



2<sup>ND</sup> QUARTER 2020

Sarpsborg, 16 July 2020

# Agenda



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

# Highlights – 2<sup>nd</sup> quarter 2020



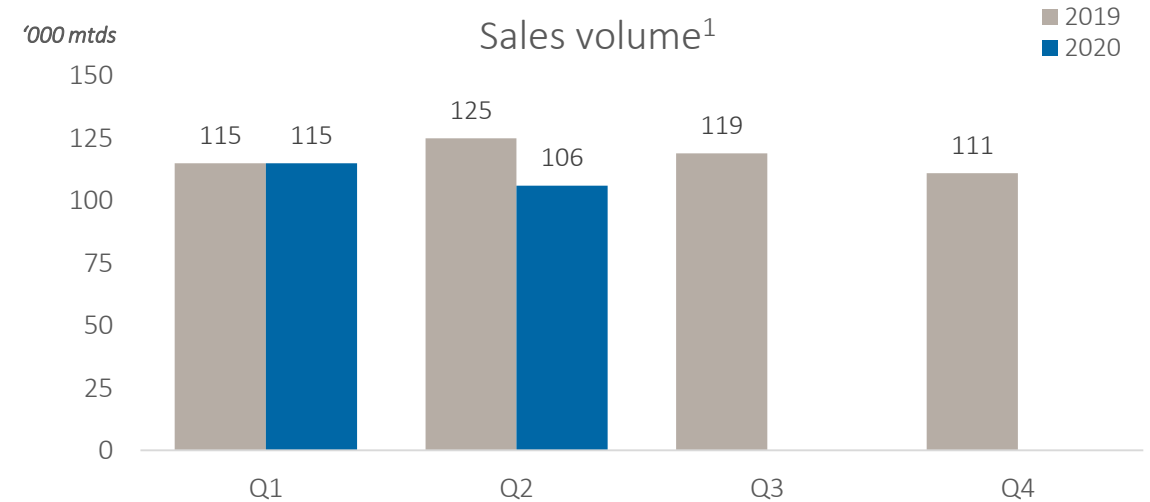
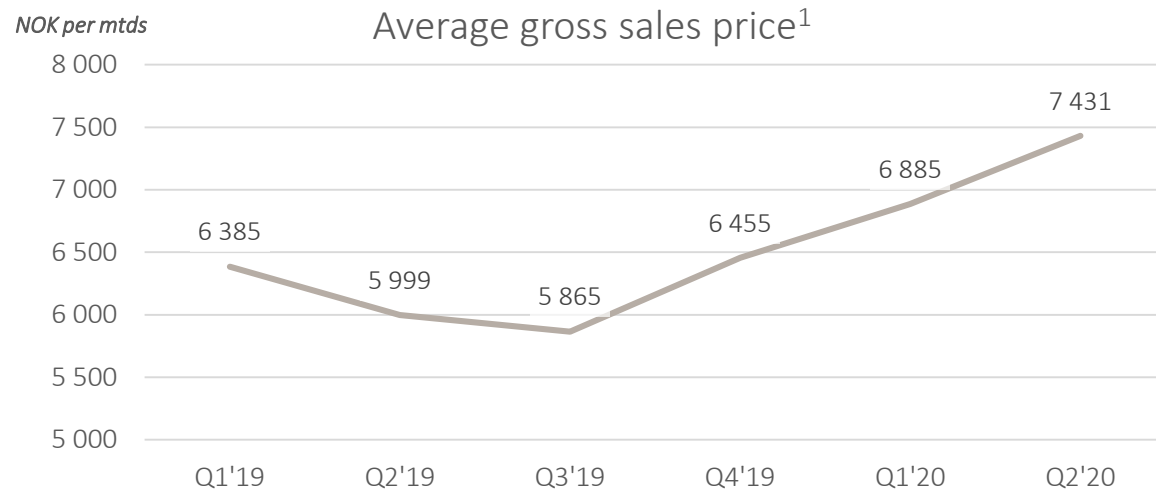
- All-time high EBITDA<sup>1</sup> of NOK 361 million (NOK 283 million)
- Significant reduction in raw material supply for BioSolutions
- Lower wood and energy costs and high production in BioMaterials
- High contribution from sales of bioethanol to disinfectants in Fine Chemicals
- Positive net currency impact on EBITDA<sup>1</sup>
- Strong cash flow from operating activities
- Impairment and restructuring costs related to LignoTech South Africa

<sup>1</sup> Alternative performance measure, see Appendix for definition

# Coronavirus related effects materialised in Q2

- Raw material supply to LignoTech South Africa (LTSA) discontinued
  - Production at the calcium sulphite line at Sappi's Saiccor dissolving pulp mill stopped at the beginning of April, affecting supply of lignin raw material to LTSA
  - The line is expected to be shut down for an extended period
  - The Board of LTSA decided to mothball the lignin plant and terminate commercial agreements with third parties
  - Impairment and restructuring costs of 84 mNOK in Q2 related to LTSA
- Reduced demand in some biopolymers sectors and for certain cellulose grades
- Sales of bioethanol partly shifted from fuel to disinfectants

# BioSolutions markets – Q2

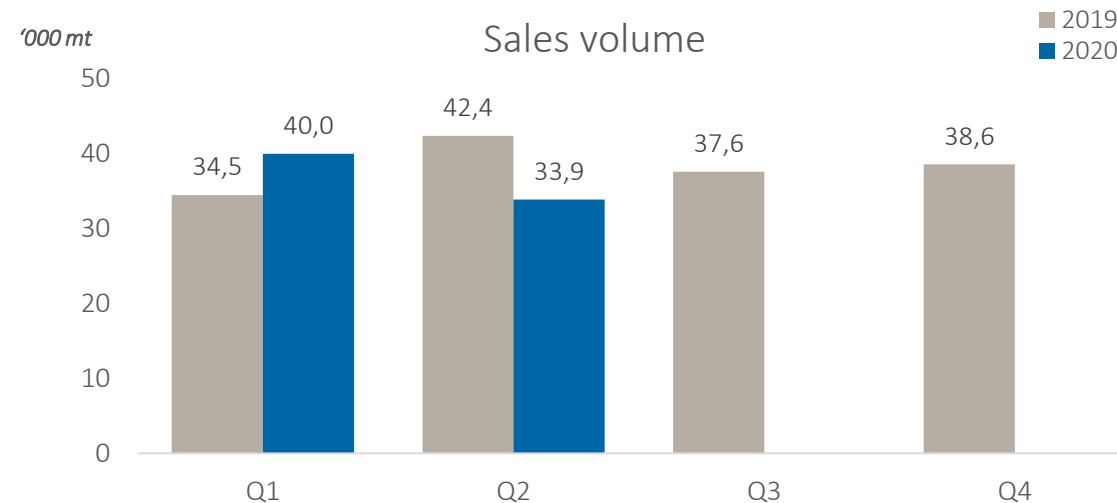
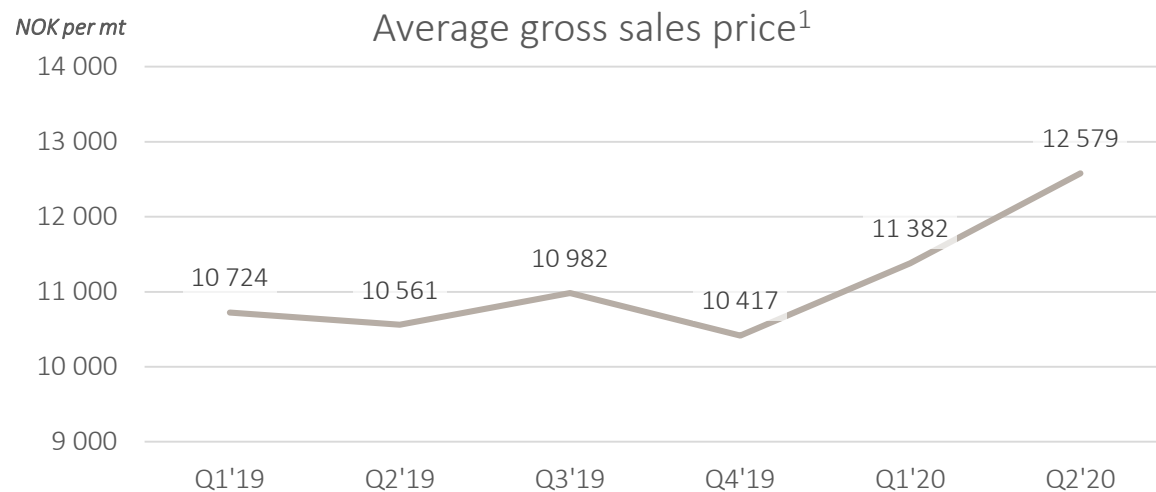


*Sales price and sales volume include lignin-based biopolymers and biovanillin*

- Sales volume 15% lower compared with Q2-19 due to reduced raw material supply
  - Concrete admixtures and low-value industrial application mainly affected
  - Increased sales volume from Florida and inventory reduction
  - Increased sales of products for agriculture and biovanillin, significant drop in sales to oil field chemicals
- Average price in sales currency 10% above Q2-19 due to improved product mix
  - Reduced sales of low-value products and improved mix within Specialities
- Positive FX effects

<sup>1</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.

# BioMaterials markets – Q2

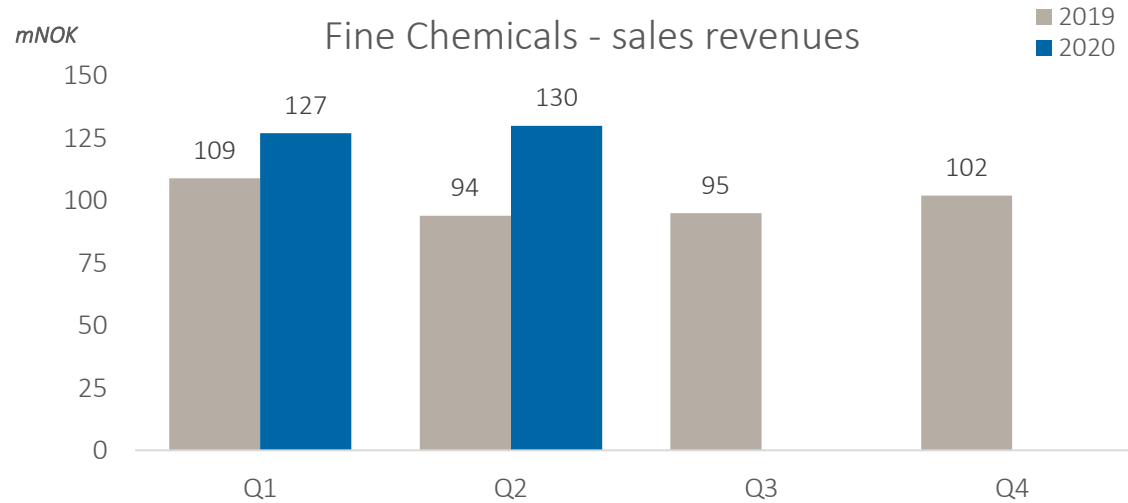


*Sales price and sales volume include speciality cellulose and cellulose fibrils*

- Average price in sales currency 5% above Q2-19
  - Higher share of highly specialised grades
- Low sales volume
  - Weaker than expected demand for cellulose ethers to construction and certain less specialised grades
- Increased sales for cellulose fibrils, but still at a low level
- Positive FX impact

<sup>1</sup> Average sales price is calculated using actual FX rates, excluding hedging impact.

# Fine Chemicals markets – Q2



*Sales revenues include pharma intermediates and bioethanol*

- Significant improvement in bioethanol
  - Strong demand and a higher price level for sales to disinfectants
- Higher deliveries of pharma intermediates



# Outlook

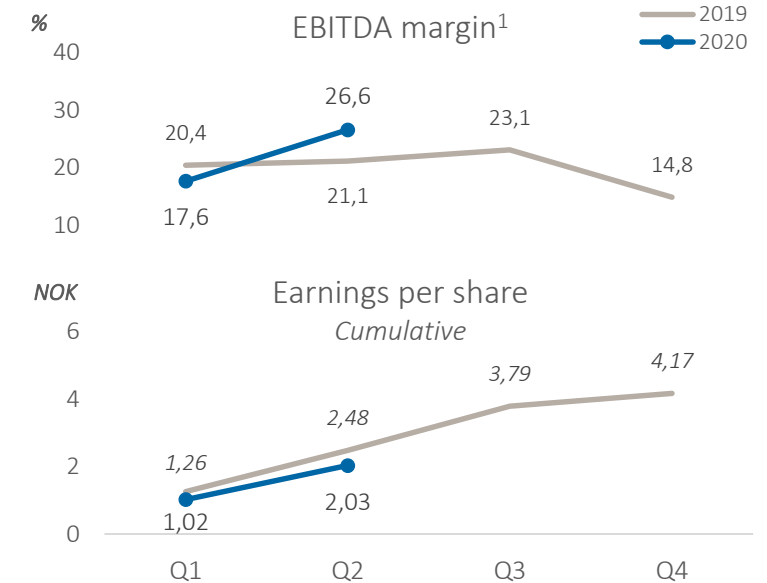
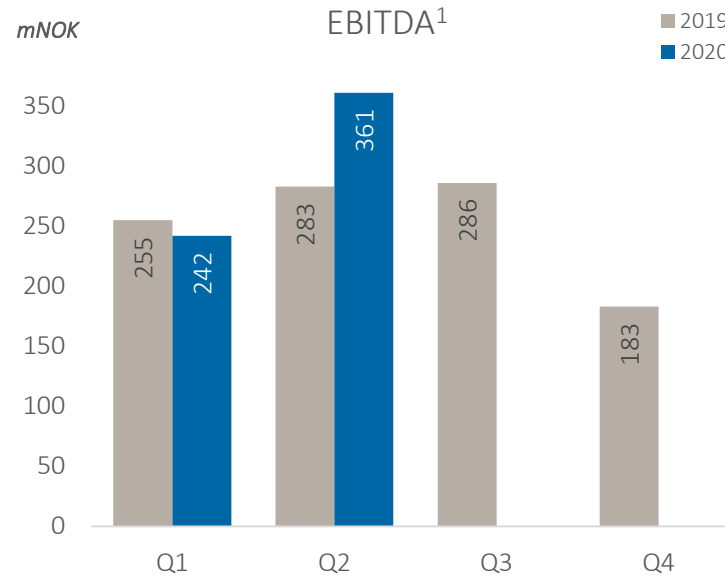
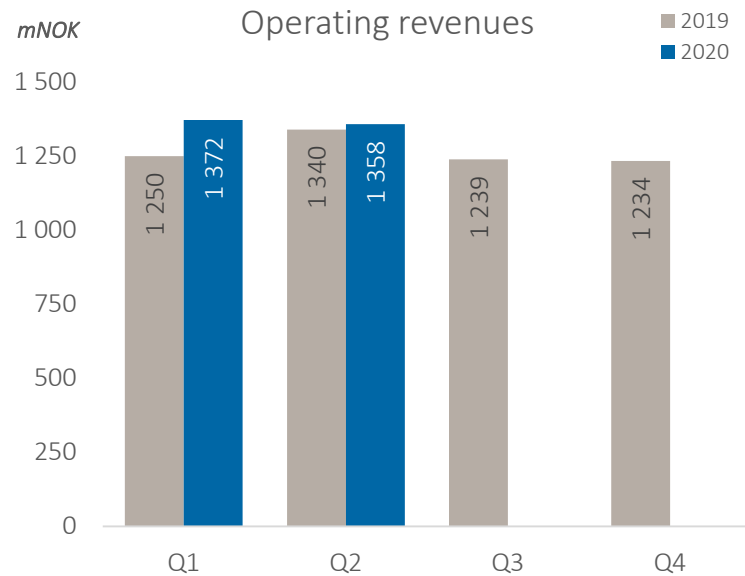
- BioSolutions
  - Sales volume for 2020 forecast to decrease by 10-15%, mainly impacting sales to concrete admixtures and low-value industrial applications
  - Positive effect on product mix and average price in sales currency
  - In total, demand expected to be higher than supply for the rest of the year
  - Reduced demand in certain applications, such as oil field chemicals and automotive, will have a negative impact
  - Cost savings in Norway and Germany expected to continue as planned
  - The ongoing biovanillin capacity expansion will be gradually realised in 2020 with full effect from H2-21
- BioMaterials
  - Average price in sales currency expected to increase 0-2% in 2020 due to improved product mix
  - Coronavirus effect on economic activity may negatively influence demand for certain speciality cellulose grades H2-20
  - Cellulose fibrils sales volume expected to continue to grow
  - Wood costs in H2-20 forecast to be approx. 25 mNOK lower vs H2-19
- Fine Chemicals
  - No major changes expected in the market conditions for pharma intermediates
  - Bioethanol sales to disinfectants expected to be significantly lower in H2-20 vs the peak in Q2
  - Deliveries of bioethanol to biofuel expected to increase vs H1-20
- Coronavirus situation
  - Possibility for lower growth in world economy and indirect consequences from affected suppliers, business partners or infrastructure
  - Focus on closely monitoring the situation and maintaining sufficient financial capacity to mitigate any potential effects





## FINANCIAL PERFORMANCE Q2-20

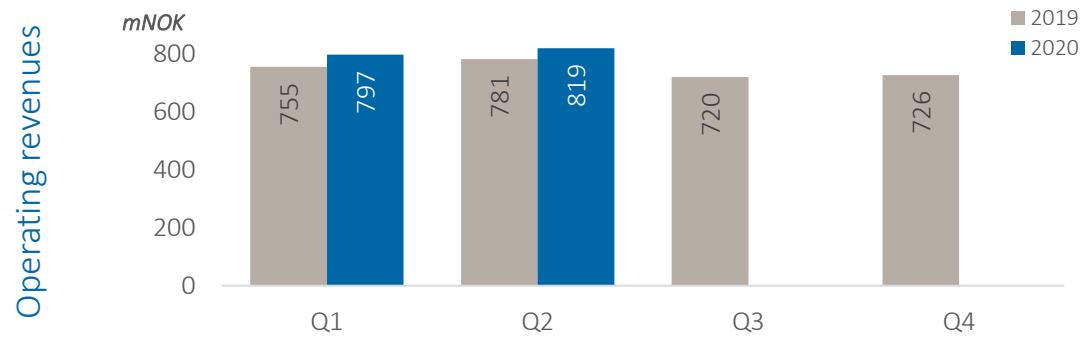
# Borregaard key figures – Q2



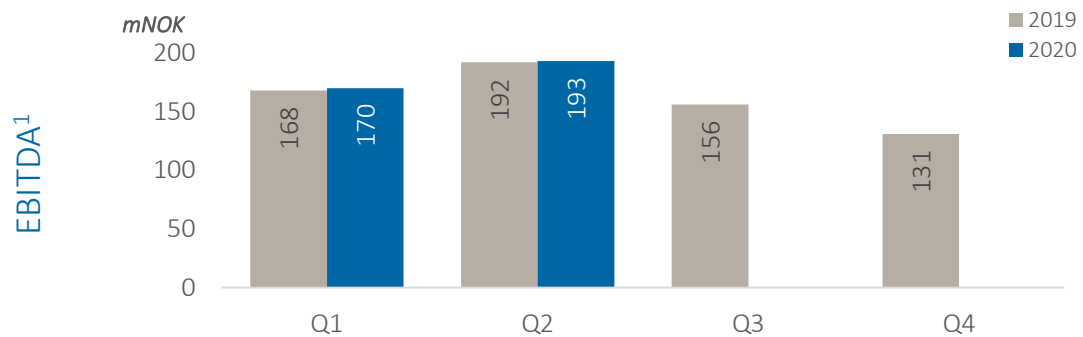
- Revenues 1% above Q2-19
- All-time high EBITDA<sup>1</sup> 361 mNOK for the Group
  - Improved results for BioMaterials and Fine Chemicals, BioSolutions in line with Q2-19
  - Net FX effect on EBITDA<sup>1</sup> was ≈30 mNOK
- EPS at NOK 1.01 (NOK 1.22)
  - Other expenses 96 mNOK, mainly related to the South African operation

<sup>1</sup> Alternative performance measure, see Appendix for definition

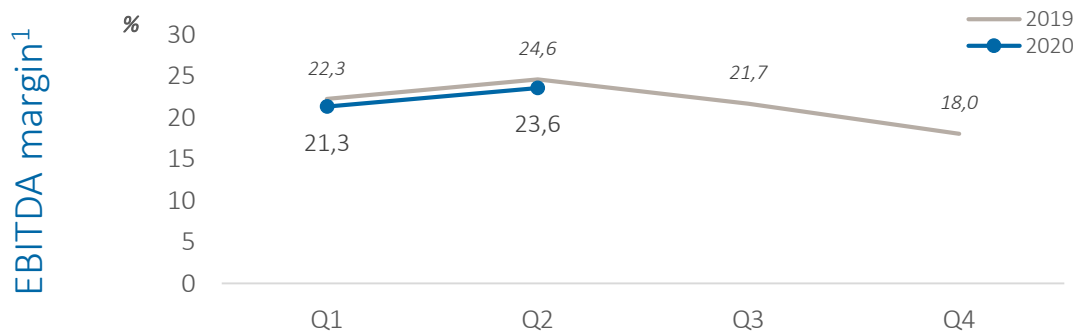
# BioSolutions key figures – Q2



- Revenues 5% above Q2-19
- Positive net FX impact
- Reduced supply and 15% lower sales volume



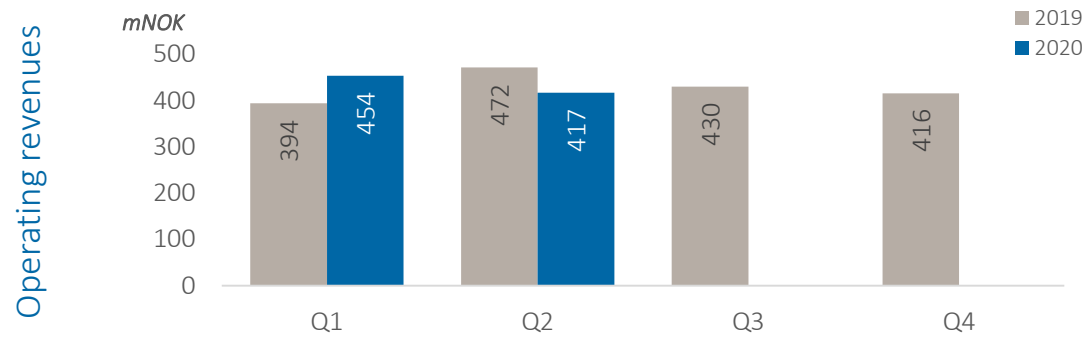
- Lower sales volume, but favourable product mix
- Average price in sales currency 10% higher
- Cost reductions in Norway and Germany
- Higher distribution costs
- Positive net FX impact



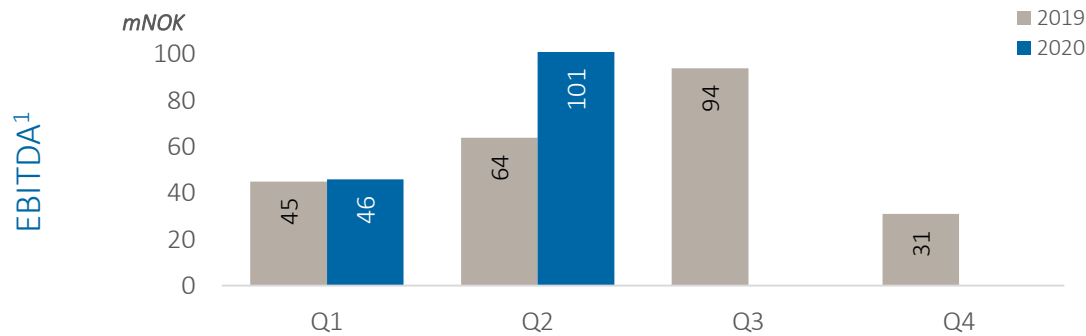
- EBITDA margin<sup>1</sup> slightly below Q2-19

<sup>1</sup> Alternative performance measure, see Appendix for definition

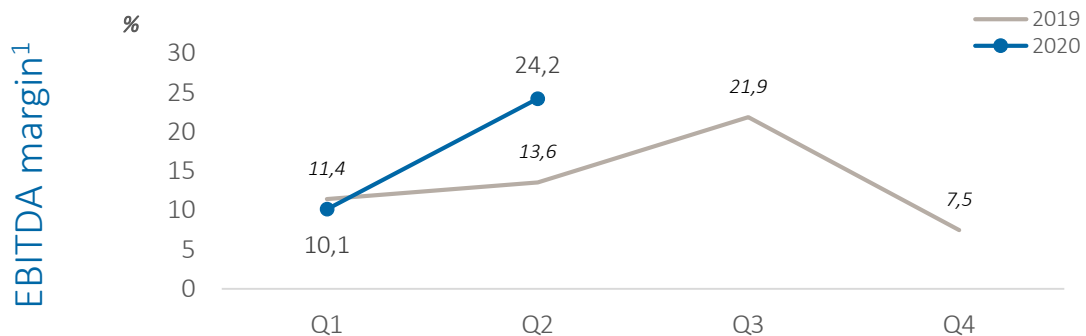
# BioMaterials key figures – Q2



- Revenues 12% below Q2-19
- Low sales volume
- Positive FX effects



- Average price in sales currency 5% higher vs Q2-19
- Higher share of highly specialised grades
- Reduced wood and energy costs and high production volume
- Higher cellulose fibrils sales did not fully compensate for reduced cost coverage from EU grant<sup>2</sup>
- Positive net FX impact



- EBITDA margin<sup>1</sup> significantly above Q2-19

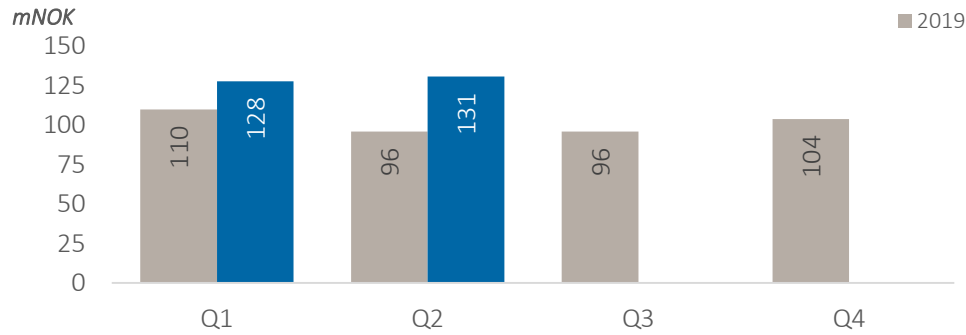


<sup>1</sup> Alternative performance measure, see Appendix for definition

<sup>2</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

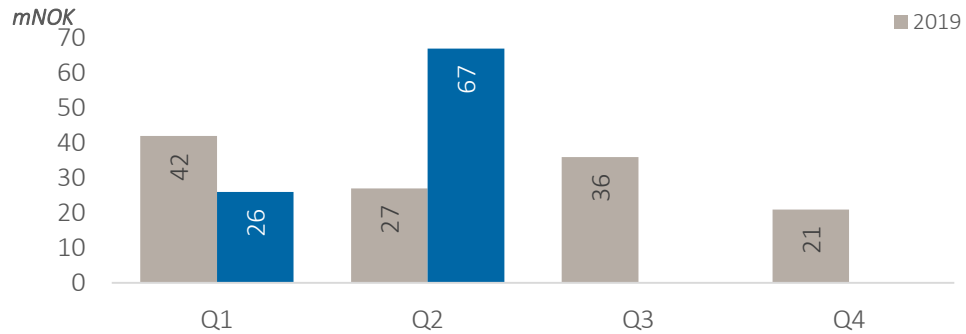
# Fine Chemicals key figures – Q2

Operating revenues



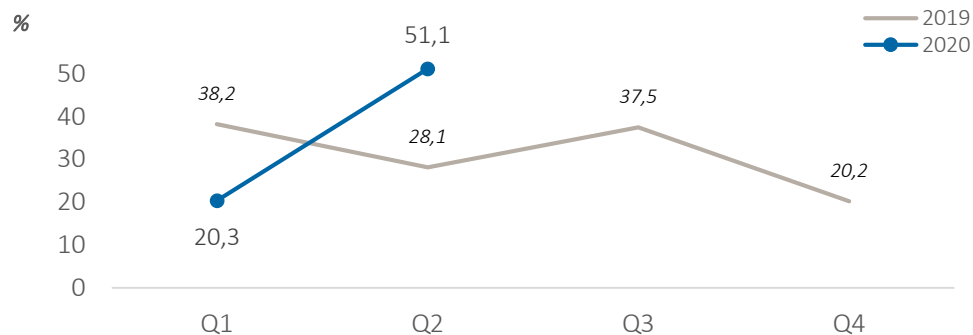
- Revenues 36% above Q2-19
- High bioethanol sales to disinfectants

EBITDA<sup>1</sup>



- Bioethanol result improved significantly vs Q2-19
- Higher deliveries and improved result for pharma intermediates
- Negligible net FX effects

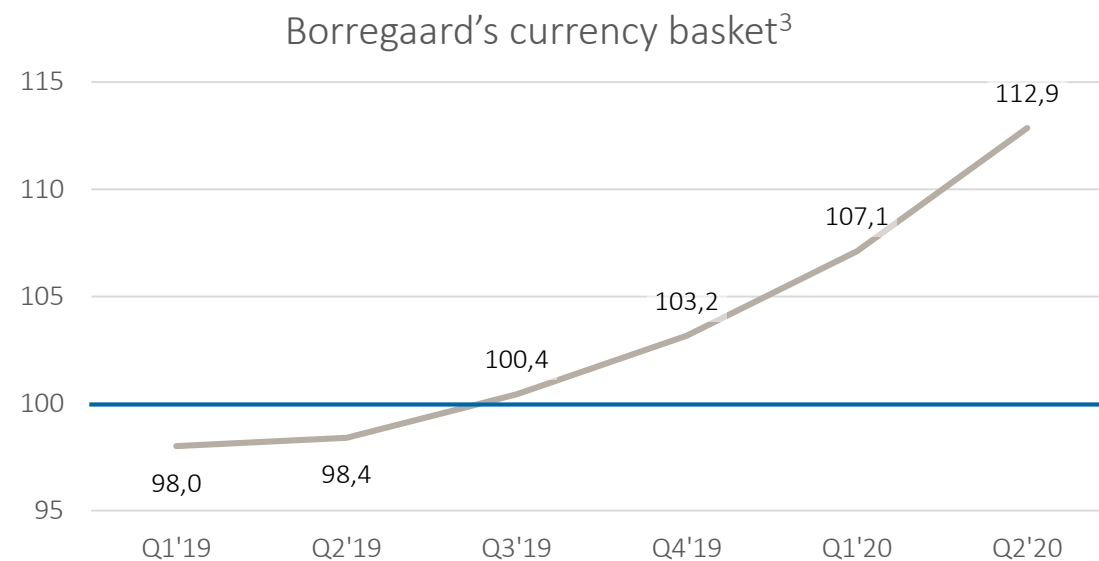
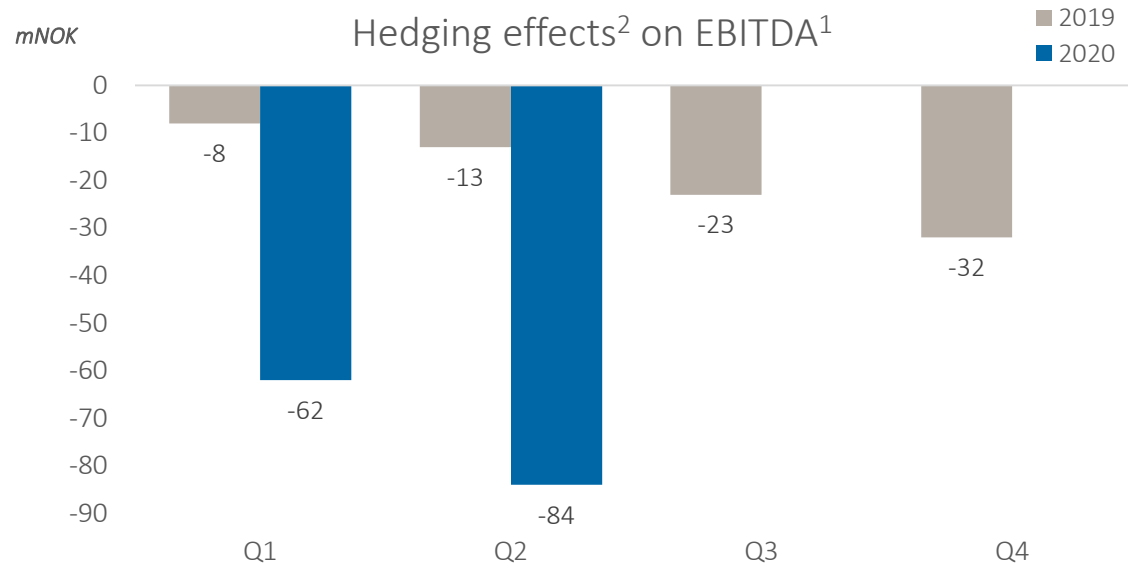
EBITDA margin<sup>1</sup>



- EBITDA margin<sup>1</sup> significantly above Q2-19

<sup>1</sup> Alternative performance measure, see Appendix for definition

# Currency impact



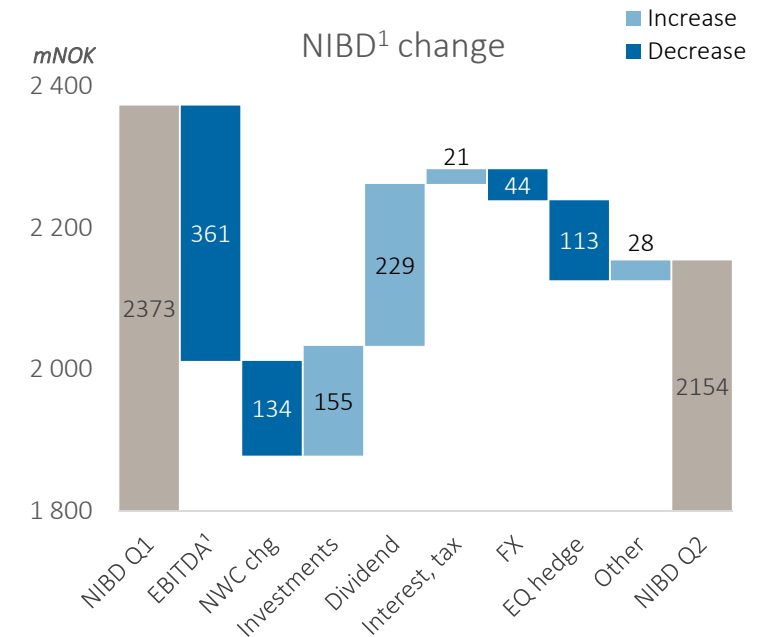
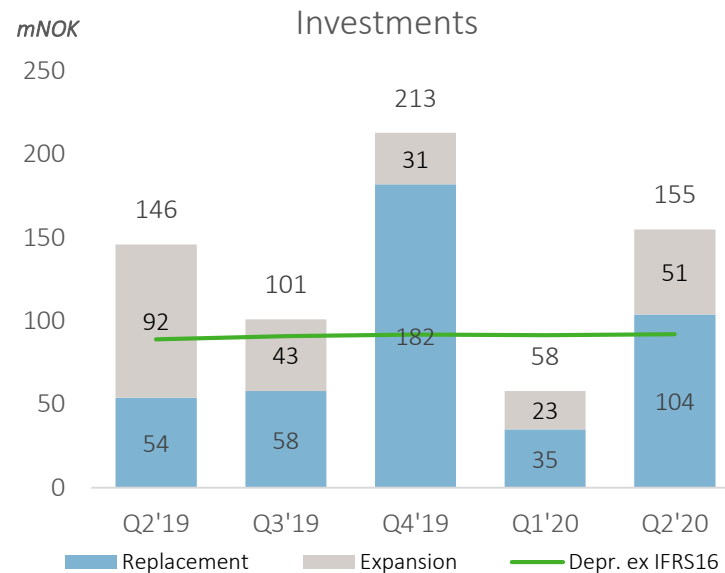
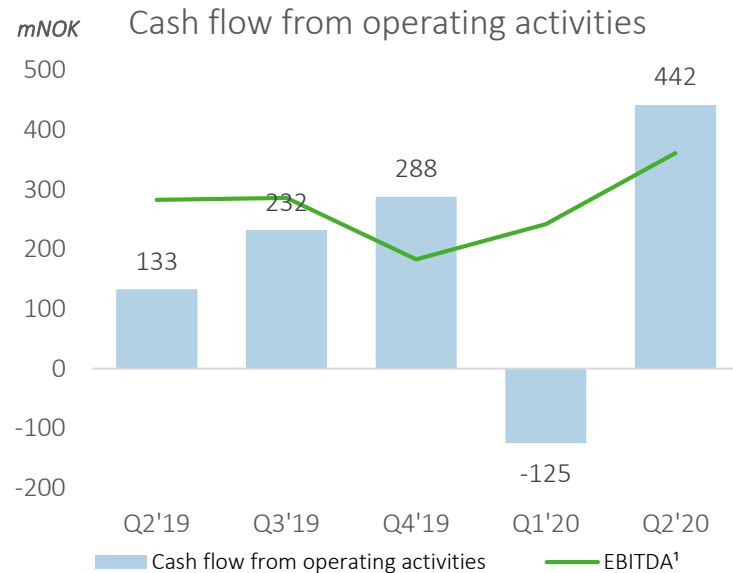
- Net FX EBITDA<sup>1</sup> impact ≈30 mNOK vs Q2-19
  - Includes change in hedging effects and based on estimated FX exposure
  - Net FX EBITDA<sup>1</sup> impact YTD ≈40 mNOK
- Net FX EBITDA<sup>1</sup> impact in 2020 estimated to be ≈45 mNOK vs 2019
  - Assuming rates as of 15 July (USD 9.29 and EUR 10.63) on expected FX exposure
  - Net FX EBITDA<sup>1</sup> impact in Q3 estimated to be ≈5 mNOK vs Q3-19
- Significant FX exposure, but delayed impact of FX rate fluctuations due to hedging policy

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

<sup>2</sup> See appendix for currency hedging strategy, future hedges and hedging effects by segment.

<sup>3</sup> Currency basket based on Borregaard's net exposure on EBITDA<sup>1</sup> in 2019 (=100): USD 65% (approx. 203 mUSD), EUR 35% (approx. 98 mEUR), Other 0% (GBP, BRL, JPY, SEK, ZAR).

# Cash flow, investments and NIBD



- Strong cash flow from operating activities in Q2
  - Significant reduction in net working capital, positive cash effect from strong increase in EBITDA<sup>1</sup> and low tax payments
- Investments slightly above Q2-19
- NIBD<sup>1</sup> declined 219 mNOK in Q2
  - Leverage ratio<sup>1</sup> 2.01 vs 1.86 at year-end
- Equity ratio<sup>1</sup> 44.2% vs 51.4% at year-end
- *New revolving credit facilities, totalling 1.5 billion NOK, was signed in early July, replacing existing facilities of the same size. The new facilities have margin linked to sustainability targets.*

<sup>1</sup> Alternative performance measure, see Appendix for definition



# Questions?



- For questions, please contact Borregaard's Investor Relations by phone or email
- See: <https://www.borregaard.com/Investor-Relations>

**SAVE THE DATE!**

A graphic featuring a stack of silver coins in the foreground, with a blurred background of a city skyline at night. Overlaid on the image are various financial data visualizations, including a line graph with an upward trend and a bar chart with three bars of increasing height.

**CAPITAL MARKETS DAY** **17 SEPTEMBER**  
**Thon Conference Universitetsgaten** **2020**



## APPENDIX

# Borregaard – key figures

Amounts in NOK million	Q2-2020	Q2-2019	Change	YTD-2020	YTD-2019	Change
<b>Operating revenues</b>	1 358	1 340	1 %	2 730	2 590	5 %
<b>EBITDA<sup>1</sup></b>	361	283	28 %	603	538	12 %
Depreciation property, plant and equipment	-112	-104		-221	-202	
Amortisation intangible assets	-1	-1		-2	-2	
Other income and expenses <sup>1</sup>	-96	-16		-96	-16	
<b>Operating profit</b>	152	162	-6 %	284	318	-11 %
Financial items, net	-19	-22		-40	-37	
<b>Profit before taxes</b>	133	140	-5 %	244	281	-13 %
Income tax expenses	-48	-33		-75	-66	
<b>Profit for the period</b>	85	107	-21 %	169	215	-21 %
Profit attributable to non-controlling interests	-16	-15		-34	-33	
Profit attributable to owners of the parent	101	122		203	248	
<b>Cash flow from operating activities (IFRS)</b>	442	133		317	177	
<b>Earnings per share</b>	1,01	1,22	-17 %	2,03	2,48	-18 %
<i>EBITDA margin<sup>1</sup></i>	26,6 %	21,1 %		22,1 %	20,8 %	

# Operating revenues and EBITDA<sup>1</sup> per segment

Amounts in NOK million

Operating revenues	Q2-2020	Q2-2019	Change
<b>Borregaard</b>	<b>1 358</b>	<b>1 340</b>	<b>1 %</b>
BioSolutions	819	781	5 %
BioMaterials	417	472	-12 %
Fine Chemicals	131	96	36 %
Eliminations	-9	-9	

Amounts in NOK million

EBITDA <sup>1</sup>	Q2-2020	Q2-2019	Change
<b>Borregaard</b>	<b>361</b>	<b>283</b>	<b>28 %</b>
BioSolutions	193	192	1 %
BioMaterials	101	64	58 %
Fine Chemicals	67	27	148 %

Amounts in NOK million

Operating revenues	YTD-2020	YTD-2019	Change
<b>Borregaard</b>	<b>2 730</b>	<b>2 590</b>	<b>5 %</b>
BioSolutions	1 616	1 536	5 %
BioMaterials	871	866	1 %
Fine Chemicals	259	206	26 %
Eliminations	-16	-18	

Amounts in NOK million

EBITDA	YTD-2020	YTD-2019	Change
<b>Borregaard</b>	<b>603</b>	<b>538</b>	<b>12 %</b>
BioSolutions	363	360	1 %
BioMaterials	147	109	35 %
Fine Chemicals	93	69	35 %

# Cash flow

Amounts in NOK million	Q2-2020	Q2-2019	YTD-2020	YTD-2019	FY-2019
<b>Amounts in NOK million</b>					
Profit before taxes	133	140	244	281	467
Amortisation, depreciation and impairment charges	113	105	223	204	432
Change in net working capital, etc	134	-91	-164	-219	-85
Dividend (share of profit) from JV	64	0	63	0	5
Taxes paid	-2	-21	-49	-89	-122
<b>Cash flow from operating activities</b>	<b>442</b>	<b>133</b>	<b>317</b>	<b>177</b>	<b>697</b>
Investments property, plant and equipment and intangible assets *	-155	-146	-213	-269	-583
Other capital transactions	3	2	5	11	29
<b>Cash flow from Investing activities</b>	<b>-152</b>	<b>-144</b>	<b>-208</b>	<b>-258</b>	<b>-554</b>
Dividends	-229	-224	-229	-224	-224
Proceeds from exercise of options/shares to employees	1	11	29	30	35
Buy-back of shares	0	-21	-50	-48	-60
Gain/(loss) on hedges for net investments in subsidiaries	113	5	-47	9	-26
<b>Net paid to/from shareholders</b>	<b>-115</b>	<b>-229</b>	<b>-297</b>	<b>-233</b>	<b>-275</b>
Proceeds from interest-bearing liabilities	300	1 000	950	1 347	2 100
Repayment from interest-bearing liabilities	-345	-837	-930	-1 053	-1 971
Change in interest-bearing receivables/other liabilities	-14	1	26	-7	-3
<b>Change in net interest-bearing liabilities</b>	<b>-59</b>	<b>164</b>	<b>46</b>	<b>287</b>	<b>126</b>
<b>Cash flow from financing activities</b>	<b>-174</b>	<b>-65</b>	<b>-251</b>	<b>54</b>	<b>-149</b>
<b>Change in cash and cash equivalents</b>	<b>116</b>	<b>-76</b>	<b>-142</b>	<b>-27</b>	<b>-6</b>
Cash and cash equivalents at beginning of period	-171	134	81	86	86
Change in cash and cash equivalents	116	-76	-142	-27	-6
Currency effects cash and cash equivalents	-4	1	2	0	1
<b>Cash and cash equivalents at the end of the period</b>	<b>-59</b>	<b>59</b>	<b>-59</b>	<b>59</b>	<b>81</b>
<b>* Investment by category</b>					
Replacement Investments	104	54	139	130	370
Expansion investments <sup>1</sup>	51	92	74	139	213

<sup>1</sup> Alternative performance measure, see Appendix for definition

# Balance sheet

Amounts in NOK million	30.6.2020	31.3.2020	31.12.2019
<b>Assets:</b>			
Intangible assets	94	98	93
Property, plant and equipment	3 975	3 984	3 852
Right-of-use assets	374	396	380
Other assets	284	398	251
Investment in joint venture	26	94	99
<b>Non-current assets</b>	<b>4 753</b>	<b>4 970</b>	<b>4 675</b>
Inventories	1 003	942	931
Receivables	1 120	1 368	991
Cash and cash deposits	67	61	147
<b>Current assets</b>	<b>2 190</b>	<b>2 371</b>	<b>2 069</b>
<b>Total assets</b>	<b>6 943</b>	<b>7 341</b>	<b>6 744</b>
<b>Equity and liabilities:</b>			
Group equity	2 926	2 641	3 306
Non-controlling interests	141	169	158
<b>Equity</b>	<b>3 067</b>	<b>2 810</b>	<b>3 464</b>
Provisions and other liabilities	444	813	294
Interest-bearing liabilities	1 530	1 820	1 419
<b>Non-current liabilities</b>	<b>1 974</b>	<b>2 633</b>	<b>1 713</b>
Interest-bearing liabilities	694	617	608
Other current liabilities	1 208	1 281	959
<b>Current liabilities</b>	<b>1 902</b>	<b>1 898</b>	<b>1 567</b>
<b>Equity and liabilities</b>	<b>6 943</b>	<b>7 341</b>	<b>6 744</b>
Equity ratio <sup>1</sup> (%):	44,2 %	38,3 %	51,4 %

# Net financial items & net interest-bearing debt<sup>1</sup>

Amounts in NOK million

Net financial items	Q2-2020	Q2-2019	YTD-2020	YTD-2019
Net interest expenses	-21	-18	-41	-31
Currency gain/loss	2	-3	2	-5
Other financial items, net	0	-1	-1	-1
<b>Net financial items</b>	<b>-19</b>	<b>-22</b>	<b>-40</b>	<b>-37</b>

Amounts in NOK million

Net interest-bearing debt <sup>1</sup> (NIBD)	30.6.2020	31.3.2020	31.12.2019
Non-current interest-bearing liabilities	1 530	1 820	1 419
Current interest-bearing liabilities including overdraft facilities	694	617	608
Non-current interest-bearing receivables (included in "Other Assets")	-3	-3	-4
Cash and cash deposits	-67	-61	-147
<b>Net interest-bearing debt<sup>1</sup> (NIBD)</b>	<b>2 154</b>	<b>2 373</b>	<b>1 876</b>
- of which impact from IFRS 16 leases	385	405	387



# Currency hedging strategy

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

- Hedging based on expected EBITDA 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 EBITDA impact (as of 15.07.20)

	USD million	USD rate	EUR million	EUR rate
Q3-2020	36	8.24	23	9.84
Q4-2020	35	8.29	24	10.07
RoY 2020	71	8.26	47	9.96
2021	142	8.38	98	10.19
2022	119	8.93	86	10.61
2023	53	9.69	39	11.13

Hedging effects by segment

NOK million	Q2-20	Q2-19	YTD-20	YTD-19
BioSolutions	-38	-6	-64	-10
BioMaterials	-39	-7	-69	-10
Fine Chemicals	-7	0	-13	-1
<b>Borregaard</b>	<b>-84</b>	<b>-13</b>	<b>-146</b>	<b>-21</b>

<sup>1</sup> Hedging done mainly in the Norwegian company

<sup>2</sup> Strict definition of contracts applied for 100% hedging (mutually binding agreement in which price, currency, volume and time are defined)

# Credit facilities, solidity and debt

- **Long-term credit facilities**

- 1,500 mNOK revolving credit facilities, maturity 2021  
Facilities refinanced in July, maturity 2023 and 2025
- 400 mNOK 5-year bond issue, maturity 2023
- 40 mEUR 10-year loan, maturity 2024
- 60 mUSD term loan for LT Florida, tenor 8.5 years from completion

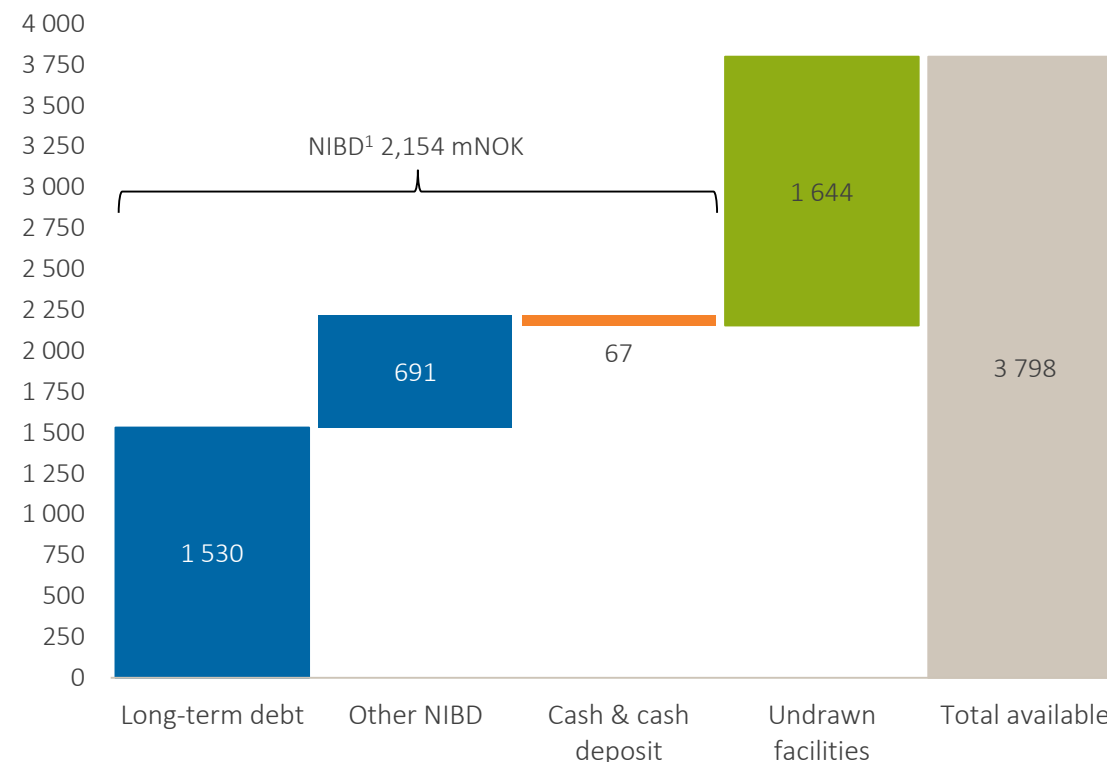
- **Short-term credit facilities**

- 225 mNOK overdraft facilities
- 15 mUSD overdraft facility in LignoTech Florida
- 400 mNOK commercial paper

- **Solidity (covenants)**

- Equity ratio<sup>1</sup> 44.2% (> 25%)
- Leverage ratio<sup>1</sup> LTM 2.01 (< 3.25<sup>2</sup>)

Debt and undrawn facilities  
30.6.2020



<sup>1</sup> Alternative performance measure, see Appendix for definition

<sup>2</sup> Leverage ratio<sup>1</sup> covenant is pre IFRS 16 Leases, and the actual leverage ratio<sup>1</sup> is restated to pre IFRS 16 for compliance calculations

# 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 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.

- **EBITDA:** Operating profit before depreciation, amortisation and other income and expenses.
- **EBITDA margin:** EBITDA divided by operating revenues
- **Equity ratio:** Equity (including non-controlling interests) divided by equity and liabilities.
- **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.
- **Net interest-bearing debt (NIBD):** Interest-bearing liabilities minus interest-bearing assets (see slides 23 and 26).
- **Return on capital employed (ROCE):** Last twelve months' (LTM) operating profit before amortisation and other income and expenses, divided by average capital employed based on the ending balance of the last five quarters. Capital employed is defined by Borregaard as the total of net working capital, intangible assets, property, plant and equipment, right-of-use assets and investment in joint venture minus net pension liabilities.

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