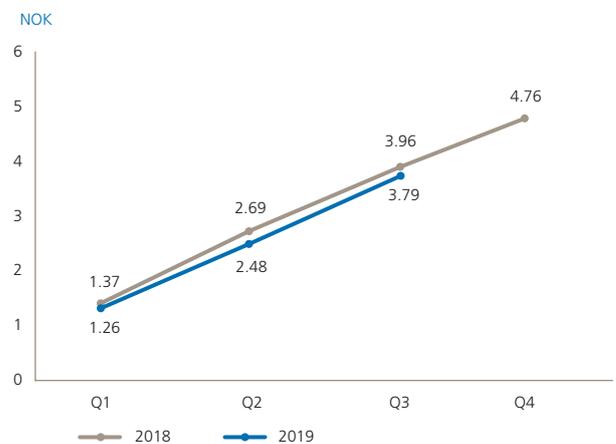
## EBITA ADJ.<sup>1</sup>



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



## EARNINGS PER SHARE CUMULATIVE



<sup>1</sup> Alternative performance measure, see page 22 for definition.

### THIRD QUARTER

Borregaard's operating revenues were NOK 1,239 million (NOK 1,150 million)<sup>2</sup> in the 3<sup>rd</sup> quarter of 2019. EBITA adj.<sup>1</sup> increased to NOK 180 million (NOK 145 million). All business areas improved their result compared with the corresponding quarter in 2018.

Performance Chemicals had lower distribution costs and a favourable product mix, but a lower sales volume. An improved product mix and high production volume had a positive impact on Speciality Cellulose. Other Businesses improved as a result of higher sales prices in Ingredients. The total net currency impact was positive.

Net financial items were NOK -23 million (NOK 6 million). Net interest expenses increased by NOK 8 million, mainly due to the impact from the implementation of IFRS 16 Leases. In the 3<sup>rd</sup> quarter of 2018, net financial items were affected by a NOK 20 million gain on sale of a minority stake in a US chemical company.

Profit before tax was NOK 156 million (NOK 150 million). Tax expense was NOK -38 million (NOK -45 million), giving a tax rate of 24% (30%) in the quarter.

Earnings per share were NOK 1.31 (NOK 1.27).

Cash flow from operations<sup>1</sup> was NOK 249 million (NOK 272 million). The decline was mainly due to an unfavourable development in net working capital compared with the 3<sup>rd</sup> quarter of 2018, partly offset by the positive cash effect of an increased EBITDA adj.<sup>1</sup>.

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

In the first nine months of 2019, Borregaard's operating revenues were NOK 3,829 million (NOK 3,566 million). EBITA adj.<sup>1</sup> increased to NOK 516 million (NOK 486 million). Other Businesses' result improved significantly compared with the corresponding period in 2018, whereas Performance Chemicals and Speciality Cellulose had a decline. The net currency impact was positive. The implementation of IFRS 16 Leases had a positive impact of NOK 7 million on EBITA adj.<sup>1</sup>.

Higher fixed costs and depreciation from the Florida start-up affected EBITA adj.<sup>1</sup> in Performance Chemicals negatively compared with the first nine months in 2018. Higher wood costs was the main reason for a weaker result in Speciality Cellulose. Other Businesses improved, mainly as a result of higher sales prices for wood based vanillin.

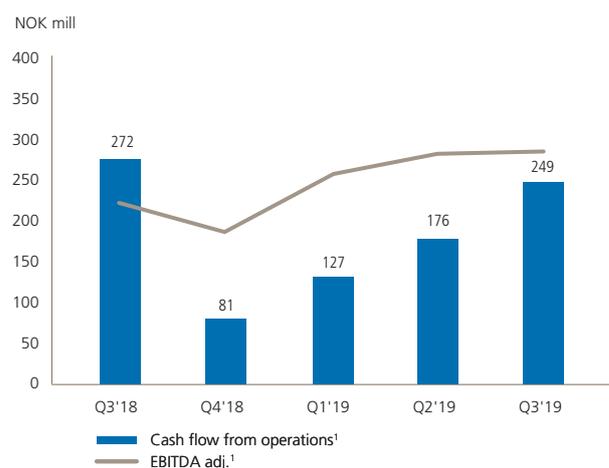
Other income and expenses<sup>1</sup> were NOK -16 million (NOK 0 million) due to restructuring of the German lignin operation.

Net financial items amounted to NOK -60 million (NOK -5 million). Profit before tax was NOK 437 million (NOK 478 million). Tax expense was NOK -104 million (NOK -118 million), giving a tax rate of 24% (25%).

Earnings per share were NOK 3.79 (NOK 3.96).

Cash flow from operations<sup>1</sup> was NOK 552 million (NOK 628 million). The decline was mainly due to an unfavourable development in net working capital compared with the first nine months of 2018, partly offset by the positive cash effect of an increased EBITDA adj.<sup>1</sup>.

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



<sup>1</sup> Alternative performance measure, see page 22 for definition.

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

# BUSINESS AREAS

## PERFORMANCE CHEMICALS

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2019	2018	2019	2018	2018
Operating revenues	564	559	1,782	1,685	2,237
EBITA adj. <sup>1</sup>	67	55	261	272	314
EBITA adj. margin <sup>1</sup> (%)	11.9	9.8	14.6	16.1	14.0

### THIRD QUARTER

Operating revenues in Performance Chemicals reached NOK 564 million (NOK 559 million) in the 3<sup>rd</sup> quarter. EBITA adj.<sup>1</sup> was NOK 67 million (NOK 55 million). EBITA adj.<sup>1</sup> increased mainly due to lower distribution costs, favourable product mix and positive currency effects, partly offset by higher depreciation related to the upgrade of the lignin operation and the new warehouse in Norway. The favourable product mix more than compensated for the effect of a 1% lower average price in sales currency.

The sales volume was lower than expected and declined by 2% compared with the 3<sup>rd</sup> quarter of 2018. Specialities had volume growth, while volumes for Industrial products and Construction were lower than in the 3<sup>rd</sup> quarter last year. Strong competition in Construction and certain low value applications in Industrial affected sales volumes. Sales volume from the Florida plant was in accordance with the ramp-up plan. Raw material deliveries from Flambeau River Papers were reduced in the 3<sup>rd</sup> quarter. See notification to the Oslo Stock Exchange on 9 May 2019.

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



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

In the first nine months of 2019, Performance Chemicals had operating revenues of NOK 1,782 million (NOK 1,685 million). EBITA adj.<sup>1</sup> was NOK 261 million (NOK 272 million). Higher fixed costs and depreciation for the Florida plant had a negative impact on EBITA adj.<sup>1</sup>, but were largely offset by positive net currency effects, favourable product mix and lower distribution costs. The favourable product mix more than compensated for the effect of a 2% lower average price in sales currency in the first nine months of 2018.

Total sales volume was 2% higher than in the first nine months of 2018, with growth for Industrial and Specialities, whereas Construction volumes were reduced.

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



<sup>1</sup> Alternative performance measure, see page 22 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	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2019	2018	2019	2018	2018
Operating revenues	425	381	1,299	1,242	1,669
EBITA adj. <sup>1</sup>	82	76	165	207	257
EBITA adj. margin <sup>1</sup> (%)	19.3	19.9	12.7	16.7	15.4

### THIRD QUARTER

Operating revenues for Speciality Cellulose were NOK 425 million (NOK 381 million) in the 3<sup>rd</sup> quarter. EBITA adj.<sup>1</sup> increased to NOK 82 million (NOK 76 million) due to an improved product mix, high production volume and positive net currency impact, partly offset by higher wood costs and a more costly product mix. The average price in sales currency was marginally below the same period in 2018, as an increased share of highly specialised products did not fully compensate for weaker prices primarily for acetate and textile cellulose.

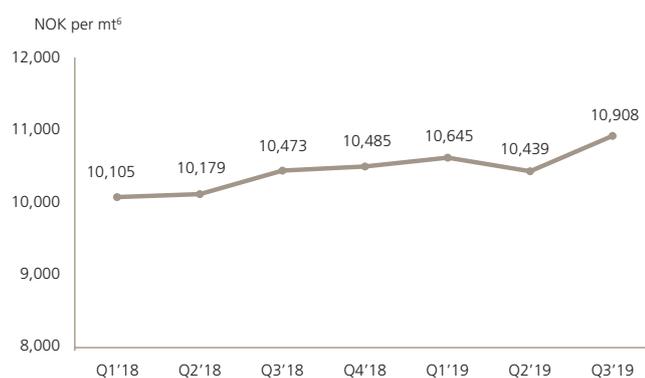
The result for bioethanol increased, mainly due to higher production volume and lower production costs.

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

Operating revenues in the first nine months of 2019 were NOK 1,299 million (NOK 1,242 million). EBITA adj.<sup>1</sup> was NOK 165 million (NOK 207 million). The reduced EBITA adj.<sup>1</sup> was mainly due to increased wood costs. The average price in sales currency was in line with the same period last year, as improved product mix compensated for weaker prices primarily for acetate and textile cellulose. Net currency effects were positive.

The result for bioethanol improved, mainly due to higher sales and production volume, improved product mix and lower production costs.

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



### SALES VOLUME



<sup>1</sup> Alternative performance measure, see page 22 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	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2019	2018	2019	2018	2018
Operating revenues	266	223	796	674	927
EBITA adj. <sup>1</sup>	31	14	90	7	9
EBITA adj. margin <sup>1</sup> (%)	11.7	6.3	11.3	1.0	1.0

### THIRD QUARTER

Other Businesses' operating revenues reached NOK 266 million (NOK 223 million), a 19% growth from the 3<sup>rd</sup> quarter last year. EBITA adj.<sup>1</sup> increased to NOK 31 million (NOK 14 million) mainly due to a strong result from higher sales prices for wood based vanillin.

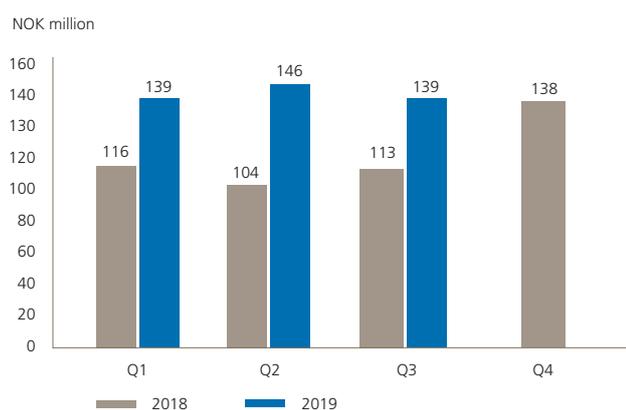
Fine Chemicals' result improved due to higher deliveries and a favourable product mix compared with the 3<sup>rd</sup> quarter of 2018. Cellulose Fibrils had a weaker result as reduced cost coverage from EU's Horizon 2020<sup>7</sup> grant were not fully compensated by higher sales and improved productivity. Net corporate costs were in line with the corresponding quarter of 2018.

The total net currency impact in Other Businesses was positive.

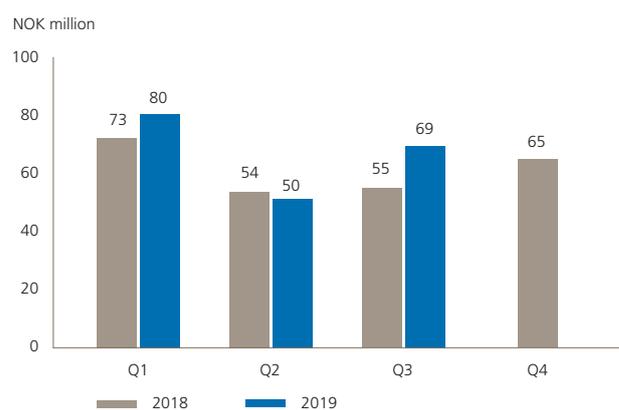
### YEAR-TO-DATE (1.1 - 30.9)

Operating revenues in Other Businesses were NOK 796 million (NOK 674 million) in the first nine months of 2019. EBITA adj.<sup>1</sup> increased to NOK 90 million (NOK 7 million). Higher sales prices for wood based vanillin was the main reason for the improved result. Fine Chemicals had a slightly better result compared with the first nine months of 2018, whereas Cellulose Fibrils and net corporate costs were in line with the results in the first nine months of 2018. The total net currency impact in Other Businesses was positive.

### INGREDIENTS – SALES REVENUES



### FINE CHEMICALS – SALES REVENUES



<sup>1</sup> Alternative performance measure, see page 22 for definition.

<sup>7</sup> The Exilva project has received funding from the Bio-Based Industries Joint Undertaking (BBI) under the European Union's Horizon 2020 research and innovation programme under grant agreement No 709746

## FOREIGN EXCHANGE AND HEDGING

Borregaard has a significant currency exposure which is hedged according to the company's hedging strategy. The impact of currency rate fluctuations will be delayed as a result of the currency hedging strategy. Compared with the 3<sup>rd</sup> quarter of 2018, the net impact of foreign exchange on EBITA adj.<sup>1</sup>, including hedging effects, was NOK 20 million. Hedging effects were NOK -23 million (NOK -7 million) in the 3<sup>rd</sup> quarter.

Compared with the first nine months of 2018, the net impact of foreign exchange on EBITA adj.<sup>1</sup>, including

hedging effects, was NOK 80 million. Hedging effects were NOK -44 million (NOK -10 million) in the first nine months.

Assuming currency rates as of 17 October 2019 (USD 9.17 and EUR 10.19) and based on currency exposure forecasts, Borregaard expects a net impact of foreign exchange on EBITA adj.<sup>1</sup> of approximately NOK 15 million in the 4<sup>th</sup> quarter of 2019 and NOK 95 million for the full year of 2019.

## CASH FLOW AND FINANCIAL SITUATION

### THIRD QUARTER

Cash flow from operating activities in the 3<sup>rd</sup> quarter was NOK 232 million (NOK 278 million). The decline was mainly a result of an unfavourable development in net working capital compared with the 3<sup>rd</sup> quarter of 2018, partly offset by the positive cash effect of an increased EBITDA adj.<sup>1</sup> and lower tax payments.

Investments amounted to NOK 101 million (NOK 185 million). Expansion investments<sup>1</sup>, totalling NOK 43 million, were mainly related to the upgrade and specialisation of the lignin operation in Norway.

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

In the first nine months of 2019, cash flow from operating activities was NOK 409 million (NOK 488 million). The decline was mainly due to an unfavourable development in net working capital compared with the first nine months of 2018, partly offset by the positive cash effect of an increased EBITDA adj.<sup>1</sup> and lower tax payments.

Investments in the first nine months of 2019 amounted to NOK 370 million (NOK 549 million). Replacement investments were NOK 188 million (NOK 157 million).

Expansion investments, totalling NOK 182 million, were mainly related to the upgrade and specialisation of the lignin operation in Norway and completion of the lignin plant in Florida.

Dividend of NOK 224 million (NOK 199 million) was paid out in the 2<sup>nd</sup> quarter. Realised effect of hedging of net investments in subsidiaries was NOK -31 million (NOK 18 million) in the first nine months of 2019. The Group has sold and repurchased treasury shares with a net payment of NOK 22 million (NOK 10 million).

On 30 September 2019, the Group had net interest-bearing debt<sup>1</sup> totalling NOK 1,576 million (NOK 1,096 million), an increase of NOK 279 million from year-end 2018.

At the end of September, the Group was well capitalised with an equity ratio<sup>1</sup> of 49.5% and a leverage ratio<sup>1</sup> of 1.65. The implementation of IFRS 16 Leases had a negative impact on the equity ratio<sup>1</sup> of 3.2 percentage points.

<sup>1</sup> Alternative performance measure, see page 22 for definition.

## SHARE INFORMATION

During the 3<sup>rd</sup> quarter of 2019, 45,000 share options were exercised at a strike price of NOK 38.75 per share and 60,000 share options were exercised at a strike price of NOK 42.24 per share. At the same time Borregaard repurchased 91,386 treasury shares at an average price of NOK 93.67.

Total number of shares outstanding on 30 September 2019 was 100 million, including 369,384 treasury shares. Total number of shareholders was 6,387. Borregaard ASA's share price was NOK 97.00 at the end of the 3<sup>rd</sup> quarter, compared with NOK 98.80 at the end of the 2<sup>nd</sup> quarter of 2019 and NOK 74.80 at the end of 2018.

## OTHER MATTERS AND SUBSEQUENT EVENTS

### NEW SUPPLY CONTRACT FOR ELECTRIC POWER WITH E-CO ENERGI

Borregaard and E-CO Energi have entered into a long-term contract for hydroelectric power for a total of 1.66 TWh to be supplied to the Sarpsborg site in the period 2022 to 2033, with annual deliveries increasing from 88 GWh to 175 GWh. This represents approximately 20% of the site's annual consumption of electric power for the period as a whole. See notification to the Oslo Stock Exchange on 23 September 2019.

### RAW MATERIAL SUPPLY FROM FLAMBEAU RIVER PAPERS

The Flambeau River Papers pulp mill in Wisconsin is currently not in operation, and the supply of lignin raw material to Borregaard has therefore stopped. It is unclear whether the mill will be started up again under new ownership, or if it will be permanently shut down. See notification to the Oslo Stock Exchange on 9 May 2019.

### INVESTMENT IN UPGRADE OF CAUSTIC SODA PRODUCTION FACILITY

Borregaard has decided to invest NOK 207 million in the chloralkali plant at the Sarpsborg site in Norway. The investment includes a new electrolyser and rectifier, new facilities for the preparation of brine and tanks for intermediate storage of co-products for external sale. The project will be completed in 2021. The investment is mainly a replacement and modernisation of existing equipment. It will also give a certain increase in production through improved operational stability, reduced energy consumption and improved logistics for serving external customers.

Caustic soda is a strategic process chemical used mainly in the production of speciality cellulose and biobased vanillin. Borregaard's own production represents about two thirds of the total need at the Sarpsborg site, and the rest is purchased from external suppliers. The chloralkali plant in Sarpsborg was converted to membrane technology in 1997. See notification to the Oslo Stock Exchange on 17 October 2019.

## OUTLOOK

Total lignin sales volume in the 4<sup>th</sup> quarter is expected to be in line with the 4<sup>th</sup> quarter of 2018, resulting in a 2% volume increase in 2019 compared with 2018. The effect of strong competition and price pressure for lignin products to concrete admixtures and certain low value applications in Industrial is expected to be largely compensated by a more favourable product mix.

In the 4<sup>th</sup> quarter, the average cellulose price in sales currency is expected to be in line with last year as an improved product mix will compensate for weaker prices primarily for acetate and textile cellulose.

However, a more specialised product mix implies a higher manufacturing cost. Total sales volume and the share of highly specialised cellulose products are expected to be at the same level as in the 3<sup>rd</sup> quarter of 2019.

In Ingredients, the current price level for wood based vanillin is expected to continue. Deliveries from Fine Chemicals are forecast to be in line with the 3<sup>rd</sup> quarter of 2019, but with a weaker product mix. No major changes are expected for Cellulose Fibrils and net corporate costs in the 4<sup>th</sup> quarter.

Sarpsborg, 17 October 2019  
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
		2019	2018	2019	2018	2018
<b>OPERATING REVENUES</b>	<b>2</b>	<b>1,239</b>	<b>1,150</b>	<b>3,829</b>	<b>3,566</b>	<b>4,785</b>
Operating expenses		-953	-921	-3,005	-2,846	-3,882
Depreciation property, plant and equipment		-106	-84	-308	-234	-323
Amortisation intangible assets		-1	-1	-3	-3	-4
Other income and expenses <sup>1</sup>	3	-	-	-16	-	-
<b>OPERATING PROFIT</b>		<b>179</b>	<b>144</b>	<b>497</b>	<b>483</b>	<b>576</b>
Financial items, net	4	-23	6	-60	-5	-14
<b>PROFIT BEFORE TAXES</b>		<b>156</b>	<b>150</b>	<b>437</b>	<b>478</b>	<b>562</b>
Income tax expense	5	-38	-45	-104	-118	-137
<b>PROFIT FOR THE PERIOD</b>		<b>118</b>	<b>105</b>	<b>333</b>	<b>360</b>	<b>425</b>
Profit attributable to non-controlling interests		-13	-22	-46	-36	-51
Profit attributable to owners of the parent		131	127	379	396	476
EBITDA adj <sup>1</sup>		286	229	824	720	903
EBITA adj <sup>1</sup>	2	180	145	516	486	580

## EARNINGS PER SHARE

### INTERIM EARNINGS PER SHARE

Amounts in NOK		1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2019	2018	2019	2018	2018
Earnings per share (100 mill shares)	6	1.31	1.27	3.79	3.96	4.76
Diluted earnings per share	6	1.31	1.27	3.79	3.97	4.76

## 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
		2019	2018	2019	2018	2018
<b>PROFIT FOR THE PERIOD</b>		<b>118</b>	<b>105</b>	<b>333</b>	<b>360</b>	<b>425</b>
<b>ITEMS NOT TO BE RECLASSIFIED TO P&amp;L</b>						
Actuarial gains and losses (after tax)		-	-	-	-	5
<b>TOTAL</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>
<b>ITEMS TO BE RECLASSIFIED TO P&amp;L</b>						
Change in hedging-reserve after tax (cash flow)	8	-180	8	-116	93	-103
Change in hedging-reserve after tax (net investment in subsidiaries)	8	-33	-1	-27	2	-25
Translation effects		48	-3	31	-34	20
<b>TOTAL</b>		<b>-165</b>	<b>4</b>	<b>-112</b>	<b>61</b>	<b>-108</b>
<b>THE GROUP'S COMPREHENSIVE INCOME</b>		<b>-47</b>	<b>109</b>	<b>221</b>	<b>421</b>	<b>322</b>
Comprehensive income non-controlling interests		-3	-21	-38	-34	-42
Comprehensive income owners of the parent		-44	130	259	455	364

<sup>1</sup> Alternative performance measure, see page 22 for definition.

# THE GROUP'S CONDENSED BALANCE SHEET

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	30.9.2019	31.12.2018
Intangible assets	13	90	100
Property, plant and equipment	13	4,164	3,623
Other assets	9	226	230
Investments in joint venture		96	100
<b>NON-CURRENT ASSETS</b>		<b>4,576</b>	<b>4,053</b>
Inventories		955	856
Receivables	9	1,051	956
Cash and cash deposits	11	127	86
<b>CURRENT ASSETS</b>		<b>2,133</b>	<b>1,898</b>
<b>TOTAL ASSETS</b>		<b>6,709</b>	<b>5,951</b>
Group equity	10	3,145	3,123
Non-controlling interests		178	198
<b>EQUITY</b>		<b>3,323</b>	<b>3,321</b>
Provisions and other liabilities		308	271
Interest-bearing liabilities	9,11	1,554	1,115
<b>NON-CURRENT LIABILITIES</b>		<b>1,862</b>	<b>1,386</b>
Interest-bearing liabilities	9,11	548	272
Other current liabilities	9	976	972
<b>CURRENT LIABILITIES</b>		<b>1,524</b>	<b>1,244</b>
<b>EQUITY AND LIABILITIES</b>		<b>6,709</b>	<b>5,951</b>
Equity ratio <sup>1</sup>		49.5%	55.8%

## CHANGES IN EQUITY

### INTERIM CONDENSED CHANGE IN EQUITY

Amounts in NOK million	NOTE	1.1 - 30.9.2019			1.1 - 31.12.2018		
		Controlling interests	Non-controlling interests	Total equity	Controlling interests	Non-controlling interests	Total equity
Equity 1 January		3,123	198	3,321	2,889	107	2,996
<b>PROFIT/LOSS FOR THE PERIOD</b>		<b>379</b>	<b>-46</b>	<b>333</b>	<b>476</b>	<b>-51</b>	<b>425</b>
Items in Comprehensive Income	8	-120	8	-112	-112	9	-103
<b>THE GROUP'S COMPREHENSIVE INCOME</b>	<b>7</b>	<b>259</b>	<b>-38</b>	<b>221</b>	<b>364</b>	<b>-42</b>	<b>322</b>
Paid dividend		-224	-	-224	-199	-	-199
Buy-back of treasury shares		-56	-	-56	-32	-	-32
Exercise of share options		17	-	17	6	-	6
Shares to employees		23	-	23	23	-	23
Option costs (share based payment)		6	-	6	6	-	6
Transaction with non-controlling interest		-3	18	15	66	133	199
<b>EQUITY AT THE END OF THE PERIOD</b>		<b>3,145</b>	<b>178</b>	<b>3,323</b>	<b>3,123</b>	<b>198</b>	<b>3,321</b>

<sup>1</sup> Alternative performance measure, see page 22 for definition.

# 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
		2019	2018	2019	2018	2018
Profit before taxes		156	150	437	478	562
Amortisation, depreciation and impairment charges		107	85	311	237	327
Changes in net working capital, etc.		-37	43	-256	-92	-194
Dividend (share of profit) from JV		3	3	3	6	6
Taxes paid		3	-3	-86	-141	-143
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>232</b>	<b>278</b>	<b>409</b>	<b>488</b>	<b>558</b>
Investments property, plant and equipment and intangible assets *		-101	-185	-370	-549	-762
Other capital transactions		10	2	21	11	13
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-91</b>	<b>-183</b>	<b>-349</b>	<b>-538</b>	<b>-749</b>
Dividends		0	-	-224	-199	-199
Proceeds from exercise of options/shares to employees	10	4	1	34	22	23
Buy-back of shares	7	-8	-2	-56	-32	-32
Gain/(loss) on hedges for net investments in subsidiaries		-40	5	-31	18	-22
<b>NET PAID TO/FROM SHAREHOLDERS</b>		<b>-44</b>	<b>4</b>	<b>-277</b>	<b>-191</b>	<b>-230</b>
Proceeds from interest-bearing liabilities	11	351	51	1,698	1,253	1,292
Repayment from interest-bearing liabilities	11	-425	-3	-1,478	-936	-960
Change in interest-bearing receivables/other liabilities	11	5	-5	-2	-16	-2
<b>CHANGE IN NET INTEREST-BEARING LIABILITIES</b>		<b>-69</b>	<b>43</b>	<b>218</b>	<b>301</b>	<b>330</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>-113</b>	<b>47</b>	<b>-59</b>	<b>110</b>	<b>100</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>28</b>	<b>142</b>	<b>1</b>	<b>60</b>	<b>-91</b>
Cash and cash equivalents at beginning of period		59	90	86	180	180
Change in cash and cash equivalents		28	142	1	60	-91
Currency effects cash and cash equivalents		5	-1	5	-9	-3
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>11</b>	<b>92</b>	<b>231</b>	<b>92</b>	<b>231</b>	<b>86</b>
*Investment by category						
Replacement investments		58	74	188	157	346
Expansion investments <sup>1</sup>		43	111	182	392	416

<sup>1</sup> Alternative performance measure, see page 22 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 2018 for the Borregaard Group.

IFRS 16, Leases, was implemented from 1 January 2019 according to "the modified retrospective method". See note 14 for impact on the Groups Financial Statements.

### Use of estimates

The same use of estimates has been applied as in the Consolidated Financial Statements for 2018.

## NOTE 02 Segments

### OPERATING REVENUES

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2019	2018	2019	2018	2018
<b>BORREGAARD</b>	<b>1,239</b>	<b>1,150</b>	<b>3,829</b>	<b>3,566</b>	<b>4,785</b>
Performance Chemicals	564	559	1,782	1,685	2,237
Speciality Cellulose	425	381	1,299	1,242	1,669
Other Businesses	266	223	796	674	927
Eliminations	-16	-13	-48	-35	-48

There is limited intercompany sales between the different segments and eliminations consist essentially of allocations from the corporate headquarter.

cont. next page

## cont. NOTE 02 Segments

EBITA ADJ.<sup>1</sup>

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2019	2018	2019	2018	2018
<b>BORREGAARD</b>	<b>180</b>	<b>145</b>	<b>516</b>	<b>486</b>	<b>580</b>
Performance Chemicals	67	55	261	272	314
Speciality Cellulose	82	76	165	207	257
Other Businesses	31	14	90	7	9
<b>RECONCILIATION AGAINST OPERATING PROFIT &amp; PROFIT BEFORE TAX</b>					
<b>EBITA ADJ.<sup>1</sup></b>	<b>180</b>	<b>145</b>	<b>516</b>	<b>486</b>	<b>580</b>
Amortisation intangible assets	-1	-1	-3	-3	-4
Other income and expenses <sup>1</sup>	-	-	-16	-	-
<b>OPERATING PROFIT</b>	<b>179</b>	<b>144</b>	<b>497</b>	<b>483</b>	<b>576</b>
Financial items, net	-23	6	-60	-5	-14
<b>PROFIT BEFORE TAXES</b>	<b>156</b>	<b>150</b>	<b>437</b>	<b>478</b>	<b>562</b>

## SALES REVENUES

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2019	2018	2019	2018	2018
<b>BORREGAARD</b>	<b>1,214</b>	<b>1,131</b>	<b>3,747</b>	<b>3,505</b>	<b>4,705</b>
Performance Chemicals	544	547	1,711	1,646	2,183
Cellulose	399	347	1,201	1,149	1,548
Bioethanol	25	32	97	91	120
Fine Chemicals	69	55	199	182	247
Ingredients	139	113	424	333	471
Other	38	37	115	104	136

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 3<sup>rd</sup> quarter of 2019.

## NOTE 04 Financial items

## NET FINANCIAL ITEMS

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2019	2018	2019	2018	2018
Net interest expenses	-19	-11	-50	-20	-32
Currency gain/loss	-4	-2	-9	-3	-3
Other financial items, net	-	19	-1	18	21
<b>NET FINANCIAL ITEMS</b>	<b>-23</b>	<b>6</b>	<b>-60</b>	<b>-5</b>	<b>-14</b>

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<sup>1</sup> Alternative performance measure, see page 22 for definition.

## cont. NOTE 04 Financial items

In the 3<sup>rd</sup> quarter of 2018, other financial items were affected by a NOK 20 million gain on sale of a minority stake in a US chemical company.

## NOTE 05 Income tax expense

The tax rate of 23.8% (24.7%) for the first nine months of 2019 is a compilation of the tax rates in the various countries in which Borregaard operates and has taxable income. The corporate income tax rate in Norway was reduced from 23% to 22% from 1 January 2019. Borregaard's normal tax rate is expected to be in the range 21-24%.

In addition to the compilation of the tax rates in the various countries in which Borregaard operates and has taxable income, the income tax rate for the Group is also impacted by the following: LignoTech Florida is a limited

liability company (LLC) which is taxed on the owners' hand. Profit before tax is 100% consolidated in the Borregaard Group, whereas the tax expense is calculated based on Borregaard's 55% ownership. Consequently, profit attributable to non-controlling interests for LignoTech Florida (45%) is calculated on profit before tax. Share of profit after tax from the joint venture, LignoTech South Africa, is accounted for as part of operating profit and profit before tax (due to IFRS 11). There are carry forward losses in the Group which will not be recognised as deferred tax assets, and hence increase the Group's tax rate.

## NOTE 06 Earnings per share (EPS)

The share capital consists of 100 million shares. The company holds 369,384 treasury shares. As of 30 September 2019, there are 99,831,026 diluted shares

(99,901,117 as of 31 December 2018). Earnings per diluted share were NOK 1.31 in the 3<sup>rd</sup> quarter (NOK 1.27 in the 3<sup>rd</sup> quarter of 2018).

## NOTE 07 Stock options

During the 3<sup>rd</sup> quarter of 2019, 45,000 share options were exercised at a strike of NOK 38.75 and 60,000 share options were exercised at strike price of NOK 42.24.

The Group Executive Management and other key employees hold a total of 1,426,000 stock options in four different share option programmes in Borregaard.

The first option programme, comprising 355,000 stock options granted in October 2015, has a strike price of NOK 42.24 adjusted for dividends in 2016-2019, NOK 9.25. The second option programme, comprising 331,000

stock options granted in February 2017, has a strike price of NOK 96.36 adjusted for dividends in 2017-2019 of NOK 7.75. The third option programme, comprising 370,000 stock options granted in February 2018, has a strike price of NOK 75.75 adjusted for dividend in 2018 and 2019 of NOK 4.25. The fourth option programme, comprising 370,000 stock options granted in February 2019, has a strike price of NOK 80.10 adjusted for dividend in 2019 of NOK 2.25. 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.

## NOTE 08 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	30.9.2019		30.9.2018	
	Cash flow hedges	Hedges of net investments in subsidiaries	Cash flow hedges	Hedges of net investments in subsidiaries
Tax effect year-to-date	-73	-46	17	-32
Hedging reserve after tax	-254	-137	58	-83

## NOTE 09 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 2018 to the 3<sup>rd</sup> quarter of 2019. 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 2019:

### FINANCIAL ASSETS

Amounts in NOK million	LEVEL	30.9.2019		31.12.2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial receivables	2	221	221	225	225
Non-current derivatives	2	4	4	3	3
Current derivatives	2	9	9	16	16
<b>TOTAL FINANCIAL ASSETS</b>		<b>234</b>	<b>234</b>	<b>244</b>	<b>244</b>

### FINANCIAL LIABILITIES

Non-current financial liabilities	2,3	1,555	1,555	1,116	1,116
Non-current derivatives	2	191	191	116	116
Current financial liabilities	2	513	513	272	272
Current derivatives	2	148	148	79	79
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>2,407</b>	<b>2,407</b>	<b>1,583</b>	<b>1,583</b>

### FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million	LEVEL 1	LEVEL 2	LEVEL 3
<b>FINANCIAL INSTRUMENTS 30.9.2019</b>	-2,173	-1,773	-400
<b>FINANCIAL INSTRUMENTS 31.12.2018</b>	-1,339	-739	-600

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 10 Compilation of Equity

Amounts in NOK million	30.9.2019	31.12.2018
Share capital	100	100
Treasury shares	-	-
Share premium	1,346	1,346
Other paid-in capital	691	645
Translation effects	116	93
Hedging reserve (after tax)	-391	-248
Actuarial gains/losses	-17	-17
Retained earnings	1,300	1,204
<b>GROUP EQUITY (CONTROLLING INTERESTS)</b>	<b>3,145</b>	<b>3,123</b>

As of 30 September 2019, the company held 369,384 treasury shares at an average cost of NOK 91.13.

## NOTE 11 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	30.9.2019	31.12.2018
Non-current interest-bearing liabilities	1,554	1,115
Current interest-bearing liabilities including overdraft of cashpool	548	272
Non-current interest-bearing receivables (included in "Other Assets")	-4	-4
Cash and cash deposits	-127	-86
<b>NET INTEREST-BEARING DEBT<sup>1</sup></b>	<b>1,971</b>	<b>1,297</b>
<b>IMPACT OF IFRS 16 LEASES</b>	<b>395</b>	<b>-</b>
<b>NET INTEREST-BEARING DEBT<sup>1</sup> EXCLUDING IMPACT OF IFRS 16 LEASES</b>	<b>1,576</b>	<b>1,297</b>

## NOTE 12 Related parties

The members of the Group Executive Management of Borregaard held a total of 716,000, stock options in the Company as of 30 September 2019.

## NOTE 13 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 2019.

<sup>1</sup> Alternative performance measure, see page 22 for definition.

## NOTE 14 Other matters and subsequent events

### NEW SUPPLY CONTRACT FOR ELECTRIC POWER WITH E-CO ENERGI

Borregaard and E-CO Energi have entered into a long-term contract for hydroelectric power for a total of 1.66 TWh to be supplied to the Sarpsborg site in the period 2022 to 2033, with annual deliveries increasing from 88 GWh to 175 GWh. This represents approximately 20% of the site's annual consumption of electric power for the period as a whole. See notification to the Oslo Stock Exchange on 23 September 2019.

### RAW MATERIAL SUPPLY FROM FLAMBEAU RIVER PAPERS

The Flambeau River Papers pulp mill in Wisconsin is currently not in operation, and the supply of lignin raw material to Borregaard has therefore stopped. It is unclear whether the mill will be started up again under new ownership, or if it will be permanently shut down. See notification to the Oslo Stock Exchange on 9 May 2019.

### INVESTMENT IN UPGRADE OF CAUSTIC SODA PRODUCTION FACILITY

Borregaard has decided to invest NOK 207 million in the chloralkali plant at the Sarpsborg site in Norway. The investment includes a new electrolyser and rectifier,

new facilities for the preparation of brine and tanks for intermediate storage of co-products for external sale. The project will be completed in 2021. The investment is mainly a replacement and modernisation of existing equipment. It will also give a certain increase in production through improved operational stability, reduced energy consumption and improved logistics for serving external customers.

Caustic soda is a strategic process chemical used mainly in the production of speciality cellulose and biobased vanillin. Borregaard's own production represents about two thirds of the total need at the Sarpsborg site, and the rest is purchased from external suppliers. The chloralkali plant in Sarpsborg was converted to membrane technology in 1997. See notification to the Oslo Stock Exchange on 17 October 2019.

### 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.

## NOTE 15 Implementation of IFRS 16 Leases

The effect of implementation of IFRS 16 from 1 January 2019 is not restated in the 2018 figures. In the table below, you will see the effects of the implementation of

IFRS 16 on the Consolidated Financial Statements for Borregaard.

### INCOME STATEMENT

Amounts in NOK million	Borregaard (IAS 17) 1.7-30.9.2019	IFRS 16 EFFECTS			Borregaard total	Borregaard (IFRS 16) 1.7-30.9.2019
		Performance Chemicals	Speciality Cellulose	Other Businesses		
EBITDA adj <sup>1</sup>	266	14	1	5	20	286
Depreciation	-90	-11	-1	-4	-16	-106
EBITA adj <sup>1</sup>	176	3	-	1	4	180
Operating profit	175	3	-	1	4	179
Net financial items	-17	-	-	-	-6	-23
Profit before tax	158	-	-	-	-2	156
Earnings per share	1.33	-	-	-	-0.02	1.31

### INCOME STATEMENT

Amounts in NOK million	Borregaard (IAS 17) 1.1-30.9.2019	IFRS 16 EFFECTS			Borregaard total	Borregaard (IFRS 16) 1.1-30.9.2019
		Performance Chemicals	Speciality Cellulose	Other Businesses		
EBITDA adj <sup>1</sup>	772	35	1	16	52	824
Depreciation	-263	-30	-1	-14	-45	-308
EBITA adj <sup>1</sup>	509	5	-	2	7	516
Operating profit	490	5	-	2	7	497
Net financial items	-48	-	-	-	-12	-60
Profit before tax	442	-	-	-	-5	437
Earnings per share	3.84	-	-	-	-0.05	3.79

### BALANCE SHEET

Amounts in NOK million	AS OF	AS OF	AS OF	AS OF
	31 DECEMBER 2018 (IAS 17)	1 JANUARY 2019 (IFRS 16)	30 SEPTEMBER 2019 (IAS 17)	30 SEPTEMBER 2019 (IFRS 16)
Total assets	5,951	6,184	6,318	6,709
Equity	3,321	3,321	3,328	3,323
Equity ratio %	55.8	53.7	52.7	49.5

Discount rates used:

Machinery, vehicles and equipment: Incremental borrowing rate. Buildings: Implicit interest rate if available

The incremental borrowing rate is based on interbank interest rate (NIBOR, EURIBOR or LIBOR) plus margin plus country risk mark-up.

<sup>1</sup> Alternative performance measure, see page 22 for definition.

## ALTERNATIVE PERFORMANCE 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 Alternative Performance 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 Alternative Performance 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.

### 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 11) divided by last twelve months' (LTM) EBITDA adj., excluding the impact on EBITDA adj. of IFRS 16 Leases.

### NET INTEREST-BEARING DEBT

Net interest-bearing debt is defined by Borregaard as interest-bearing liabilities, excluding the impact of IFRS 16 Leases, minus interest-bearing assets (see Note 11).

### 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. The impact of IFRS 16 Leases on assets has been excluded.

### RETURN ON CAPITAL EMPLOYED (ROCE)

Return on capital employed (ROCE) is defined by Borregaard as last twelve months' (LTM) EBITA adj., excluding the impact of IFRS 16 Leases, divided by average capital employed based on the ending balance of the last five quarters.

	1.1 - 30.9	1.1 - 31.12	
Capital employed end of	2019	2018	2018
Q3, 2017		4,044	
Q4, 2017		4,256	4,256
Q1, 2018		4,454	4,454
Q2, 2018		4,578	4,578
Q3, 2018	4,620	4,620	4,620
Q4, 2018	4,937		4,937
Q1, 2019	5,278		
Q2, 2019	5,421		
Q3, 2019	5,546		
<b>AVERAGE</b>	<b>5,160</b>	<b>4,390</b>	<b>4,569</b>
<b>EBITA ADJ. (LTM)</b>	<b>603</b>	<b>595</b>	<b>580</b>
<b>ROCE (%)</b>	<b>11.7</b>	<b>13.6</b>	<b>12.7</b>





Borregaard

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