

2<sup>ND</sup> QUARTER 2016

Oslo, 18 July 2016

# Agenda

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- Per A Sørli, President & CEO
  - Highlights
  - Business areas
  - Outlook
- Per Bjarne Lyngstad, CFO
  - Financial performance

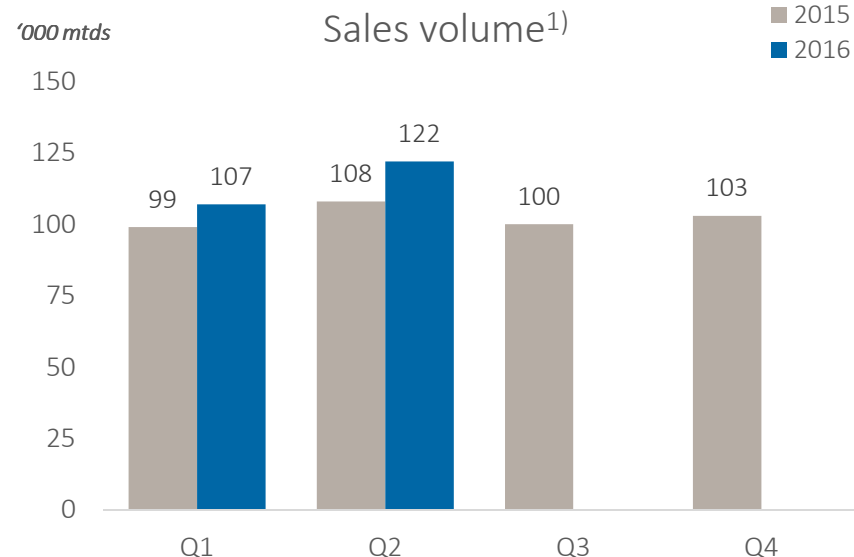
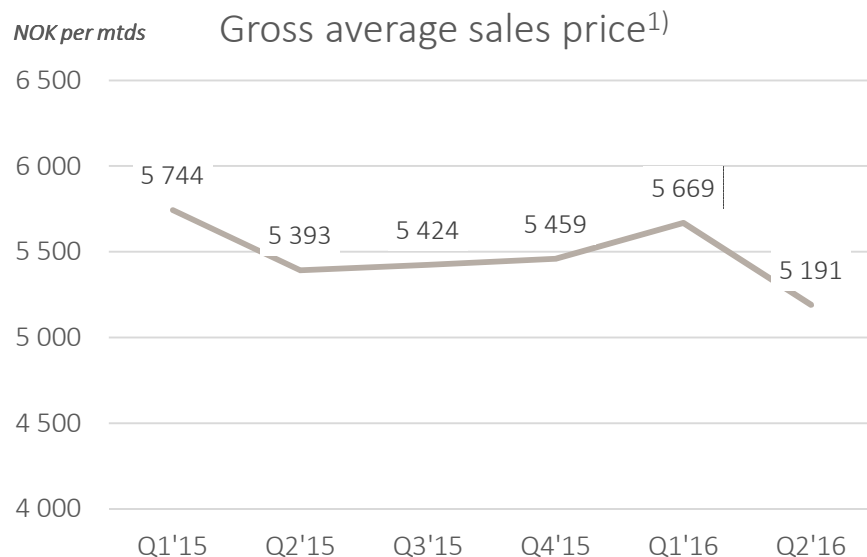
# Highlights – 2<sup>nd</sup> quarter 2016

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- All-time high EBITA adj.<sup>1)</sup> for the Group
- Positive currency effects in all business areas
- High sales volumes and good results for Performance Chemicals and Fine Chemicals
- Improved product mix and result in Specialty Cellulose
- Energy conservation measures contributed to lower production costs
- Strong cash flow

# Performance Chemicals markets – Q2



- Weaker product mix and slightly lower prices in sales currency
  - Product mix affected by challenging market conditions in the construction and oil sectors and by reallocation of sales volumes
  - Flambeau volume primarily into low and medium-value applications
- 13% volume growth
  - Volume growth mainly from the acquired Flambeau business
  - Positive development in sales to agrochemicals
- Positive FX impact vs Q2-15



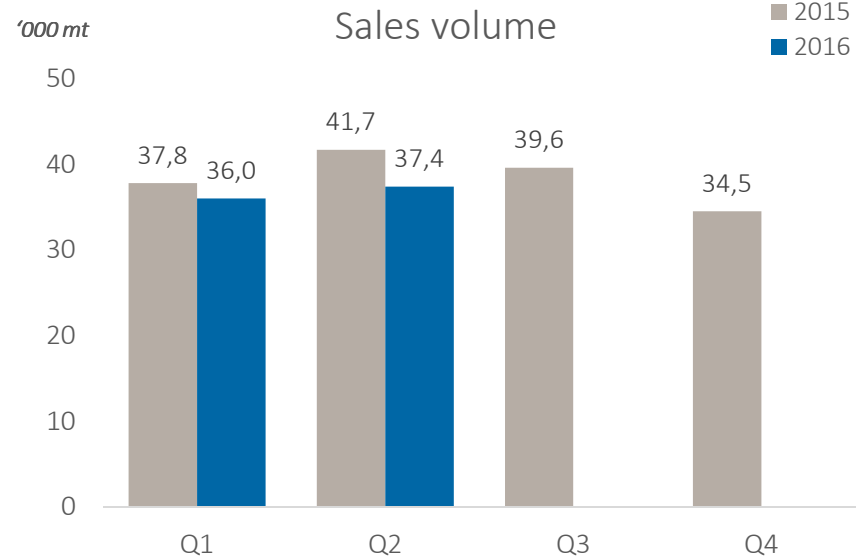
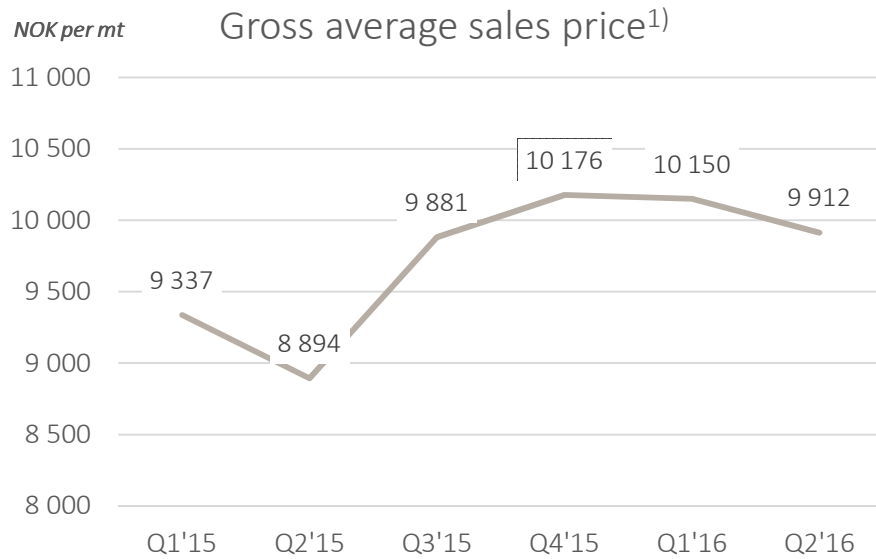
1) Average sales price and sales volume reflect 100% of sales and volume from the J/V in South Africa. Average sales price is calculated using actual FX rates, excluding hedging impact.

# New lignin volumes

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- Capacity increase in South Africa
  - 20,000 mtds expansion on track
  - Commissioning mid-year 2017
- Florida project in two phases
  - Phase one: 110 mUSD, 100,000 mtds lignin capacity
  - Phase two: 25 mUSD, 50,000 mtds lignin capacity addition
  - Investment decision anticipated in H2-16
    - Permits and incentives from government entities pending
    - Start-up approximately 18 months after decision
- Status LignoTech Ibérica
  - Successful re-capitalisation of Spanish lignin partner Sniace
  - Operations expected to gradually resume during H2-16 after comprehensive maintenance
  - Full capacity (65,000 mtds lignin) requires investments in textile operation

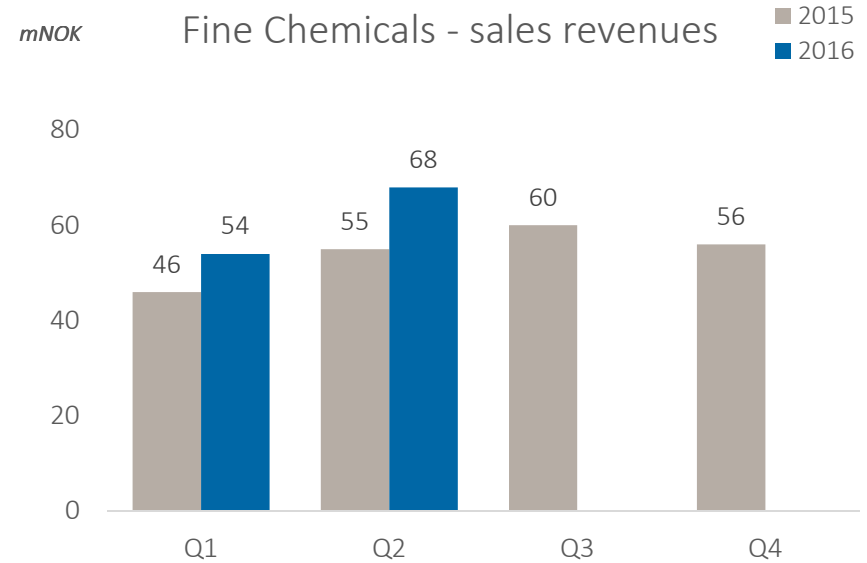
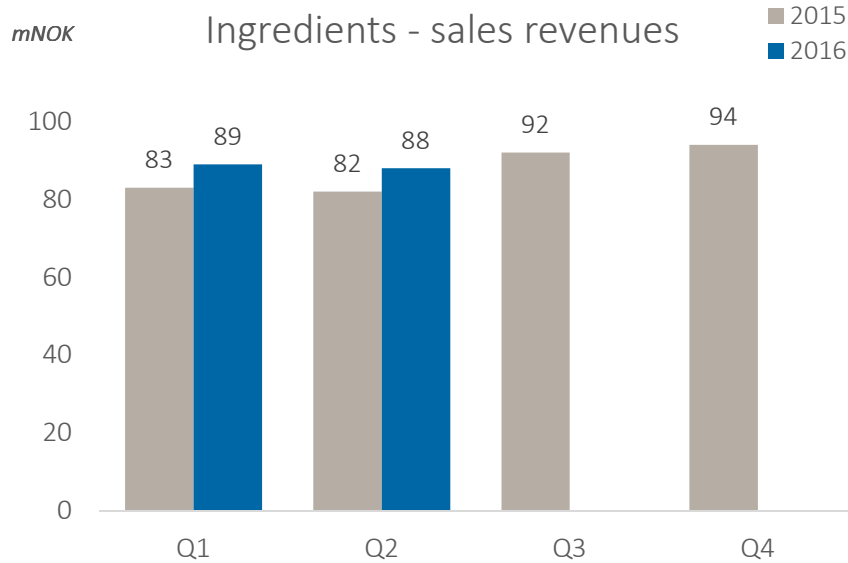
# Specialty Cellulose markets – Q2



- Improved product mix vs Q2-15
- Slightly lower prices in sales currency
- Sales volume in line with production
- Positive FX impact

1) Average sales price is calculated using actual FX rates, excluding hedging impact.

# Ingredients and Fine Chemicals markets – Q2



- **Ingredients**

- Continued challenging market conditions
- Positive FX impact

- **Fine Chemicals**

- High shipments of key products
- Positive FX impact

# Outlook

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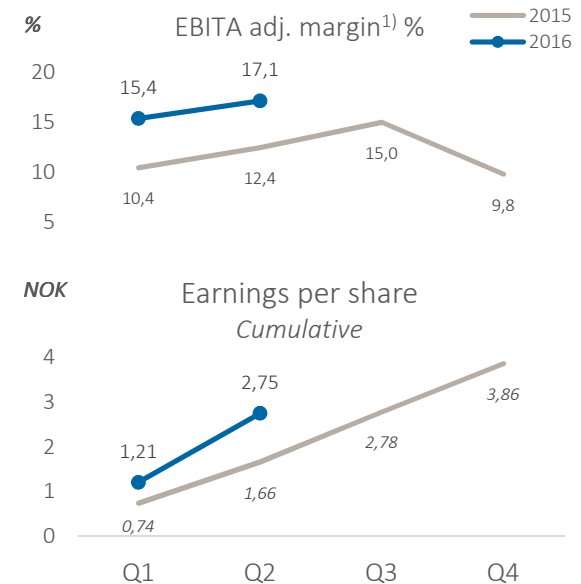
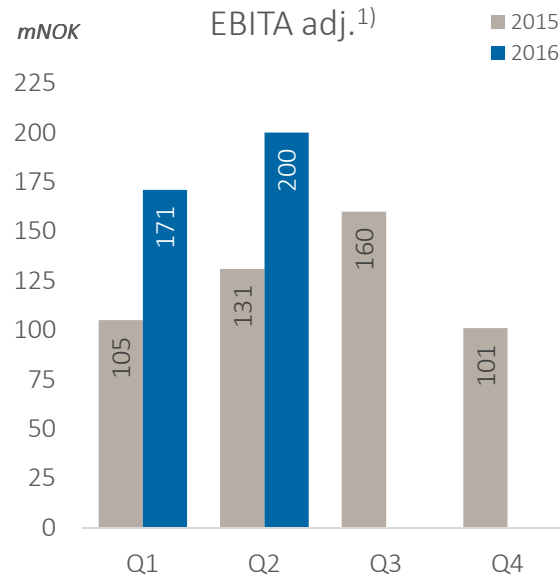
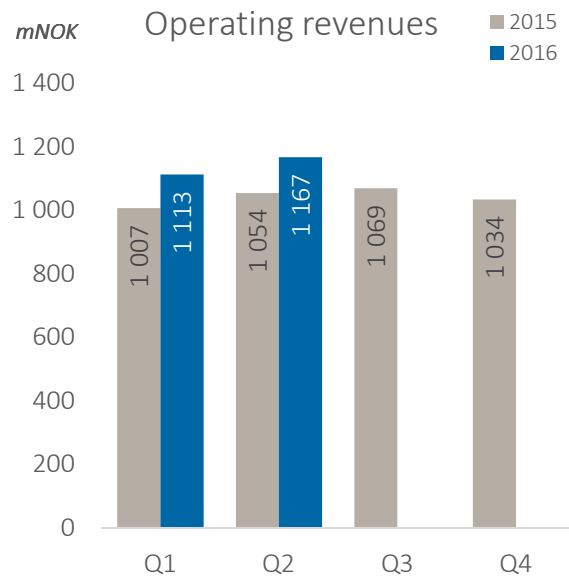
- Performance Chemicals
  - Continued weak business climate and strong price competition in important markets
  - Efforts to reallocate volume to other applications and regions will continue
  - Sales volume in 2016 expected to increase by slightly more than the full-year impact of the Flambeau volume
  - Average price and product mix will be affected by Flambeau volume and reallocation efforts
  - In Q3-16, sales volume forecast to be slightly below Q2-16
- Specialty Cellulose
  - Average price in sales currency expected to be approx. 2% below 2015 level
  - Price uncertainty mainly related to textile cellulose
  - Product mix in 2016 forecast to improve slightly from 2015
  - In Q3-16, sales volume expected to be in line with Q3-15, and with a similar product mix
- Other Businesses
  - No major changes expected in market conditions for Ingredients and Fine Chemicals
  - Exilva project costs, net of EU grant, expected to increase in 2016 due to start-up and additional marketing and business development activities
  - Corporate costs will remain at largely the same level as in 2015
- Currency, including hedging impact, expected to contribute positively in all business areas in H2-16, although less than in H1-16





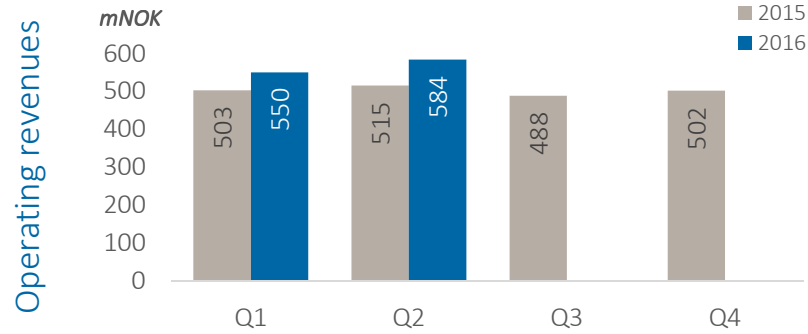
## FINANCIAL PERFORMANCE Q2-16

# Borregaard key figures – Q2

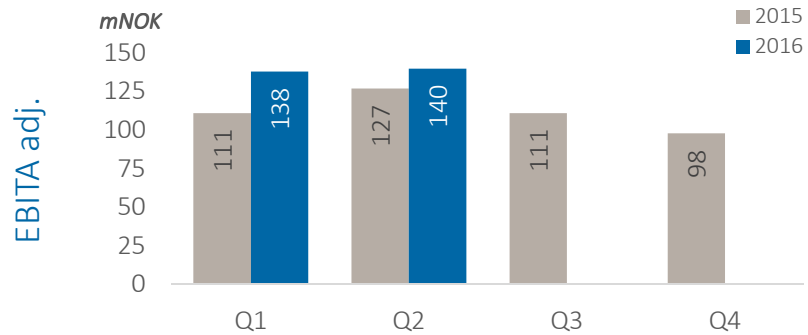


- Revenues increased by 11% vs Q2-15
- All-time high quarterly EBITA adj.<sup>1)</sup>
  - Strong positive FX impact and improved result in all business areas
- EPS at NOK 1.54 in Q2-16, an improvement of NOK 0.62 from Q2-15
  - Other income and expenses<sup>1)</sup> +13 mNOK (additional insurance compensation for seasoning silos off-set by provision for contaminated soil related to previously phased-out chlor-alkali technology)

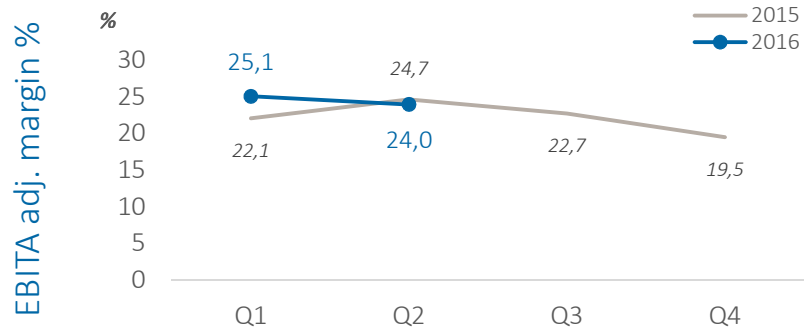
# Performance Chemicals key figures – Q2



- 13% revenue growth vs Q2-15
- Favourable FX impact
- 13% sales volume growth, mainly from the acquired Flambeau business

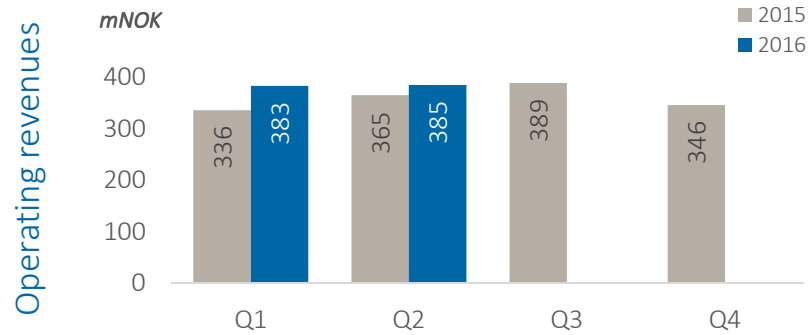


- All-time high EBITA adj., strong FX impact
- Challenging market conditions continued
- Weaker product mix
- Slightly lower prices in sales currency
- Volume increase

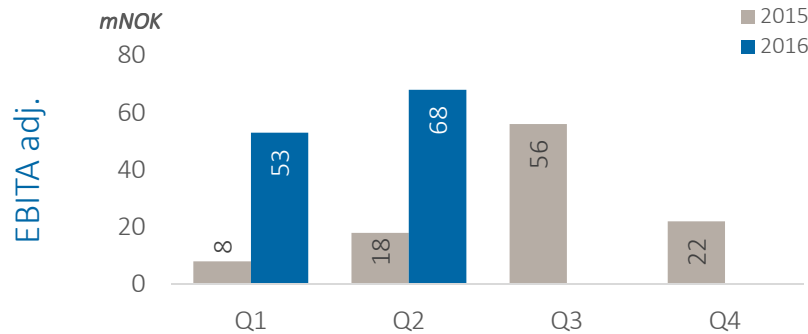


- EBITA adj. margin in line with Q2-15

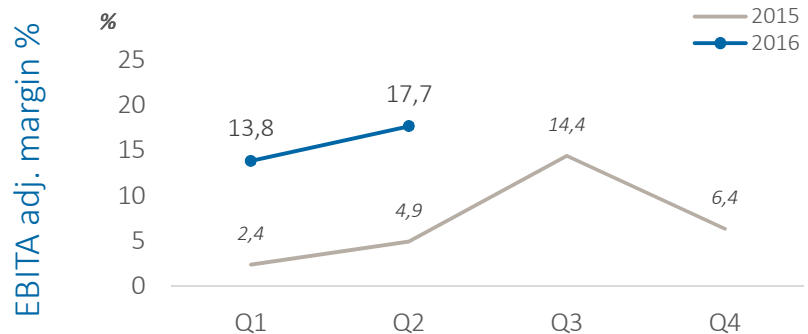
# Specialty Cellulose key figures – Q2



- 5% revenue growth vs Q2-15
- Favourable FX impact

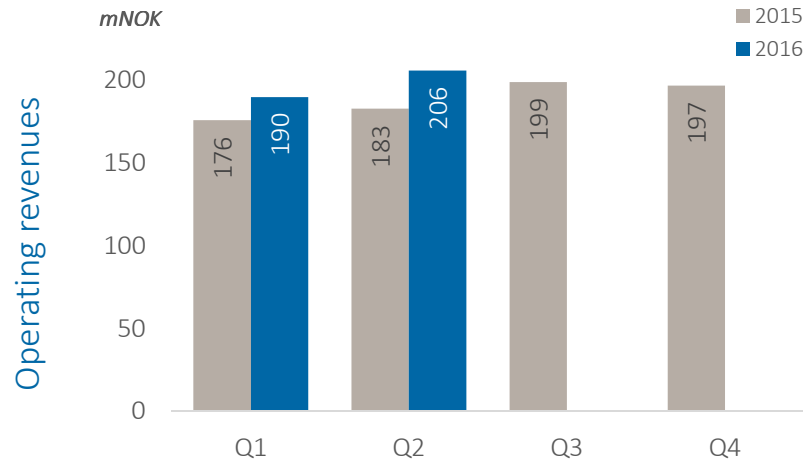


- Strong improvement in EBITA adj.
- Positive FX impact and improved product mix
- Lower production costs
- Lower volume and slightly lower sales prices
- Higher contribution from bioethanol

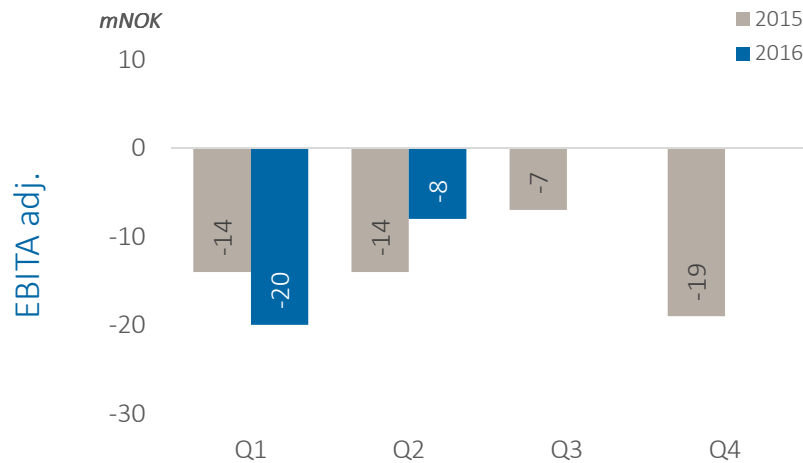


- Significant improvement in EBITA adj. margin

# Other Businesses key figures – Q2

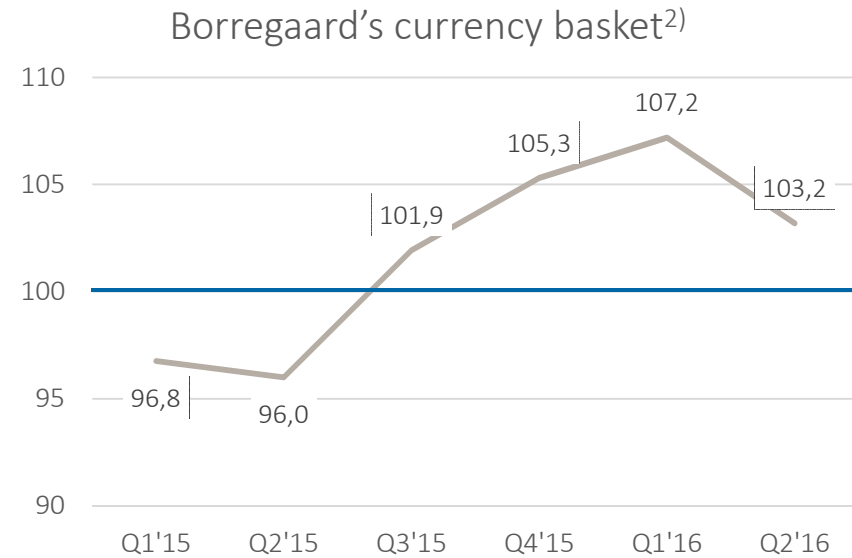
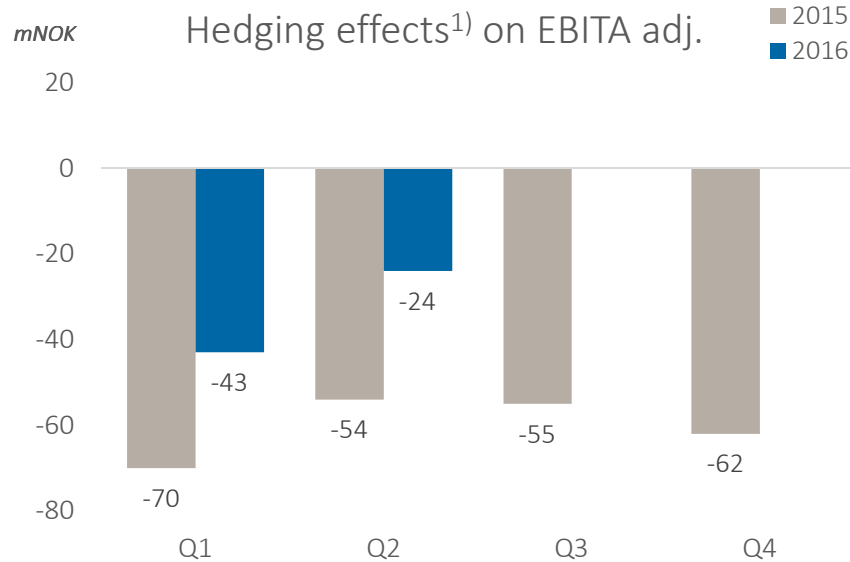


- Revenues 13% above Q2-15
- High sales in Fine Chemicals
- Positive FX impact



- **Ingredients:** Improved EBITA adj. vs Q2-15, mainly due to favourable FX effects
- **Fine Chemicals:** Strong result due to high shipments of key products and positive FX impact
- **Exilva** net project costs, including EU grant, increased due to a higher level of marketing and business development activities

# Currency impact



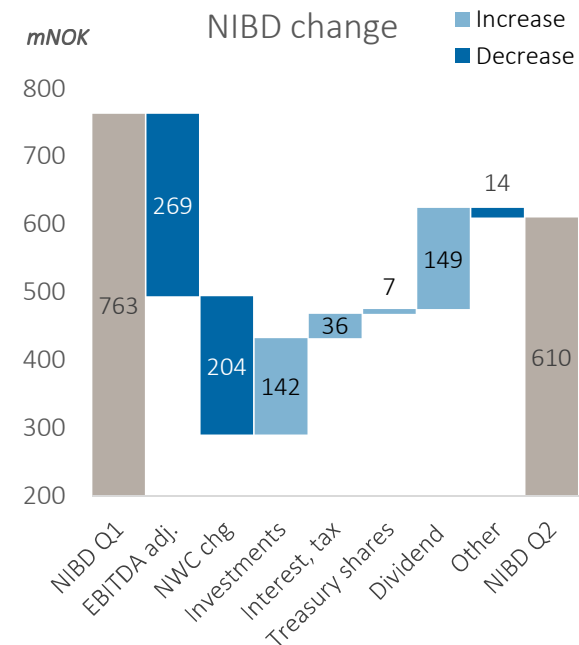
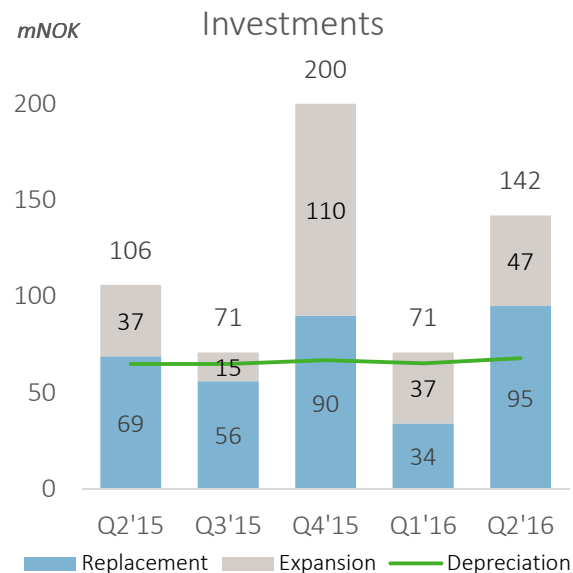
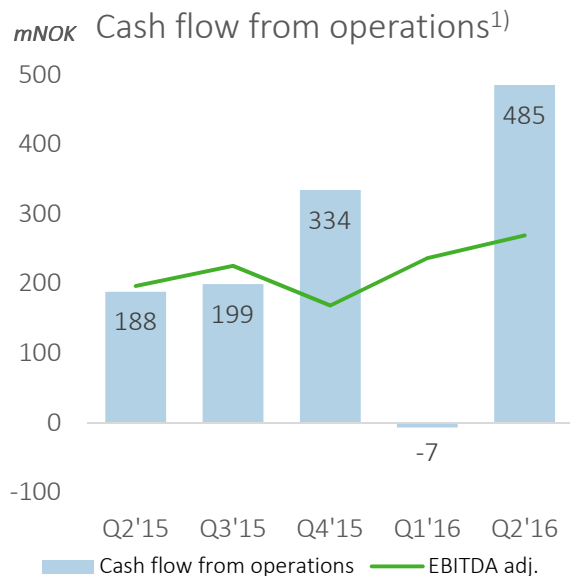
- Net FX EBITA adj. impact approx. 75 mNOK vs Q2-15
  - Includes change in hedging effects and based on estimated Q2-16 currency exposure
  - Net FX EBITA adj. impact YTD approx. 165 mNOK
- Net FX EBITA adj. impact in 2016 estimated to be 235 mNOK vs 2015
  - Assuming rates as of 15 July (USD 8.37 and EUR 9.32) and expected currency exposure
  - Net FX EBITA adj. impact in Q3-16 estimated to be 40 mNOK vs Q3-15

1) See appendix for currency hedging strategy, future hedges and hedging effects by segment

2) Currency basket based on Borregaard's net exposure in 2015 (=100)

- USD 71% (approximately 214 mUSD)
- EUR 29% (approximately 78 mEUR)
- Other 0% (GBP, BRL, JPY, SEK, ZAR)

# Cash flow, investments and NIBD



- Strong cash flow in Q2-16
  - High EBITDA adj. and significant decrease in net working capital
- High investments in the quarter
  - Replacement investments impacted by the construction of new seasoning silos
  - Expansion investments<sup>1)</sup> in Q2 mainly related to the Exilva and Ice Bear projects
- Dividend payment of 149 mNOK in Q2
- NIBD decreased by 153 mNOK in Q2

<sup>1)</sup> Non-GAAP measure, see Appendix for definition.

# Q&A

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- Per A Sørli, President & CEO
- Per Bjarne Lyngstad, CFO

**Save the date:**

## **Borregaard Capital Markets Day**

Tuesday 20 September 2016 in Sarpsborg, Norway

- Presentations including update on operations and strategic projects, markets, finance and sustainability
- Site visit and demonstration of Borregaard products





## APPENDIX

# Borregaard - key figures

Amounts in NOK million	Q2-2016	Q2-2015	Change	YTD-2016	YTD-2015	Change
<b>Operating revenues</b>	<b>1 167</b>	<b>1 054</b>	<b>11 %</b>	<b>2 280</b>	<b>2 061</b>	<b>11 %</b>
<b>EBITDA adj. <sup>1)</sup></b>	<b>269</b>	<b>196</b>	<b>37 %</b>	<b>505</b>	<b>365</b>	<b>38 %</b>
<b>EBITA adj. <sup>1)</sup></b>	<b>200</b>	<b>131</b>	<b>53 %</b>	<b>371</b>	<b>236</b>	<b>57 %</b>
Amortisation intangibles	-1	0		-2	0	
Other income and expenses <sup>1)</sup>	13	0		13	0	
<b>Operating profit (EBIT)</b>	<b>212</b>	<b>131</b>	<b>62 %</b>	<b>382</b>	<b>236</b>	<b>62 %</b>
Financial items, net	-5	-6		-14	-11	
<b>Profit/loss before taxes</b>	<b>207</b>	<b>125</b>	<b>66 %</b>	<b>368</b>	<b>225</b>	<b>64 %</b>
Taxes	-53	-33		-94	-60	
<b>Profit/loss for the period</b>	<b>154</b>	<b>92</b>	<b>67 %</b>	<b>274</b>	<b>165</b>	<b>66 %</b>
Profit/loss attributable to non-controlling interests	0	0		-1	-1	
Profit/loss attributable to owners of the parent	154	92		275	166	
<b>Cash flow from operating activities (IFRS)</b>	<b>433</b>	<b>146</b>		<b>364</b>	<b>64</b>	
<b>Earnings per share (NOK)</b>	<b>1,54</b>	<b>0,92</b>	<b>67 %</b>	<b>2,75</b>	<b>1,66</b>	<b>66 %</b>
<i>Adjusted EBITDA adj. margin <sup>1)</sup></i>	<i>23,1 %</i>	<i>18,6 %</i>		<i>22,1 %</i>	<i>17,7 %</i>	
<i>Adjusted EBITA adj. margin <sup>1)</sup></i>	<i>17,1 %</i>	<i>12,4 %</i>		<i>16,3 %</i>	<i>11,5 %</i>	

# Operating revenues and EBITA adj. per segment

Amounts in NOK million

Operating revenues	Q2-2016	Q2-2015	Change
<b>Borregaard</b>	<b>1 167</b>	<b>1 054</b>	<b>11 %</b>
Performance Chemicals	584	515	13 %
Specialty Cellulose	385	365	5 %
Other Businesses	206	183	13 %
Eliminations	-8	-9	

Amounts in NOK million

EBITA adj.	Q2-2016	Q2-2015	Change
<b>Borregaard</b>	<b>200</b>	<b>131</b>	<b>53 %</b>
Performance Chemicals	140	127	10 %
Specialty Cellulose	68	18	278 %
Other Businesses	-8	-14	43 %

Amounts in NOK million

Operating revenues	YTD-2016	YTD-2015	Change
<b>Borregaard</b>	<b>2 280</b>	<b>2 061</b>	<b>11 %</b>
Performance Chemicals	1 134	1 018	11 %
Specialty Cellulose	768	701	10 %
Other Businesses	396	359	10 %
Eliminations	-18	-17	

Amounts in NOK million

EBITA adj.	YTD-2016	YTD-2015	Change
<b>Borregaard</b>	<b>371</b>	<b>236</b>	<b>57 %</b>
Performance Chemicals	278	238	17 %
Specialty Cellulose	121	26	365 %
Other Businesses	-28	-28	0 %

# Cash flow

Amounts in NOK million	Q2-2016	Q2-2015	YTD-2016	YTD-2015	FY-2015
<b>Amounts in NOK million</b>					
Profit before taxes	207	125	368	225	506
Amortisation, depreciation and impairment charges	69	65	135	129	269
Change in net working capital, etc	204	-8	-39	-202	-106
Dividend (share of profit) from JV	-16	-19	-38	-18	-14
Taxes paid	-31	-17	-62	-70	-92
<b>Cash flow from operating activities</b>	<b>433</b>	<b>146</b>	<b>364</b>	<b>64</b>	<b>563</b>
Investments property, plant and equipment and intangible assets	-142	-106	-213	-159	-430
Other capital transactions	1	0	2	3	5
<b>Cash flow from Investing activities</b>	<b>-141</b>	<b>-106</b>	<b>-211</b>	<b>-156</b>	<b>-425</b>
Dividends	-149	-124	-149	-124	-124
Proceeds from exercise of share options	2	0	3	0	11
Buy-back of treasury shares	-9	0	-9	0	-5
Gain/(loss) on hedges for net investments in subsidiaries	18	33	29	-10	-76
<b>Net paid to/from shareholders</b>	<b>-138</b>	<b>-91</b>	<b>-126</b>	<b>-134</b>	<b>-194</b>
Proceeds from interest-bearing liabilities	100	100	100	100	100
Repayment of interest-bearing liabilities	-102	-2	-104	-4	-109
Change in interest-bearing receivables/liabilities	-6	4	-15	-12	21
<b>Change in net interest-bearing liabilities</b>	<b>-8</b>	<b>102</b>	<b>-19</b>	<b>84</b>	<b>12</b>
<b>Cash flow from financing activities</b>	<b>-146</b>	<b>11</b>	<b>-145</b>	<b>-50</b>	<b>-182</b>
<b>Change in cash and cash equivalents</b>	<b>146</b>	<b>51</b>	<b>8</b>	<b>-142</b>	<b>-44</b>
Cash and cash equivalents as of beginning of period	18	-8	169	168	168
Change in cash and cash equivalents	146	51	8	-142	-44
Currency effects cash and cash equivalents	-1	-7	-14	10	45
<b>Cash and cash equivalents at the close of the period</b>	<b>163</b>	<b>36</b>	<b>163</b>	<b>36</b>	<b>169</b>

# Balance sheet

Amounts in NOK million	30.06.2016	31.03.2016	31.12.2015
<b>Assets:</b>			
Intangible assets	127	131	137
Property, plant and equipment	2 200	2 121	2 122
Other assets	121	165	121
Investments in joint venture	145	128	106
<b>Non-current assets</b>	<b>2 593</b>	<b>2 545</b>	<b>2 486</b>
Inventories	671	684	676
Receivables	981	1 008	838
Cash and cash deposits	163	39	169
<b>Current assets</b>	<b>1 815</b>	<b>1 731</b>	<b>1 683</b>
<b>Total assets</b>	<b>4 408</b>	<b>4 276</b>	<b>4 169</b>
<b>Equity and debt:</b>			
Group Equity	2 385	2 376	2 056
Non-controlling interests	4	5	5
<b>Equity</b>	<b>2 389</b>	<b>2 381</b>	<b>2 061</b>
Provisions and other non-current liabilities	335	367	408
Interest-bearing liabilities	784	791	802
<b>Non-current liabilities</b>	<b>1 119</b>	<b>1 158</b>	<b>1 210</b>
Interest-bearing liabilities	9	31	9
Other liabilities	891	706	889
<b>Current liabilities</b>	<b>900</b>	<b>737</b>	<b>898</b>
<b>Equity and liabilities</b>	<b>4 408</b>	<b>4 276</b>	<b>4 169</b>
Equity ratio (%):	54,2 %	55,7 %	49,4 %

# Net financial items & net interest-bearing debt

Amounts in NOK million

Net financial items	Q2-2016	Q2-2015	YTD-2016	YTD-2015
Net interest expenses	-6	-6	-11	-13
Currency gain/loss	1	1	-2	3
Other financial items, net	0	-1	-1	-1
<b>Net financial items</b>	<b>-5</b>	<b>-6</b>	<b>-14</b>	<b>-11</b>

Amounts in NOK million

Net interest-bearing debt (NIBD)	30.06.2016	31.03.2016	31.12.2015
Non-current interest-bearing liabilities	784	791	802
Current interest-bearing liabilities	9	31	9
Non-current interest-bearing receivables	-20	-20	-18
Cash and cash deposits	-163	-39	-169
<b>Net interest-bearing debt (NIBD)</b>	<b>610</b>	<b>763</b>	<b>624</b>

# Currency hedging strategy

*Purpose is to delay effects of currency fluctuations and secure competitiveness*

- Hedging based on expected EBITA adj. impact<sup>1)</sup>
  - **Base hedge:** 75%/50% on a rolling basis for 6/9 months for major currencies
  - **Extended hedge:** 75%/50% of the next 24/36 months if USD and EUR are above defined levels  
EUR; effective rate above 8.50  
USD; gradually at effective rates between 7.50 and 8.50
  - **Contracts**<sup>2)</sup>: 100% hedged
- Balance sheet exposure hedged 100%
- Net investments in subsidiaries hedged up to 90% of book value in major currencies

Contracted FX hedges with EBITA adj. impact

	USD million	USD rate	EUR million	EUR rate
Q3-2016	38	8.04	19	8.53
Q4-2016	37	7.96	18	8.64
RoY 2016	76	8.00	36	8.59
2017	147	8.03	70	8.84
2018	120	8.17	63	9.36
2019	44	8.35	25	9.76

Hedging effects by segment

NOK million	Q2-16	Q2-15	YTD-16	YTD-15
Performance Chemicals	-7	-18	-19	-40
Specialty Cellulose	-11	-29	-33	-69
Other Businesses	-6	-7	-15	-15
<b>Borregaard</b>	<b>-24</b>	<b>-54</b>	<b>-67</b>	<b>-124</b>



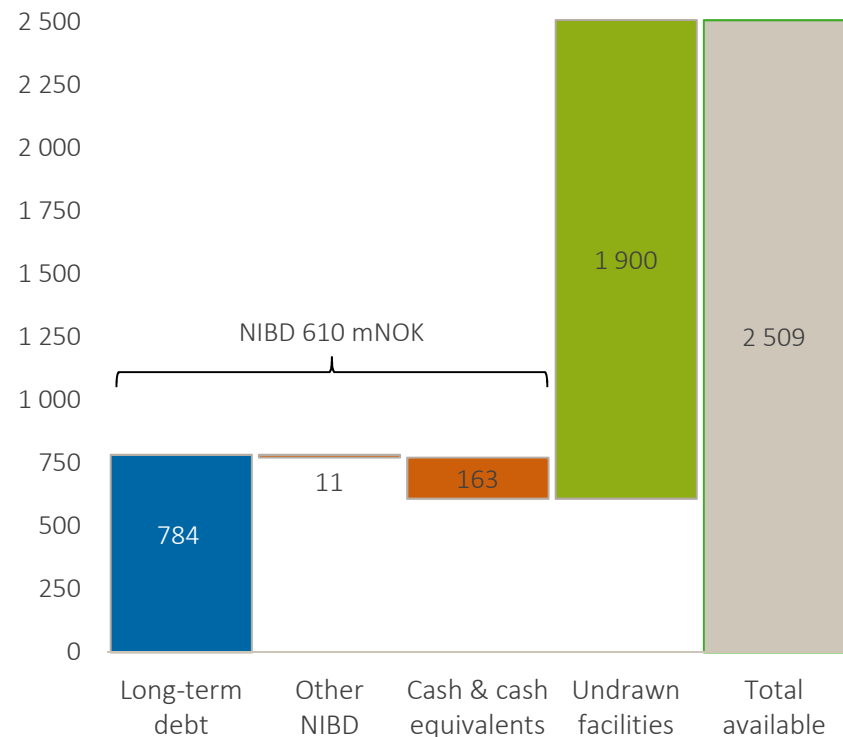
1) Hedging done mainly in the Norwegian company

2) Strict definitions for contracts applied for 100% hedging (mutually binding agreement in which price, currency, volume and time are defined)

# Debt, credit facilities and solidity

- Debt and overdraft facilities
  - Long-term credit facilities
    - 1,500 mNOK revolving credit facilities, maturity 2020
    - 400 mNOK 5-year bond issue, maturity 2019
    - 40 mEUR 10-year loan, maturity 2024
  - Overdraft facilities
    - 225 mNOK
- Solidity (covenants)
  - Equity ratio 54.2% (> 25%)
  - Leverage ratio<sup>1)</sup> LTM 0.68 (< 3.25)

Debt and undrawn facilities  
30.6.2016



1) Non-GAAP measure, see Appendix for definition.



# Non-GAAP measures

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

- Cash flow from operations:
  - Cash flow from operating activities (IFRS) + tax paid +/- net financial items +/- dividend (share of profit) from JV.
- EBITA adjusted (EBITA adj.)
  - Operating profit before amortisation and other income and expenses.
- EBITA adj. margin
  - EBITA adj. divided by operating revenues
- EBITDA adjusted (EBITDA adj.)
  - Operating profit before depreciation, amortisation and other income and expenses.
- Expansion investments
  - 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 R&D costs and new distribution set-ups.
- Other income and expenses
  - 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
  - Net interest-bearing debt divided by last twelve months' (LTM) EBITDA adj.

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