

# 1<sup>ST</sup> QUARTER 2020

INTERIM REPORT



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# Q1 2020

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

- EBITDA<sup>1</sup> NOK 242 million (NOK 255 million)<sup>2</sup>
- Positive development for Specialities in BioSolutions
- Unfavourable product mix in BioMaterials and Fine Chemicals
- Higher distribution, maintenance and IT transition costs, gradual reduction in wood costs
- Positive net currency impact on EBITDA<sup>1</sup>, negative impact on equity and NIBD<sup>1</sup> from a weakened NOK
- Marginal impact from the coronavirus situation in the quarter



<sup>1</sup> Alternative performance measure, see page 21 for definition.

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

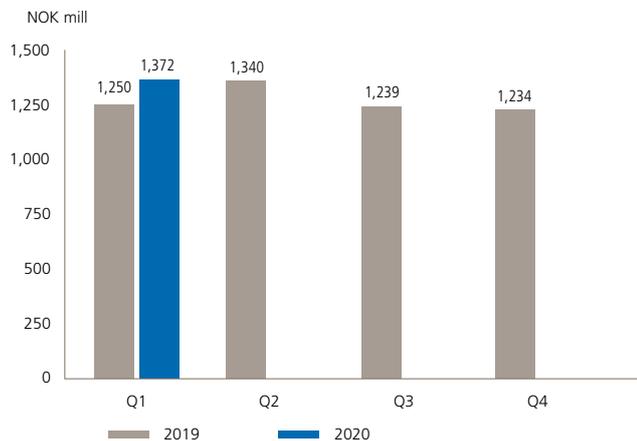
# THE GROUP

1.1 - 31.3

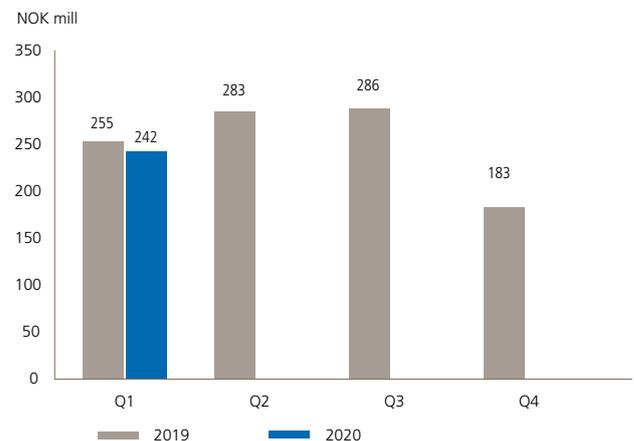
1.1 - 31.12

| Amounts in NOK million                      | Note | 2020  | 2019  | 2019  |
|---|------|-------|-------|-------|
| Operating revenues                          | 2    | 1,372 | 1,250 | 5,063 |
| EBITDA <sup>1</sup>                         |      | 242   | 255   | 1,007 |
| Operating profit                            |      | 132   | 156   | 558   |
| Profit/loss before taxes                    | 2    | 111   | 141   | 467   |
| Earnings per share (NOK)                    |      | 1.02  | 1.26  | 4.17  |
| Net interest-bearing debt <sup>1</sup>      | 11   | 2,373 | 1,600 | 1,876 |
| Equity ratio <sup>1</sup> (%)               |      | 38.3  | 54.3  | 51.4  |
| Leverage ratio <sup>1</sup>                 |      | 2.39  | 1.77  | 1.86  |
| Return on capital employed <sup>1</sup> (%) |      | 9.6   | 11.6  | 10.5  |

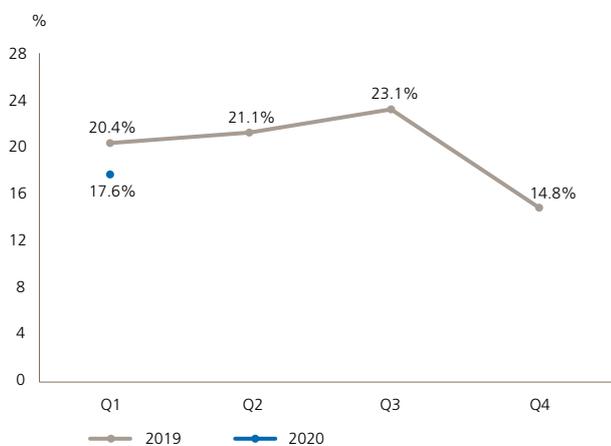
## OPERATING REVENUES



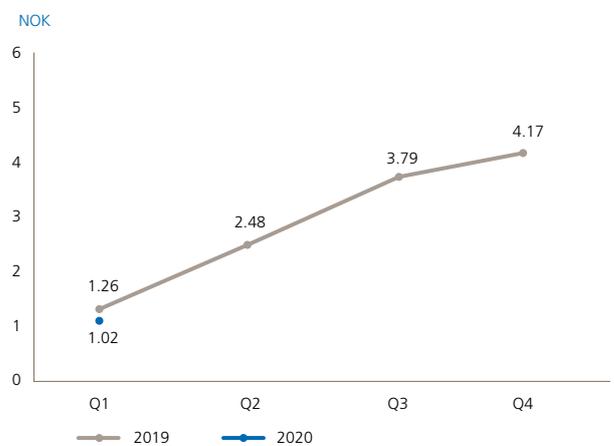
## EBITDA<sup>1</sup>



## EBITDA MARGIN<sup>1</sup>



## EARNINGS PER SHARE CUMULATIVE



<sup>1</sup> Alternative performance measure, see page 21 for definition.

## NEW BUSINESS SEGMENTS

Borregaard has made changes to the Group's segment reporting and the composition of the business areas in order to better align with value chains in production and internal reporting structures. All lignin-based products (biopolymers and biovanillin) have been organised under one management in BioSolutions. The new segment consists of the previous Performance Chemicals and the Ingredients part of Other Businesses. BioMaterials consists of products utilising wood fibres as the main raw material, and includes the speciality cellulose and cellulose fibrils businesses. Fine Chemicals includes pharma intermediates (mainly used for diagnostics) and bioethanol (mainly for biofuel). Corporate overhead and certain other costs that previously were reported under Other Businesses, have been allocated to the three new business segments.

## FIRST QUARTER

Borregaard's operating revenues increased to NOK 1,372 million (NOK 1,250 million)<sup>2</sup> in the 1<sup>st</sup> quarter of 2020. EBITDA<sup>1</sup> was NOK 242 million (NOK 255 million). BioSolutions and BioMaterials had results in line with the 1<sup>st</sup> quarter of 2019, whereas Fine Chemicals had a decline.

BioSolutions had a positive development within Specialities, while both BioMaterials and Fine Chemicals had an unfavourable product mix in the quarter. Operating costs were higher due to increased transatlantic shipments, maintenance and an IT transition project. Wood costs were gradually reduced during the quarter, but less than expected.

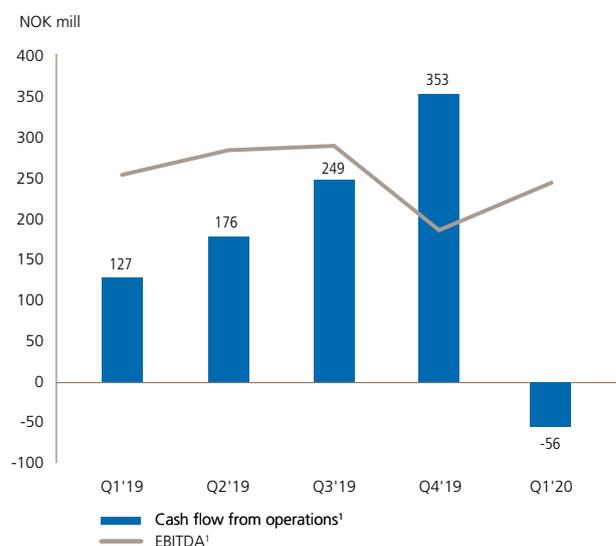
The net currency impact on EBITDA<sup>1</sup> was positive. Towards the end of the 1<sup>st</sup> quarter, NOK weakened significantly. Borregaard's sales are primarily in USD and EUR, and a weakening of NOK will over time be positive for the Group's competitive position. However, at the end of the quarter, the Group's equity and net interest-bearing debt were negatively affected by unrealised losses from currency hedging, realised effect of hedging of net investments in subsidiaries and translation effects on loans in USD.

Operating profit was NOK 132 million (NOK 156 million). Net financial items were NOK -21 million (NOK -15 million). Net interest expenses increased by NOK 7 million due to higher net interest-bearing debt, partly from increased debt related to IFRS 16 Leases. Profit before tax was NOK 111 million (NOK 141 million). Tax expense was NOK -27 million (NOK -33 million), giving a tax rate of 24% (23%) in the quarter. Earnings per share were NOK 1.02 (NOK 1.26).

Cash flow from operations<sup>1</sup> was NOK -56 million (NOK 127 million). The negative cash flow was a result of a significant increase in net working capital in the 1<sup>st</sup> quarter. This was mainly due to higher accounts receivable as a result of currency effects and high sales towards the end of the quarter compared with low sales towards the end of the previous quarter.

Borregaard monitors the coronavirus situation closely and has established emergency measures and implemented procedures to limit the risk of infection throughout the organisation. In line with the Group's values, safety and health are put first. The Group has not been materially impacted by the coronavirus situation during the 1<sup>st</sup> quarter of 2020. Logistical and other practical challenges have been managed without significant adverse effects on deliveries and production.

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



<sup>1</sup> Alternative performance measure, see page 21 for definition.

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

# BUSINESS AREAS

## BIOSOLUTIONS

| Amounts in NOK million         | 1.1 - 31.3 |      | 1.1 - 31.12 |
|--------------------------------|------------|------|-------------|
|                                | 2020       | 2019 | 2019        |
| Operating revenues             | 797        | 755  | 2 982       |
| EBITDA <sup>1</sup>            | 170        | 168  | 647         |
| EBITDA margin <sup>1</sup> (%) | 21.3       | 22.3 | 21.7        |

### FIRST QUARTER

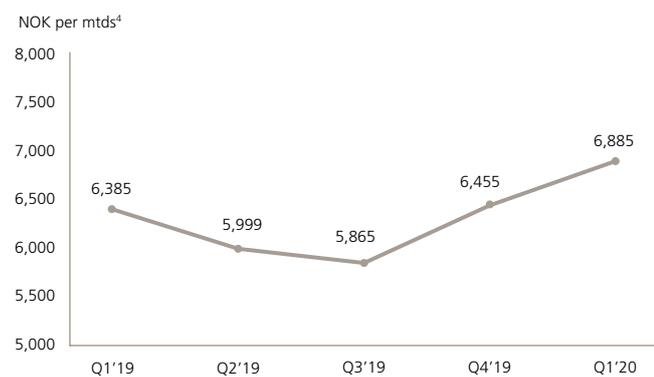
Operating revenues in BioSolutions were NOK 797 million (NOK 755 million). EBITDA<sup>1</sup> was NOK 170 million (NOK 168 million). A favourable product mix within Specialities and cost reductions from the upgrade in Norway and the restructuring in Germany partly compensated for increased distribution and other operating costs. Net currency effects were positive.

The total sales volume was in line with the 1<sup>st</sup> quarter of 2019. Specialities and Construction volumes increased,

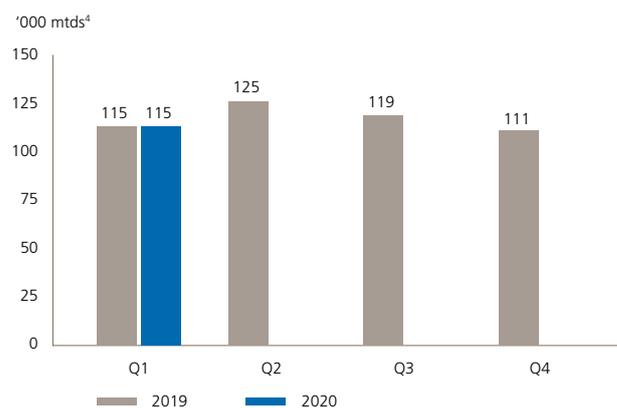
whereas Industrial volumes declined. The average price in sales currency was 1% lower than in the 1<sup>st</sup> quarter of 2019. Continued strong competition and price pressure for biopolymers to concrete admixtures and certain low value Industrial applications were partly compensated by a positive development in Specialities.

In February, the supply of lignin raw material to LignoTech Ibérica was discontinued as the supplier Sniace filed for liquidation. Since the production stopped, customers have been served from inventories.

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



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



Sales price and sales volume include lignin-based biopolymers and biovanillin.

<sup>1</sup> Alternative performance measure, see page 21 for definition.

<sup>3</sup> Includes 100% of sales 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.

## BIOMATERIALS

| Amounts in NOK million         | 1.1 - 31.3 |      | 1.1 - 31.12 |
|--------------------------------|------------|------|-------------|
|                                | 2020       | 2019 | 2019        |
| Operating revenues             | 454        | 394  | 1,712       |
| EBITDA <sup>1</sup>            | 46         | 45   | 234         |
| EBITDA margin <sup>1</sup> (%) | 10.1       | 11.4 | 13.7        |

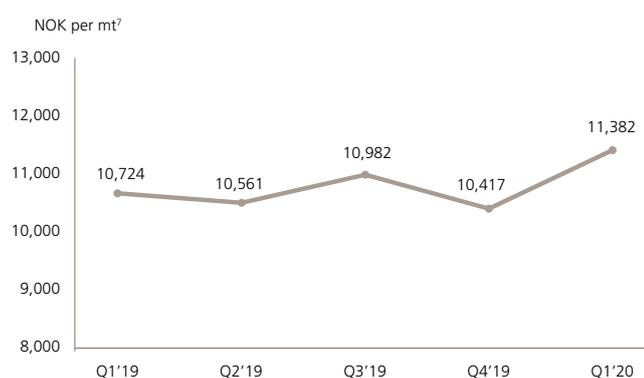
### FIRST QUARTER

Operating revenues in BioMaterials were NOK 454 million (NOK 394 million). EBITDA<sup>1</sup> was NOK 46 million (NOK 45 million).

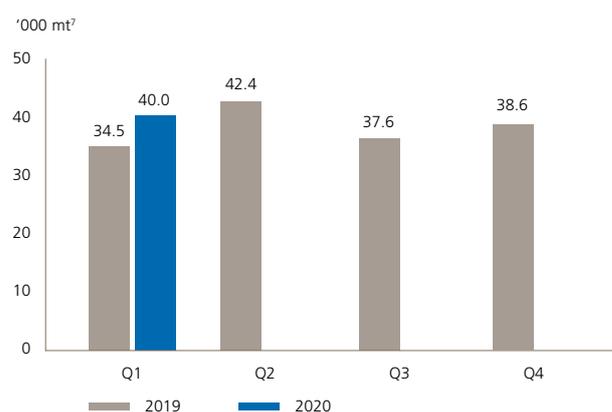
The average price in sales currency for BioMaterials was 3% below the same period in 2019, mainly as a result of an unfavourable product mix.

For speciality cellulose, high sales volume and positive net currency effects were offset by an unfavourable product mix and higher fixed costs. Wood costs were gradually reduced during the quarter. However, cost carry-over from 2019 had a larger negative impact than expected. For cellulose fibrils, higher sales and cost reductions compensated for reduced cost coverage from EU's Horizon 2020<sup>5</sup> grant.

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



### SALES VOLUME



Sales price and sales volume include speciality cellulose and cellulose fibrils.

<sup>1</sup> Alternative performance measure, see page 21 for definition.

<sup>5</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

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

<sup>7</sup> Metric tonne.

## FINE CHEMICALS

| Amounts in NOK million         | 1.1 - 31.3 |      | 1.1 - 31.12 |
|--------------------------------|------------|------|-------------|
|                                | 2020       | 2019 | 2019        |
| Operating revenues             | 128        | 110  | 406         |
| EBITDA <sup>1</sup>            | 26         | 42   | 126         |
| EBITDA margin <sup>1</sup> (%) | 20.3       | 38.2 | 31.0        |

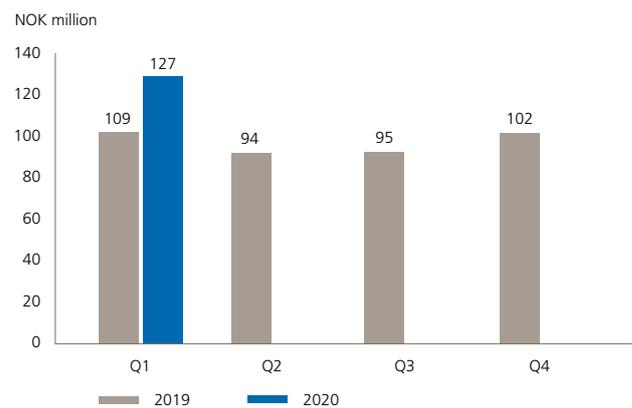
### FIRST QUARTER

Fine Chemicals' operating revenues reached NOK 128 million (NOK 110 million). EBITDA<sup>1</sup> was NOK 26 million (NOK 42 million).

The lower result was mainly due to an unfavourable product mix for pharma intermediates. The result for bioethanol improved compared with the same quarter last year.

The net currency impact in Fine Chemicals was insignificant.

### FINE CHEMICALS – SALES REVENUES



Sales revenues include pharma intermediates and bioethanol.

<sup>1</sup> Alternative performance measure, see page 21 for definition.

## FOREIGN EXCHANGE AND HEDGING

Borregaard has a significant currency exposure which is hedged according to the company's hedging strategy. The impact of currency rate fluctuations will be delayed as a result of the currency hedging strategy. Compared with the 1<sup>st</sup> quarter of 2019, the net impact of foreign exchange on EBITDA<sup>1</sup>, including hedging effects, was NOK 10 million. Hedging effects were NOK -62 million (NOK -8 million) in the quarter.

Assuming currency rates as of 28 April 2020 (USD 10.37 and EUR 11.28) and based on currency exposure forecasts, Borregaard expects a net impact of foreign exchange on EBITDA<sup>1</sup> of approximately NOK 35 million in the 2<sup>nd</sup> quarter of 2020 and NOK 95 million for the full year of 2020.

## CASH FLOW AND FINANCIAL SITUATION

### FIRST QUARTER

Cash flow from operating activities in the 1<sup>st</sup> quarter was NOK -125 million (NOK 44 million). The negative cash flow was a result of a significant increase in net working capital. This was mainly due to higher accounts receivable as a result of currency effects and high sales towards the end of the quarter compared with low sales towards the end of the previous quarter.

Investments amounted to NOK 58 million (NOK 123 million). Expansion investments<sup>1</sup>, totalling NOK 23 million (NOK 47 million), were mainly related to the capacity expansion for biovanillin.

The Group has sold and repurchased treasury shares with a net payment of NOK 22 million (NOK 8 million).

Realised effect of hedging of net investments in subsidiaries was NOK -160 million (NOK 4 million) in the quarter.

The significant weakening of the NOK in the 1<sup>st</sup> quarter has affected the equity and leverage ratios negatively. At the end of the quarter, the Group had an equity ratio<sup>1</sup> of 38.3% and a leverage ratio<sup>1</sup> of 2.39.

Borregaard's sales are primarily in USD and EUR, and a weakening of the NOK will over time be positive for the Group's competitive position. In accordance with the company's hedging strategy, a substantial part of this exposure is hedged for up to three years. During the 1<sup>st</sup> quarter of 2020, the unrealised losses on such currency hedges increased significantly. Since Borregaard applies hedge accounting in accordance with IFRS 9, the Income Statement is not affected from changes in unrealised hedging losses. However, the change in unrealised losses after tax had a negative impact on the Group's equity of NOK -783 million (-10.7%-points) at the end of the quarter compared with the end of the previous quarter.

On 31 March 2020, the Group had net interest-bearing debt<sup>1</sup> totalling NOK 2,373 million (NOK 1,600 million), an increase of NOK 497 million from year-end 2019. Currency effects from revaluation of balance sheet items in foreign currencies, net of balance sheet hedging, and the impact from hedging of net investments in subsidiaries, explain about NOK 270 million of the increase in net interest-bearing debt<sup>1</sup> from year-end.

<sup>1</sup> Alternative performance measure, see page 21 for definition.

## SHARE INFORMATION

In February, 400,000 share options at a strike price of NOK 104.40 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 13 February 2020.

As part of the employee share programme, Borregaard sold a total of 238,604 shares to employees in February 2020. The net price was NOK 77.95 per share after deduction of a 25% discount. For more details, see notifications to Oslo Stock Exchange on 10, 17 and 26 February 2020.

In the 1<sup>st</sup> quarter of 2020, Borregaard repurchased a total of 505,719 treasury shares at an average price of NOK 98.83.

During the 1<sup>st</sup> quarter, 225,793 share options were exercised at a strike price of NOK 42.24 per share.

Total number of shares outstanding on 31 March 2020 was 100 million, including 408,097 treasury shares. Total number of shareholders was 6,279. Borregaard ASA's share price was NOK 96.80 at the end of the quarter (NOK 95.00 at the end of 2019).

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## OTHER MATTERS AND SUBSEQUENT EVENTS

### ANNUAL GENERAL MEETING

In light of the situation related to the coronavirus and restrictions on travels and meetings, the Board of Borregaard decided to postpone the Annual General Meeting. The new date is Monday 15 June 2020.

As a consequence of the postponed Annual General Meeting the proposed ordinary dividend of NOK 2.30 per share will be paid out on 24 June 2020. For more details, see notifications to Oslo Stock Exchange on 18 March 2020.

### PRODUCTION AT LIGNOTECH SOUTH AFRICA TEMPORARILY STOPPED

Due to coronavirus related production curtailment of the calcium line at Sappi's Saiccor dissolving pulp mill, the supply of lignin raw material to LignoTech South Africa has been interrupted. As a consequence, lignin production has been stopped until raw material supply is resumed. For more details, see notifications to Oslo Stock Exchange on 2 April 2020.

## OUTLOOK

For Borregaard, the direct effects related to the coronavirus situation are limited as of today, with the exception of the interrupted raw material supply to LignoTech South Africa. So far, Borregaard has seen effects on demand in certain biopolymers sectors in BioSolutions. For the 2<sup>nd</sup> quarter some orders, mainly in Construction, have been cancelled or postponed. However, as long as LignoTech South Africa is out of operation, demand is expected to be higher than supply.

In BioSolutions, total sales volume for 2020 is forecast to decrease by 5-15% compared with 2019, primarily depending on how long the raw material supply to LignoTech South Africa is interrupted. Cost savings in Norway and Germany are expected to continue as planned. The ongoing capacity expansion for biovanillin will be gradually realised in 2020 with full effect from the second half of 2021.

In BioMaterials, the average price in sales currency is expected to increase 2% from the 2019 level, mainly from improved product mix. Borregaard's wood costs in the 2<sup>nd</sup> quarter of 2020 are forecast to be NOK 10-15 million lower than in the 2<sup>nd</sup> quarter of 2019. In the 2<sup>nd</sup> quarter of 2020, total sales volume in BioMaterials is expected to be lower than the high volume delivered in

the corresponding quarter of 2019. Sales are gradually increasing for cellulose fibrils, but lead-times for conversion of sales prospects continue to be long. The remaining grant from EU Horizon 2020<sup>5</sup> will end in April 2020, and will cover a smaller share of costs than in previous years.

In Fine Chemicals, no major changes are expected in the market conditions for pharma intermediates. For bioethanol, increased demand in disinfectants is expected to more than compensate for effects of reduced deliveries to biofuel.

Indirect consequences of the coronavirus situation may occur in case suppliers, business partners and infrastructure are affected. To the extent that the consequences of the coronavirus situation leads to lower growth in the world economy, Borregaard, as a global supplier of products, will also be affected. However, it is not possible to quantify such effects for the time being. In the meantime, Borregaard will focus on maintaining sufficient financial capacity to responsibly manage and mitigate any potential effects from the coronavirus situation and will closely monitor the situation in the coming weeks and months.

Sarpsborg, 28 April 2020  
The Board of Directors of Borregaard ASA

<sup>5</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

## THE GROUP'S CONDENSED INCOME STATEMENT

### INTERIM CONDENSED INCOME STATEMENT

| Amounts in NOK million                           | NOTE | 1.1 - 31.3 |       | 1.1 - 31.12 |
|--|------|------------|-------|-------------|
|  |      | 2020       | 2019  | 2019        |
| <b>OPERATING REVENUES</b>                        | 2    | 1,372      | 1,250 | 5,063       |
| Operating expenses                               |      | -1,130     | -995  | -4 056      |
| Depreciation property, plant and equipment       |      | -109       | -98   | -418        |
| Amortisation intangible assets                   |      | -1         | -1    | -4          |
| Other income and expenses <sup>1</sup>           | 3    | -          | -     | -27         |
| <b>OPERATING PROFIT</b>                          |      | 132        | 156   | 558         |
| Financial items, net                             | 4    | -21        | -15   | -91         |
| <b>PROFIT BEFORE TAXES</b>                       |      | 111        | 141   | 467         |
| Income tax expense                               | 5    | -27        | -33   | -116        |
| <b>PROFIT FOR THE PERIOD</b>                     |      | 84         | 108   | 351         |
| Profit attributable to non-controlling interests |      | -18        | -18   | -66         |
| Profit attributable to owners of the parent      |      | 102        | 126   | 417         |
| <b>EBITDA<sup>1</sup></b>                        |      | 242        | 255   | 1,007       |

## EARNINGS PER SHARE

### INTERIM EARNINGS PER SHARE

| Amounts in NOK                        |   | 1.1 - 31.3 |      | 1.1 - 31.12 |
|---------------------------------------|---|------------|------|-------------|
|                                       |   | 2020       | 2019 | 2019        |
| Earnings per share (100 mill. shares) | 6 | 1.02       | 1.26 | 4.17        |
| Diluted earnings per share            | 6 | 1.02       | 1.26 | 4.18        |

## 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 |
|--|------|------------|------|-------------|
|  |      | 2020       | 2019 | 2019        |
| <b>PROFIT FOR THE PERIOD</b>   |      | 84         | 108  | 351         |
| <b>ITEMS NOT TO BE RECLASSIFIED TO P&amp;L</b>                       |      |            |      |             |
| Actuarial gains and losses (after tax)                               |      | -          | -    | -4          |
| <b>TOTAL</b>   |      | -          | -    | -4          |
| <b>ITEMS TO BE RECLASSIFIED TO P&amp;L</b>                           |      |            |      |             |
| Change in hedging-reserve after tax (cash flow)                      | 8    | -783       | 60   | 9           |
| Change in hedging-reserve after tax (net investment in subsidiaries) | 8    | -100       | 4    | -12         |
| Translation effects  |      | 159        | -16  | 11          |
| <b>TOTAL</b>   |      | -724       | 48   | 8           |
| <b>THE GROUP'S COMPREHENSIVE INCOME</b>                              |      | -640       | 156  | 355         |
| Comprehensive income non-controlling interests                       |      | 11         | -20  | -64         |
| Comprehensive income owners of the parent                            |      | -651       | 176  | 419         |

<sup>1</sup> Alternative performance measure, see page 21 for definition.

# THE GROUP'S CONDENSED BALANCE SHEET

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

| Amounts in NOK million           | NOTE  | 31.3.2020    | 31.12.2019   |
|----------------------------------|-------|--------------|--------------|
| Intangible assets                | 13    | 98           | 93           |
| Property, plant and equipment    | 13    | 3,984        | 3,852        |
| Right-of-use assets              |       | 396          | 380          |
| Other assets                     | 9     | 398          | 251          |
| Investments in joint venture     |       | 94           | 99           |
| <b>NON-CURRENT ASSETS</b>        |       | <b>4,970</b> | <b>4,675</b> |
| Inventories                      |       | 942          | 931          |
| Receivables                      | 9     | 1,368        | 991          |
| Cash and cash deposits           | 11    | 61           | 147          |
| <b>CURRENT ASSETS</b>            |       | <b>2,371</b> | <b>2,069</b> |
| <b>TOTAL ASSETS</b>              |       | <b>7,341</b> | <b>6,744</b> |
| Group equity                     | 10    | 2,641        | 3,306        |
| Non-controlling interests        |       | 169          | 158          |
| <b>EQUITY</b>                    |       | <b>2,810</b> | <b>3,464</b> |
| Provisions and other liabilities |       | 813          | 294          |
| Interest-bearing liabilities     | 9, 11 | 1,820        | 1,419        |
| <b>NON-CURRENT LIABILITIES</b>   |       | <b>2,633</b> | <b>1,713</b> |
| Interest-bearing liabilities     | 9, 11 | 617          | 608          |
| Other current liabilities        | 9     | 1,281        | 959          |
| <b>CURRENT LIABILITIES</b>       |       | <b>1,898</b> | <b>1,567</b> |
| <b>EQUITY AND LIABILITIES</b>    |       | <b>7,341</b> | <b>6,744</b> |
| Equity ratio <sup>1</sup>        |       | 38.3%        | 51.4%        |

## CHANGES IN EQUITY

### INTERIM CONDENSED CHANGE IN EQUITY

| Amounts in NOK million                         | NOTE     | 1.1 - 31.3.2020       |                           |              | 1.1 - 31.12.2019      |                           |              |
|--|----------|-----------------------|---------------------------|--------------|-----------------------|---------------------------|--------------|
|  |          | Controlling interests | Non-controlling interests | Total equity | Controlling interests | Non-controlling interests | Total equity |
| Equity 1 January                               |          | 3,306                 | 158                       | 3,464        | 3,123                 | 198                       | 3,321        |
| <b>PROFIT/LOSS FOR THE PERIOD</b>              |          | <b>102</b>            | <b>-18</b>                | <b>84</b>    | <b>417</b>            | <b>-66</b>                | <b>351</b>   |
| Items in Comprehensive Income                  | 8        | -753                  | 29                        | -724         | 2                     | 2                         | 4            |
| <b>THE GROUP'S COMPREHENSIVE INCOME</b>        | <b>8</b> | <b>-651</b>           | <b>11</b>                 | <b>-640</b>  | <b>419</b>            | <b>-64</b>                | <b>355</b>   |
| Paid dividend                                  |          | -                     | -                         | -            | -224                  | -                         | -224         |
| Buy-back of treasury shares                    |          | -50                   | -                         | -50          | -60                   | -                         | -60          |
| Exercise of share options                      |          | 9                     | -                         | 9            | 18                    | -                         | 18           |
| Reduced tax payable of exercised share options |          | -                     | -                         | -            | 2                     | -                         | 2            |
| Shares to employees                            |          | 25                    | -                         | 25           | 23                    | -                         | 23           |
| Option costs (share based payment)             |          | 2                     | -                         | 2            | 8                     | -                         | 8            |
| Transactions with non-controlling interests    |          | -                     | -                         | -            | -3                    | 24                        | 21           |
| <b>EQUITY AT THE END OF THE PERIOD</b>         |          | <b>2,641</b>          | <b>169</b>                | <b>2,810</b> | <b>3,306</b>          | <b>158</b>                | <b>3,464</b> |

<sup>1</sup> Alternative performance measure, see page 21 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 |
|---|-----------|-------------|-------------|-------------|
|   |           | 2020        | 2019        | 2019        |
| Profit before taxes   |           | 111         | 141         | 467         |
| Amortisation, depreciation and impairment charges                 |           | 110         | 99          | 432         |
| Changes in net working capital, etc.                              |           | -298        | -128        | -85         |
| Dividend (share of profit) from JV                                |           | -1          | -           | 5           |
| Taxes paid  |           | -47         | -68         | -122        |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                        |           | <b>-125</b> | <b>44</b>   | <b>697</b>  |
| Investments property, plant and equipment and intangible assets * |           | -58         | -123        | -583        |
| Other capital transactions  |           | 2           | 9           | 29          |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                        |           | <b>-56</b>  | <b>-114</b> | <b>-554</b> |
| Dividends   |           | -           | -           | -224        |
| Proceeds from exercise of options/shares to employees             | 10        | 28          | 19          | 35          |
| Buy-back of shares  | 7         | -50         | -27         | -60         |
| Gain/(loss) on hedges for net investments in subsidiaries         |           | -160        | 4           | -26         |
| <b>NET PAID TO/FROM SHAREHOLDERS</b>                              |           | <b>-182</b> | <b>-4</b>   | <b>-275</b> |
| Proceeds from interest-bearing liabilities                        | 11        | 650         | 347         | 2,100       |
| Repayment from interest-bearing liabilities                       | 11        | -585        | -216        | -1,971      |
| Change in interest-bearing receivables/other liabilities          | 11        | 40          | -8          | -3          |
| <b>CHANGE IN NET INTEREST-BEARING LIABILITIES</b>                 |           | <b>105</b>  | <b>123</b>  | <b>126</b>  |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                        |           | <b>-77</b>  | <b>119</b>  | <b>-149</b> |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>                        |           | <b>-258</b> | <b>49</b>   | <b>-6</b>   |
| Cash and cash equivalents at beginning of period                  |           | 81          | 86          | 86          |
| Change in cash and cash equivalents                               |           | -258        | 49          | -6          |
| Currency effects cash and cash equivalents                        |           | 6           | -1          | 1           |
| <b>CASH AND CASH EQUIVALENTS AT THE CLOSE OF THE PERIOD</b>       | <b>11</b> | <b>-171</b> | <b>134</b>  | <b>81</b>   |
| *Investment by category   |           |             |             |             |
| Replacement investments   |           | 35          | 76          | 370         |
| Expansion investments <sup>1</sup>                                |           | 23          | 47          | 213         |

<sup>1</sup> Alternative performance measure, see page 21 for definition.

# NOTES

## NOTE 01 Organisation and basis for preparation

### GENERAL INFORMATION

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

The same accounting principles and methods of calculation have been applied as in the Consolidated Financial Statements for 2019 for the Borregaard Group.

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.

### Use of estimates

The same use of estimates has been applied as in the Consolidated Financial Statements for 2019.

### 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.

## NOTE 02 Segments

### OPERATING REVENUES

| Amounts in NOK million | 1.1 - 31.3   |              | 1.1 - 31.12  |
|------------------------|--------------|--------------|--------------|
|                        | 2020         | 2019         | 2019         |
| <b>BORREGAARD</b>      | <b>1,372</b> | <b>1,250</b> | <b>5,063</b> |
| BioSolutions           | 797          | 755          | 2,982        |
| BioMaterials           | 454          | 394          | 1,712        |
| Fine Chemicals         | 128          | 110          | 406          |
| Eliminations           | -7           | -9           | -37          |

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

EBITDA<sup>1</sup>

| Amounts in NOK million   | 1.1 - 31.3 |            | 1.1 - 31.12  |
|--|------------|------------|--------------|
|  | 2020       | 2019       | 2019         |
| <b>BORREGAARD</b>  | <b>242</b> | <b>255</b> | <b>1,007</b> |
| BioSolutions   | 170        | 168        | 647          |
| BioMaterials   | 46         | 45         | 234          |
| Fine Chemicals   | 26         | 42         | 126          |
| <b>RECONCILIATION AGAINST OPERATING PROFIT<br/>&amp; PROFIT BEFORE TAX</b> |            |            |              |
| <b>EBITDA<sup>1</sup></b>  | <b>242</b> | <b>255</b> | <b>1,007</b> |
| Depreciations and write downs  | -109       | -98        | -418         |
| Amortisation intangible assets   | -1         | -1         | -4           |
| Other income and expenses  | -          | -          | -27          |
| <b>OPERATING PROFIT</b>  | <b>132</b> | <b>156</b> | <b>558</b>   |
| Financial items, net   | -21        | -15        | -91          |
| <b>PROFIT BEFORE TAXES</b>   | <b>111</b> | <b>141</b> | <b>467</b>   |

## SALES REVENUES

| Amounts in NOK million | 1.1 - 31.3   |              | 1.1 - 31.12  |
|------------------------|--------------|--------------|--------------|
|                        | 2020         | 2019         | 2019         |
| <b>BORREGAARD</b>      | <b>1,347</b> | <b>1,222</b> | <b>4,951</b> |
| BioSolutions           | 775          | 728          | 2,873        |
| BioMaterials           | 445          | 385          | 1,679        |
| Fine Chemicals         | 127          | 109          | 400          |
| Eliminations           | -            | -            | -1           |

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 2020.

## NOTE 04 Financial items

## NET FINANCIAL ITEMS

| Amounts in NOK million     | 1.1 - 31.3 |            | 1.1 - 31.12 |
|----------------------------|------------|------------|-------------|
|                            | 2020       | 2019       | 2019        |
| Net interest expenses      | -20        | -13        | -69         |
| Currency gain/loss         | -          | -2         | -12         |
| Other financial items, net | -1         | -          | -10         |
| <b>NET FINANCIAL ITEMS</b> | <b>-21</b> | <b>-15</b> | <b>-91</b>  |

<sup>1</sup> Alternative performance measure, see page 21 for definition.

## NOTE 05 Income tax expense

The tax rate of 24.3% (23.4%) for first three months of 2020 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 is 22%.

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 408,097 treasury shares. As of 31 March 2020, there are 99,642,561 diluted shares (99,807,055 as of 31 December 2019). Earnings per diluted share were

NOK 1.02 in the 1<sup>st</sup> quarter (NOK 1.26 in the 1<sup>st</sup> quarter of 2019 and NOK 0.38 in the 4<sup>th</sup> quarter of 2019).

## NOTE 07 Stock options

During the 1<sup>st</sup> quarter of 2020, 225,793 share options were exercised at a strike price of NOK 42.24.

The Group Executive Management and other key employees hold a total of 1,558,207 stock options in four different share option programmes in Borregaard.

The first option programme, comprising 87,207 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 fifth option programme, comprising 400,000 stock options granted in February 2020, has a strike price of NOK 104.40. The share options in the five 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    | 31.3.2020        |   | 31.3.2019        |   | 31.12.2019       |   |
|---------------------------|------------------|---|------------------|---|------------------|---|
|                           | Cash flow hedges | Hedges of net investments in subsidiaries | Cash flow hedges | Hedges of net investments in subsidiaries | Cash flow hedges | Hedges of net investments in subsidiaries |
| Tax effect year-to-date   | -259             | -72                                       | -22              | -39                                       | -37              | -44                                       |
| Hedging reserve after tax | -912             | -222                                      | -78              | -106                                      | -129             | -122                                      |

## 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 2019 to the 1<sup>st</sup> quarter of 2020. 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 2020:

### FINANCIAL ASSETS

| Amounts in NOK million            | LEVEL | 31.3.2020       |            | 31.12.2019      |            |
|-----------------------------------|-------|-----------------|------------|-----------------|------------|
|                                   |       | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-current financial receivables | 2     | 246             | 246        | 211             | 211        |
| Non-current derivatives           | 2     | 5               | 5          | 29              | 29         |
| Current derivatives               | 2     | 71              | 71         | 27              | 27         |
| <b>TOTAL FINANCIAL ASSETS</b>     |       | <b>322</b>      | <b>322</b> | <b>267</b>      | <b>267</b> |

### FINANCIAL LIABILITIES

|                                    |      |              |              |              |              |
|------------------------------------|------|--------------|--------------|--------------|--------------|
| Non-current financial liabilities  | 2, 3 | 1,822        | 1,822        | 1,421        | 1,421        |
| Non-current derivatives            | 2    | 698          | 698          | 111          | 111          |
| Current financial liabilities      | 2    | 617          | 385          | 608          | 542          |
| Current derivatives                | 2    | 491          | 491          | 95           | 95           |
| <b>TOTAL FINANCIAL LIABILITIES</b> |      | <b>3,628</b> | <b>3,396</b> | <b>2,235</b> | <b>2,169</b> |

### FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

| Amounts in NOK million                  | LEVEL 1       | LEVEL 2  | LEVEL 3     |
|---|---------------|----------|-------------|
| <b>FINANCIAL INSTRUMENTS 31.03.2020</b> | <b>-3,306</b> | <b>-</b> | <b>-400</b> |
| <b>FINANCIAL INSTRUMENTS 31.12.2019</b> | <b>-1,968</b> | <b>-</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 10 Compilation of Equity

| Amounts in NOK million                      | 31.3.2020    | 31.12.2019   |
|---|--------------|--------------|
| Share capital                               | 100          | 100          |
| Treasury shares                             | -            | -            |
| Share premium                               | 1,346        | 1,346        |
| Other paid-in capital                       | 732          | 696          |
| Translation effects                         | 232          | 102          |
| Hedging reserve (after tax)                 | -1,134       | -251         |
| Actuarial gains/Losses                      | -21          | -21          |
| Retained earnings                           | 1,386        | 1,334        |
| <b>GROUP EQUITY (CONTROLLING INTERESTS)</b> | <b>2,641</b> | <b>3,306</b> |

As of 31 March 2020, the company held 408,097 treasury shares at an average cost of NOK 97.73.

## 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  | 31.3.2020    | 31.12.2019   |
|---|--------------|--------------|
| Non-current interest-bearing liabilities                              | 1,820        | 1,419        |
| Current interest-bearing liabilities including overdraft of cashpool  | 617          | 608          |
| Non-current interest-bearing receivables (included in "Other Assets") | -3           | -4           |
| Cash and cash deposits  | -61          | -147         |
| <b>NET INTEREST-BEARING DEBT<sup>1</sup></b>                          | <b>2,373</b> | <b>1,876</b> |
| - of which impact of IFRS 16 Leases                                   | 405          | 387          |

## NOTE 12 Related parties

The members of the Group Executive Management of Borregaard held a total of 796,354\* stock options in the Company as of 31 March 2020.

\* Including stock options held by Liv Longva who acts as a member of the Group Executive Management during Tuva Barnholt's absence.

## 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 1<sup>st</sup> quarter of 2020.

<sup>1</sup> Alternative performance measure, see page 21 for definition.

## NOTE 14 Other matters and subsequent events

### PRODUCTION AT LIGNOTECH SOUTH AFRICA TEMPORARILY STOPPED

Due to coronavirus related production curtailment of the calcium line at Sappi's Saiccor dissolving pulp mill the supply of lignin raw material to LignoTech South Africa has been interrupted. As a consequence, lignin production has been stopped until raw material supply is resumed. For more details, see notifications to Oslo Stock Exchange on 2 March 2020.

### 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.

## 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                       |

### EBITDA

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

### EBITDA MARGIN

EBITDA margin is defined by Borregaard as EBITDA divided by operating revenues.

### 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.

### NET INTEREST-BEARING DEBT (NIBD)

Net interest-bearing debt is defined by Borregaard as interest-bearing liabilities 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, right-of-use assets 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) capital contribution (operating profit before amortisation and other income and expenses) divided by average capital employed based on the ending balance of the last five quarters.

|                                   | 1.1 - 31.3   | 1.1 - 31.12  |              |
|-----------------------------------|--------------|--------------|--------------|
| Capital employed end of           | 2020         | 2019         | 2019         |
| Q1, 2018                          |              | 4,454        |              |
| Q2, 2018                          |              | 4,578        |              |
| Q3, 2018                          |              | 4,620        |              |
| Q4, 2018                          |              | 4,937        | 4,937        |
| Q1, 2019                          | 5,498        | 5,498        | 5,498        |
| Q2, 2019                          | 5,817        |              | 5,817        |
| Q3, 2019                          | 5,938        |              | 5,938        |
| Q4, 2019                          | 5,815        |              | 5,815        |
| Q1, 2020                          | 6,371        |              |              |
| <b>AVERAGE</b>                    | <b>5,888</b> | <b>4,817</b> | <b>5,601</b> |
| <b>CAPITAL CONTRIBUTION (LTM)</b> | <b>565</b>   | <b>560</b>   | <b>589</b>   |
| <b>ROCE (%)</b>                   | <b>9.6</b>   | <b>11.6</b>  | <b>10.5</b>  |





