

Q3 2018

QUARTERLY REPORT 3RD QUARTER 2018



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Q3 2018

3RD QUARTER IN BRIEF

- EBITA adj.¹ NOK 145 million (NOK 197 million)²
- Negative impact from Florida start-up and higher lignin distribution costs
- Positive sales development for Industrial³ and Specialities in Performance Chemicals
- Lower acetate sales and cost increases for input factors in Speciality Cellulose
- Improved result in Ingredients
- Positive net currency impact



¹ Non-GAAP measure, see page 21 for definition.

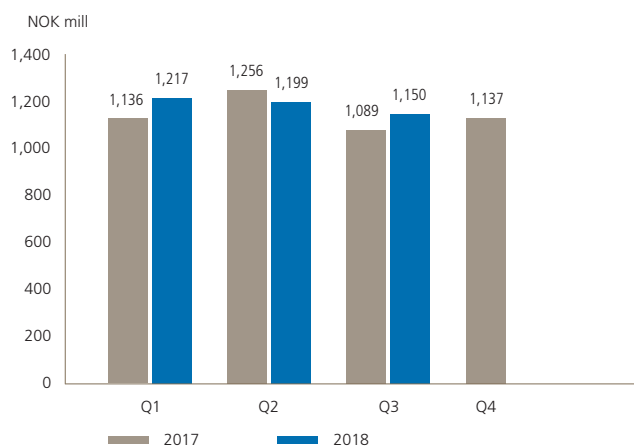
² Figures in parentheses are for the corresponding period in the previous year.

³ Market segment renamed to Industrial, formerly reported as Miscellaneous.

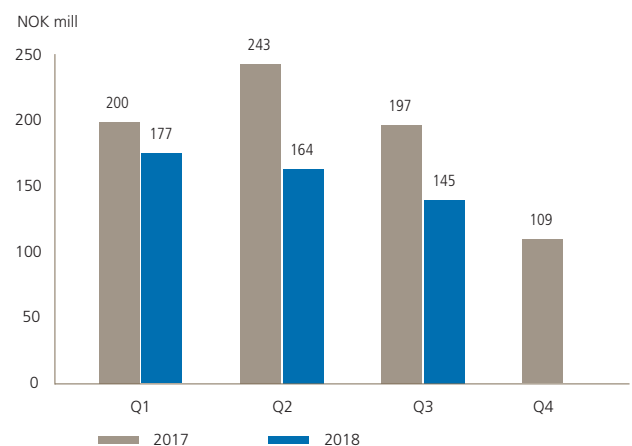
THE GROUP

Amounts in NOK million	Note	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2018	2017	2018	2017	2017
Operating revenues	2	1,150	1,089	3,566	3,481	4,618
EBITDA adj. ¹		229	272	720	864	1,055
EBITA adj. ¹	2	145	197	486	640	749
Profit/loss before taxes		150	190	478	626	715
Earnings per share (NOK)		1.27	1.47	3.96	4.76	5.66
Net interest-bearing debt ¹	10	1,096	646	1,096	646	845
Equity ratio ¹ (%)		55.8	59.3	55.8	59.3	56.2
Leverage ratio ¹		1.20	0.59	1.20	0.59	0.8
Return on capital employed ¹ (%)		13.6	21.4	13.6	21.4	19.1

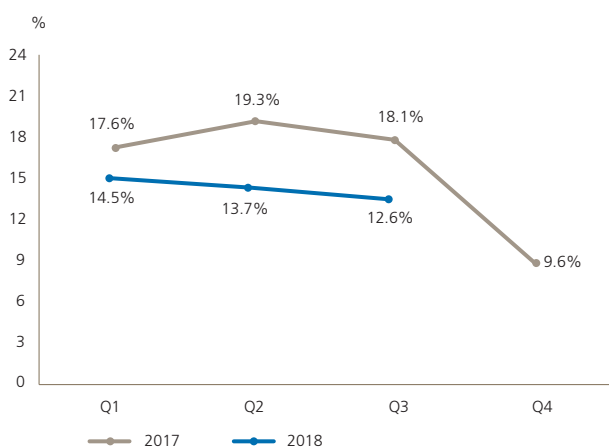
OPERATING REVENUES



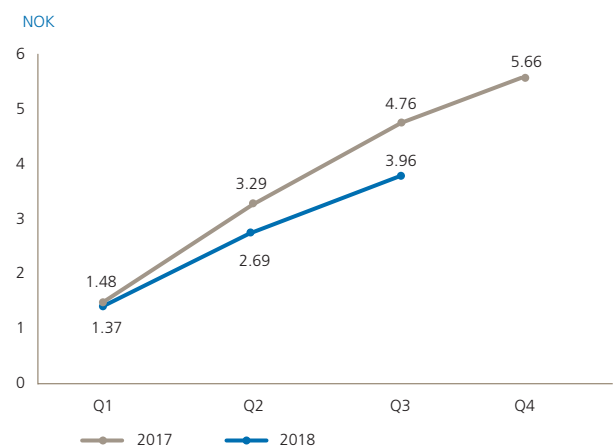
EBITA ADJ.¹



EBITA ADJ. MARGIN¹



EARNINGS PER SHARE CUMULATIVE



¹ Non-GAAP measure, see page 21 for definition.

THIRD QUARTER

Borregaard's operating revenues increased to NOK 1,150 million (NOK 1,089 million)² in the 3rd quarter of 2018. EBITA adj.¹ was NOK 145 million (NOK 197 million).

Other Businesses improved its result compared with the corresponding quarter last year, whereas Performance Chemicals and Speciality Cellulose had a decline. EBITA adj.¹ was negatively affected by the Florida start-up and higher lignin distribution costs. In addition, the result was impacted by higher wood and caustic soda prices. The net currency impact was positive.

In Performance Chemicals, total sales volume increased by 9% with growth above 10% for both Industrial³ and Specialities. EBITA adj.¹ declined, mainly due to increased costs and strong price competition in construction markets. For Speciality Cellulose, higher wood and caustic soda prices and lower sales of acetate cellulose were the main reasons for the lower EBITA adj.¹. Other Businesses' result improved due to higher sales prices in Ingredients.

Net financial items were NOK 6 million (NOK -6 million). Increased interest expenses and less favourable foreign exchange effects, were more than off-set by a NOK 20 million gain on sale of a minority stake in a chemical company in USA. Profit before tax was NOK 150 million (NOK 190 million). Tax expense was NOK -45 million (NOK -45 million), giving a high tax rate of 30% (24%) in the quarter, see Note 4.

Earnings per share were NOK 1.27 (NOK 1.47).

Cash flow from operations¹ was NOK 272 million (NOK 373 million). The decline was a result of the cash effect of a lower EBITDA adj.¹ and less favourable development in net working capital compared with the 3rd quarter of 2017.

¹ Non-GAAP measure, see page 21 for definition.

² Figures in parentheses are for the corresponding period in the previous year.

³ Market segment renamed to Industrial, formerly reported as Miscellaneous.

⁴ This 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.

YEAR-TO-DATE (1.1 – 30.9)

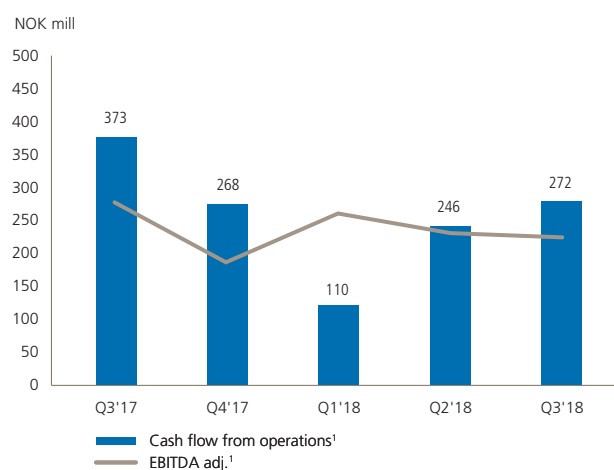
In the first nine months of 2018, Borregaard's operating revenues increased to NOK 3,566 million (NOK 3,481 million). EBITA adj.¹ was NOK 486 million (NOK 640 million). Other Businesses' result improved, whereas Performance Chemicals and Speciality Cellulose had a decline. EBITA adj.¹ was negatively affected by higher wood and caustic soda prices, increased lignin distribution costs and ramp-up costs and depreciation for the new Florida plant. Lower sales of acetate cellulose also contributed to the weaker result. High sales in Ingredients and a positive market trend for wood-based vanillin have contributed to an improved result in Other Businesses. Currency effects, including hedging, were in total positive.

Net financial items amounted to NOK -5 million (NOK -11 million). Profit before tax was NOK 478 million (NOK 626 million). Tax expense was NOK -118 million (NOK -153 million), giving a tax rate of 25% (24%).

Earnings per share were NOK 3.96 (NOK 4.76).

Cash flow from operations¹ was NOK 628 million (NOK 692 million). The cash effect of a lower EBITDA adj.¹ was partly off-set by a favourable development in net working capital. The net working capital was positively impacted by a close to NOK 100 million grant payment from EU's Horizon 2020 programme⁴ related to the commercialisation of Exilva in the 2nd quarter of 2018.

CASH FLOW FROM OPERATIONS¹



THE BUSINESS AREAS

PERFORMANCE CHEMICALS

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2018	2017	2018	2017	2017
Operating revenues	559	523	1,685	1,655	2,176
EBITA adj. ¹	55	100	272	373	449
EBITA adj. margin ¹ (%)	9.8	19.1	16.1	22.5	20.6

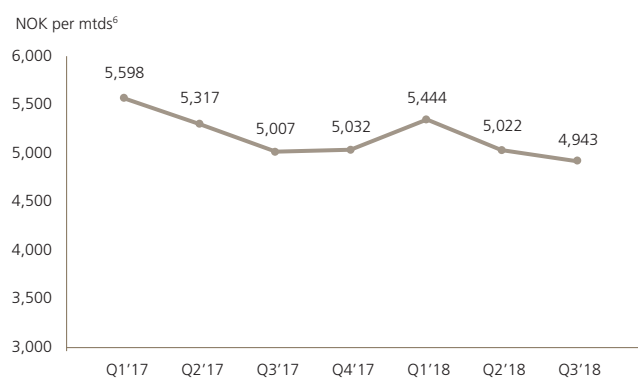
THIRD QUARTER

Performance Chemicals' operating revenues in the 3rd quarter increased to NOK 559 million (NOK 523 million). EBITA adj.¹ was NOK 55 million (NOK 100 million). Total sales volume was 9% higher than last year. Sales volume increased by more than 10% for both Industrial³ and Specialities. Inventories of finished goods were slightly reduced. The average price in sales currency was 3% lower than in the corresponding quarter last year. Increased sales in Specialities and continued diversification towards Industrial compensated for the negative impact from continued strong price pressure in the construction sector. Distribution costs increased by approximately NOK 15 million as a result of interruptions in raw material supply and ramp-up in Florida. Fixed costs and depreciation related to the new plant in Florida increased by NOK 30 million, including NOK 5 million in various start-up costs. The net currency impact for Performance Chemicals was insignificant.

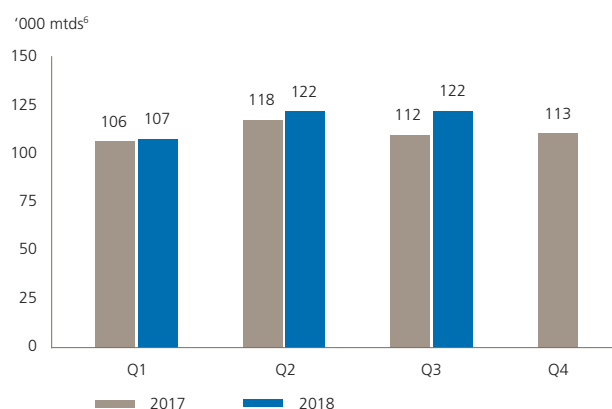
YEAR-TO-DATE (1.1 – 30.9)

In the first nine months of 2018, Performance Chemicals had operating revenues of NOK 1,685 million (NOK 1,655 million). EBITA adj.¹ was NOK 272 million (NOK 373 million). Increased sales of specialities and improved product mix partly compensated for the negative impact from strong price competition in regional construction markets. Total sales volume increased by 4.5%. Increased costs and depreciation related to the Florida plant, higher distribution costs and unfavourable net currency effects had a negative impact compared with the first nine months of 2017.

GROSS AVERAGE SALES PRICE⁵



SALES VOLUME⁵



¹ Non-GAAP measure, see page 21 for definition.

³ Market segment renamed to Industrial, formerly reported as Miscellaneous.

⁵ 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.

⁶ Metric tonne dry solid.

SPECIALITY CELLULOSE

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2018	2017	2018	2017	2017
Operating revenues	381	383	1,242	1,263	1,698
EBITA adj. ¹	76	91	207	283	350
EBITA adj. margin ¹ (%)	19.9	23.8	16.7	22.4	20.6

THIRD QUARTER

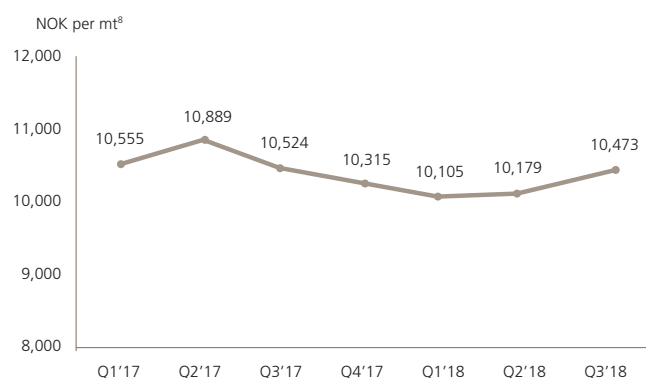
Speciality Cellulose 3rd quarter operating revenues were NOK 381 million (NOK 383 million). EBITA adj.¹ was NOK 76 million (NOK 91 million). The EBITA adj.¹ decline was due to increased prices for wood and caustic soda and weaker product mix as a result of lower sales of acetate cellulose, partly off-set by positive net currency effects and lower energy costs. Cellulose prices in sales currency were stable compared with the same quarter last year. The cellulose ether market continued to develop positively, while the cellulose acetate market remained challenging.

The result for Bioethanol improved due to increased prices and improved product mix.

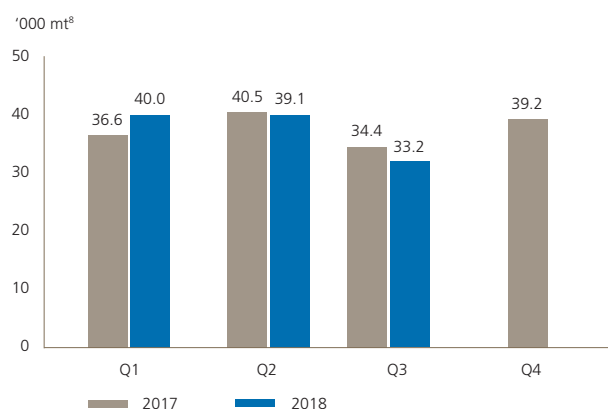
YEAR-TO-DATE (1.1 – 30.9)

Operating revenues in the first nine months of 2018 were NOK 1,242 million (NOK 1,263 million). EBITA adj.¹ was NOK 207 million (NOK 283 million). The EBITA adj.¹ decline was due to increased wood and caustic soda prices and weaker product mix as a result of lower sales of acetate cellulose, partly off-set by positive net currency effects and lower energy costs. The Bioethanol result improved due to increased prices and improved product mix.

GROSS AVERAGE SALES PRICE⁷



SALES VOLUME



¹ Non-GAAP measure, see page 21 for definition.

⁷ Average sales price is calculated using actual FX rates, excluding hedging impact.

⁸ Metric tonne.

OTHER BUSINESSES

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2018	2017	2018	2017	2017
Operating revenues	223	197	674	593	783
EBITA adj. ¹	14	6	7	-16	-50
EBITA adj. margin ¹ (%)	6.3	3.0	1.0	-2.7	-6.4

THIRD QUARTER

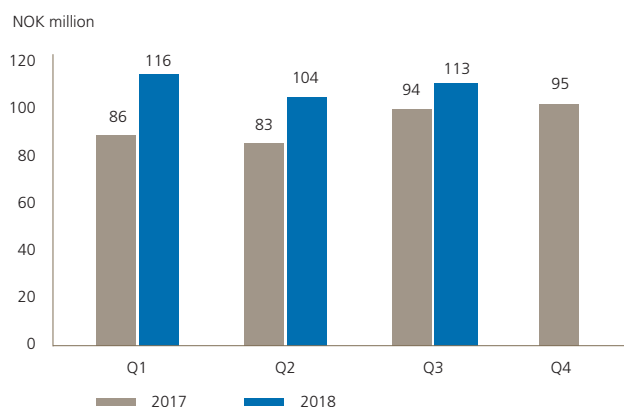
Other Businesses' operating revenues increased to NOK 223 million (NOK 197 million) in the 3rd quarter of 2018. EBITA adj.¹ increased to NOK 14 million (NOK 6 million). A stronger result in Ingredients was partly off-set by a weaker result in Fine Chemicals.

Ingredients had a stronger result due to higher sales prices and a continued positive market trend for wood-based vanillin, partly off-set by the impact of higher caustic soda prices. Fine Chemicals' result declined due to an unfavourable sales mix and higher raw material costs. Cellulose Fibrils' result and net corporate costs were in line with the 3rd quarter of 2017. The net currency impact in Other Businesses was insignificant.

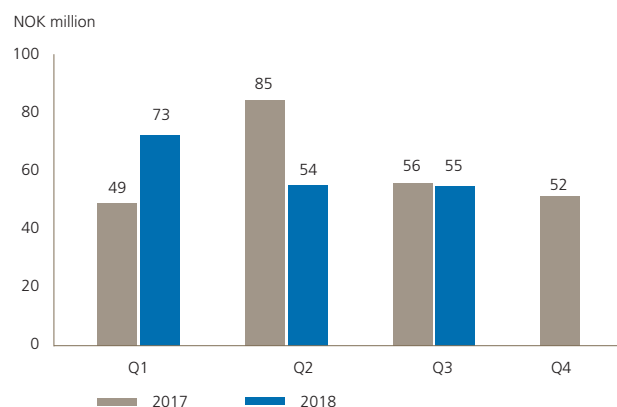
YEAR-TO-DATE (1.1 – 30.9)

Operating revenues in Other Businesses reached NOK 674 million (NOK 593 million) in the first nine months of 2018. EBITA adj.¹ was NOK 7 million (NOK -16 million). A positive market trend and higher prices for wood-based vanillin were the main reasons for the increase both in operating revenues and EBITA adj.¹ in Ingredients. Fine Chemicals had higher costs and an unfavourable sales mix and Cellulose Fibrils had higher production and marketing costs, resulting in a weaker EBITA adj.¹ for both businesses. Net currency effects in Other Businesses were insignificant.

INGREDIENTS – SALES REVENUES



FINE CHEMICALS – SALES REVENUES



¹ Non-GAAP 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 policy. Compared with the 3rd quarter of 2017, the net impact of foreign exchange on EBITA adj.¹, including hedging effects, was NOK 15 million positive. Hedging effects were NOK -7 million (NOK -5 million) in the 3rd quarter.

Compared with the first nine months of 2017, the net impact of foreign exchange on EBITA adj.¹, including hedging effects, was NOK 20 million. Hedging effects were NOK -10 million (NOK -62 million) in the first nine months.

Assuming currency rates as of 22 October 2018 (USD 8.24 and EUR 9.47) and based on currency exposure forecasts, Borregaard expects a net impact of foreign exchange on EBITA adj.¹ of approximately NOK 15 million in the 4th quarter and NOK 35 million for the full year compared with the same periods last year.

CASH FLOW AND FINANCIAL SITUATION

THIRD QUARTER

Cash flow from operating activities in the 3rd quarter was NOK 278 million (NOK 364 million). The decline was due to the cash effect of a lower EBITDA adj.¹ and less favourable development in net working capital compared with the 3rd quarter of 2017. Investments amounted to NOK 185 million (NOK 255 million). Expansion investments¹ were mainly related to the upgrade and specialisation of the lignin operation in Norway and the Ice Bear project in Speciality Cellulose.

YEAR-TO-DATE (1.1 – 30.9)

In the first nine months of 2018, cash flow from operating activities was NOK 488 million (NOK 604 million). The cash effect of a lower EBITDA adj.¹ and higher tax payments were partly off-set by a favourable development in net working capital. The net working capital was positively impacted by a close to NOK 100 million grant payment from EU's Horizon 2020 programme⁴ related to the commercialisation of Exilva in the 2nd quarter of 2018. Investments amounted

to NOK 549 million (NOK 629 million). Expansion investments¹, totalling NOK 392 million, were mainly related to the Florida project, the upgrade and specialisation of the lignin operation in Norway and the Ice Bear project in Speciality Cellulose. Dividend of NOK 199 million (NOK 349 million) was paid out in the 2nd quarter. Realised effect of hedging of net investments in subsidiaries was NOK 18 million (NOK 43 million). The Group has sold and repurchased treasury shares with a net payment of NOK 10 million (NOK 18 million).

On 30 September 2018, the Group had net interest-bearing debt¹ totalling NOK 1,096 million (NOK 646 million), an increase of NOK 251 million from year-end 2017.

At the end of September, the Group was well capitalised with an equity ratio¹ of 55.8% and a leverage ratio¹ of 1.20.

¹ Non-GAAP measure, see page 21 for definition.

⁴ This 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.

SHARE INFORMATION

During the 3rd quarter of 2018, 20,000 share options were exercised at a strike price of NOK 41.00 per share. At the same time Borregaard repurchased 17,584 treasury shares at an average price of NOK 74.88.

Total number of shares outstanding on 30 September 2018 was 100 million, including 470,215 treasury shares.

Total number of shareholders was 8,539. Borregaard ASA's share price was NOK 83.40 at the end of the 3rd quarter, compared with NOK 88.00 at the end of the 2nd quarter and NOK 81.50 at the end of 2017.

OTHER MATTERS AND SUBSEQUENT EVENTS

SALE OF MINORITY STAKE IN FINE CHEMICALS COMPANY

In the 3rd quarter, Borregaard recognised a gain of NOK 20 million related to the sale of a minority stake in Polycarbon Industries, Inc (PCI) in USA. The shares were sold in connection with the acquisition of PCI by the

French Novacap Group. Borregaard received a minority stake in PCI in 2008 as part of the consideration for the sale of its fine chemicals assets in Newburyport, MA.

OUTLOOK

Sales of lignin products to the construction sector continues to be affected by strong competition and price pressure. The diversification strategy will drive growth for industrial products and the positive development for Specialities is expected to continue. Total sales volume in the 4th quarter is forecast to be slightly below the 3rd quarter of 2018. Distribution costs will gradually decline over the next quarters. Fixed costs and depreciation for the Florida plant is expected to be approximately NOK 20 million higher than in the 4th quarter of 2017.

Cellulose prices in sales currency both for the full year and in the 4th quarter are expected to be in line with last

year. Total cellulose sales volume in the 4th quarter is expected to be similar to the same quarter in 2017, but with a weaker product mix.

In the 4th quarter, the positive market trend for wood-based vanillin is expected to continue. Deliveries from Fine Chemicals are forecast to be higher compared with the 3rd quarter. The result in Cellulose Fibrils and net corporate costs are expected to be in line with the preceding quarter.

Wood and caustic soda costs are expected to continue at the level seen in the 3rd quarter also in the 4th quarter, while energy prices will be higher.

Sarpsborg, 22 October 2018
The Board of Directors of Borregaard ASA

THE GROUP'S CONDENSED INCOME STATEMENT

INTERIM CONDENSED INCOME STATEMENT

Amounts in NOK million	NOTE	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2018	2017	2018	2017	2017
OPERATING REVENUES	2	1,150	1,089	3,566	3,481	4,618
Operating expenses		-921	-817	-2,846	-2,617	-3,563
Depreciation property, plant and equipment		-84	-75	-234	-224	-306
Amortisation intangible assets		-1	-1	-3	-3	-4
Other income and expenses ¹	3	-	-	-	-	-9
OPERATING PROFIT		144	196	483	637	736
Financial items, net	13	6	-6	-5	-11	-21
PROFIT BEFORE TAXES		150	190	478	626	715
Income tax expense	4	-45	-45	-118	-153	-157
PROFIT FOR THE PERIOD		105	145	360	473	558
Profit attributable to non-controlling interests		-22	-2	-36	-3	-8
Profit attributable to owners of the parent		127	147	396	476	566
EBITDA adj ¹		229	272	720	864	1,055
EBITA adj ¹	2	145	197	486	640	749

EARNINGS PER SHARE

INTERIM EARNINGS PER SHARE

Amounts in NOK		1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2018	2017	2018	2017	2017
Earnings per share (100 million shares)	5	1.27	1.47	3.96	4.76	5.66
Diluted earnings per share	5	1.27	1.47	3.97	4.76	5.66

THE GROUP'S CONDENSED COMPREHENSIVE INCOME STATEMENT

INTERIM CONDENSED COMPREHENSIVE INCOME STATEMENT

Amounts in NOK million	NOTE	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2018	2017	2018	2017	2017
PROFIT FOR THE PERIOD		105	145	360	473	558
ITEMS NOT TO BE RECLASSIFIED TO P&L						
Actuarial gains and losses (after tax)		-	-	-	-	-6
TOTAL		-	-	-	-	-6
ITEMS TO BE RECLASSIFIED TO P&L						
Change in hedging-reserve after tax (cash flow)	7	8	150	93	190	82
Change in hedging-reserve after tax (net investment in subsidiaries)	7	-1	26	2	30	13
Translation effects		-3	-44	-34	-46	-7
TOTAL		4	132	61	174	88
THE GROUP'S COMPREHENSIVE INCOME		109	277	421	647	640
Comprehensive income non-controlling interests		-21	-1	-34	-1	-11
Comprehensive income owners of the parent		130	278	455	648	651

¹ Non-GAAP measure, see page 21 for definition.

THE GROUP'S CONDENSED BALANCE SHEET

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	30.9.2018	31.12.2017
Intangible assets	12	99	111
Property, plant and equipment	12	3,450	3,126
Other assets	8	101	93
Investments in joint venture		96	118
NON-CURRENT ASSETS		3,746	3,448
Inventories		846	734
Receivables	8	952	971
Cash and cash deposits	10	231	180
CURRENT ASSETS		2,029	1,885
TOTAL ASSETS		5,775	5,333
Group equity	9	3,109	2,889
Non-controlling interests		116	107
EQUITY		3,225	2,996
Provisions and other liabilities		246	277
Interest-bearing liabilities	8,10	1,061	743
NON-CURRENT LIABILITIES		1,307	1,020
Interest-bearing liabilities	8,10	270	283
Other current liabilities	8	973	1,034
CURRENT LIABILITIES		1,243	1,317
EQUITY AND LIABILITIES		5,775	5,333
Equity ratio ¹		55.8%	56.2%

CHANGES IN EQUITY

INTERIM CONDENSED CHANGE IN EQUITY

Amounts in NOK million	NOTE	1.1 - 30.9.2018			1.1 - 31.12.2017		
		Controlling interests	Non-controlling interests	Total equity	Controlling interests	Non-controlling interests	Total equity
Equity 1 January		2,889	107	2,996	2,679	34	2,713
PROFIT/LOSS FOR THE PERIOD		396	-36	360	566	-8	558
Items in Comprehensive Income	6	59	2	61	85	-3	82
THE GROUP'S COMPREHENSIVE INCOME	6	455	-34	421	651	-11	640
Paid dividend		-199	-	-199	-349	-	-349
Buy-back of treasury shares		-32	-	-32	-29	-	-29
Exercise of share options		5	-	5	-	-	-
Shares to employees		23	-	23	15	-	15
Option costs (share based payment)		5	-	5	6	-	6
Transaction with non-controlling interest		-37	43	6	-84	84	-
EQUITY AT THE END OF THE PERIOD		3,109	116	3,225	2,889	107	2,996

¹ Non-GAAP measure, see page 21 for definition.

THE GROUP'S CONDENSED CASH FLOW STATEMENT

INTERIM CONDENSED CASH FLOW STATEMENT

Amounts in NOK million	NOTE	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
		2018	2017	2018	2017	2017
Profit before taxes		150	190	478	626	715
Amortisation, depreciation and impairment charges		85	76	237	227	316
Changes in net working capital, etc.		43	101	-92	-172	-92
Dividend (share of profit) from JV		3	1	6	-2	11
Taxes paid		-3	-4	-141	-75	-170
CASH FLOW FROM OPERATING ACTIVITIES		278	364	488	604	780
Investments property, plant and equipment and intangible assets *		-185	-255	-549	-629	-968
Other capital transactions		2	1	11	8	10
CASH FLOW FROM INVESTING ACTIVITIES		-183	-254	-538	-621	-958
Dividends		-	-	-199	-349	-349
Proceeds from exercise of options/shares to employees	9	1	-	22	11	11
Buy-back of shares	6	-2	-	-32	-29	-29
Gain/(loss) on hedges for net investments in subsidiaries		5	45	18	43	8
NET PAID TO/FROM SHAREHOLDERS		4	45	-191	-324	-359
Proceeds from interest-bearing liabilities	10	51	117	1 253	380	668
Repayment from interest-bearing liabilities	10	-3	-103	-936	-132	-258
Change in interest-bearing receivables/other liabilities	10	-5	-4	-16	34	46
CHANGE IN NET INTEREST-BEARING LIABILITIES		43	10	301	282	456
CASH FLOW FROM FINANCING ACTIVITIES		47	55	110	-42	97
CHANGE IN CASH AND CASH EQUIVALENTS		142	165	60	-59	-81
Cash and cash equivalents at beginning of period		90	43	180	265	265
Change in cash and cash equivalents		142	165	60	-59	-81
Currency effects cash and cash equivalents		-1	-10	-9	-8	-4
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	231	198	231	198	180
*Investment by category						
Replacement investments		74	76	157	200	344
Expansion investments ¹		111	179	392	429	624

¹ Non-GAAP 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.

Borregaard ASA was listed on the Oslo Stock Exchange on 18 October 2012 and was incorporated as a public limited liability company on 22 August 2012.

Basis for preparation

These unaudited Interim Condensed Consolidated Financial Statements are prepared in accordance with IAS 34 Interim Financial Reporting. Borregaard ASA is the parent company of the Borregaard Group presented in these Interim Condensed Consolidated Financial Statements.

The same accounting principles and methods of calculation have been applied as in the Consolidated Financial Statements for 2017 for the Borregaard Group.

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

Use of estimates

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

Implementation of IFRS 16

Borregaard will apply the following transition methods when implementing IFRS 16 from 1 January 2019:

- There will be no reassessment of contracts already assessed under IAS 17 of whether a contract is or contains a lease.
- The opening balance of equity 1 January 2019 will be adjusted with the cumulative implementation effect ("the modified retrospective method").
- Prior year comparatives will not be restated.
- Lease liabilities will be measured at the present value of remaining lease payments, discounted using incremental borrowing rate as of 1 January 2019 in case the implicit interest rate is not known.
- Right-of-use assets will be measured at an amount equal to the lease liability.
- Leases for which the lease term ends during 2019 will be expensed as short term leases.
- Borregaard will take advantage of the general low value exemption in IFRS 16. This means that no low value leases will be capitalized and that lease payments will be expensed as earlier.

NOTE 02 Segments

OPERATING REVENUES

Amounts in NOK million	1.7 – 30.9		1.1 - 30.9		1.1 - 31.12
	2018	2017	2018	2017	2017
BORREGAARD	1,150	1,089	3,566	3,481	4,618
Performance Chemicals	559	523	1,685	1,655	2,176
Speciality Cellulose	381	383	1,242	1,263	1,698
Other Businesses	223	197	674	593	783
Eliminations	-13	-14	-35	-30	-39

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

of allocations from the corporate headquarter.

¹ Non-GAAP measure, see page 21 for definition.

cont. NOTE 02 Segments

EBITA ADJ.¹

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2018	2017	2018	2017	2017
BORREGAARD	145	197	486	640	749
Performance Chemicals	55	100	272	373	449
Speciality Cellulose	76	91	207	283	350
Other Businesses	14	6	7	-16	-50
RECONCILIATION AGAINST OPERATING PROFIT & PROFIT BEFORE TAX					
EBITA ADJ.¹	145	197	486	640	749
Amortisation intangible assets	-1	-1	-3	-3	-4
Other income and expenses ¹	-	-	-	-	-9
OPERATING PROFIT	144	196	483	637	736
Financial items, net	6	-6	-5	-11	-21
PROFIT BEFORE TAXES	150	190	478	626	715

SALES REVENUES

Amounts in NOK million	1.7 - 30.9		1.1 - 30.9		1.1 - 31.12
	2018	2017	2018	2017	2017
BORREGAARD	1,131	1,071	3,505	3,406	4,522
Performance Chemicals	547	508	1,646	1,609	2,117
Cellulose	347	357	1,149	1,168	1,566
Bioethanol	32	26	91	84	121
Fine Chemicals	55	56	182	190	242
Ingredients	113	94	333	263	358
Other	37	30	104	92	118

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

NOTE 03 Other income and expenses¹

There are no Other income and expenses¹ in the 3rd quarter of 2018.

NOTE 04 Income tax expense

The tax rate of 30.0% (23.7%) in the 3rd quarter and 24.7% (24.4%) for the first nine months of 2018 is a compilation of the tax rates in the various countries in which Borregaard operates and has taxable income. The tax rate in Norway was reduced from 24% to 23% from 1 January 2018 and in USA the tax rate was reduced from 35% to 21%. Borregaard's tax rate for 2018 is expected to be in the range 24-27%, a higher level than previously estimated.

There are several reasons for the estimate increase. 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 carryforward losses in the Group which will not be recognised as deferred tax assets, and hence increase the Group's tax rate.

¹ Non-GAAP measure, see page 21 for definition.

NOTE 05 Earnings per share (EPS)

The share capital consists of 100 million shares. The company holds 470,215 treasury shares. As of 30 September 2018, there are 99,715,349 diluted shares

(99,957,469 as of 31 December 2017). Earnings per diluted share were NOK 1.27 in the 3rd quarter of 2018 (NOK 1.47 in the 3rd quarter of 2017).

NOTE 06 Stock options

During the 3rd quarter of 2018, 20,000 share options were exercised at a strike of NOK 41.00.

The Group Executive Management and other key employees hold a total of 1,597,000 stock options in four different share option programmes in Borregaard.

The first option programme, comprising 365,000 stock options granted in October 2014, has a strike price of NOK 41.00 adjusted for dividends in 2015-2018, NOK 8.25. The second option programme, comprising 480,000 stock options granted in October 2015, has a strike price

of NOK 44.49 adjusted for dividends in 2016-2018, NOK 7.00. The third option programme, comprising 352,000 stock options granted in February 2017, has a strike price of NOK 98.61 adjusted for dividends in 2017 and 2018 of NOK 5.50. The fourth option programme, comprising 400,000 stock options granted in February 2018, has a strike price of NOK 78.00 adjusted for dividend in 2018. The share options in the four different programmes will expire after five years, the vesting period is three years and the options can be exercised during the last two years.

NOTE 07 Statement of comprehensive income

The statement of comprehensive income shows changes in the value of hedging instruments, both cash flow

hedges and hedges of net investments in subsidiaries (hedging reserve). These figures are presented after tax.

Amounts in NOK million	30.9.2018		30.9.2017	
	Cash flow hedges	Hedges of net investments in subsidiaries	Cash flow hedges	Hedges of net investments in subsidiaries
Tax effect year-to-date	17	-32	23	-27
Hedging reserve after tax	58	-83	73	-68

NOTE 08 Fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period. The following measurement levels are used for determining the fair value of financial instruments:

- Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities
- Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)
- Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

There were no transfers from one level to another in the measurement hierarchy from 2017 to the 3rd quarter of 2018. Borregaard has no items defined as level 1. The bond is determined as measurement level 3. The fair value of the bond is deemed to equal its book value.

Set out below is a comparison of the carrying amount and the fair value of financial instruments as of 30 September 2018:

FINANCIAL ASSETS

Amounts in NOK million	LEVEL	30.9.2018		31.12.2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial receivables	2	44	44	36	36
Non-current derivatives	2	48	48	48	48
Current derivatives	2	59	59	58	58
TOTAL FINANCIAL ASSETS		151	151	142	142
FINANCIAL LIABILITIES					
Non-current financial liabilities	2.3	1,069	1,069	753	753
Non-current derivatives	2	14	14	61	61
Current financial liabilities	2	270	270	283	283
Current derivatives	2	23	23	75	75
TOTAL FINANCIAL LIABILITIES		1,376	1,376	1,172	1,172

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL INSTRUMENTS 30.9.2018	-1,225	-	-600
FINANCIAL INSTRUMENTS 31.12.2017	-1 030	-	-200

The financial instruments are measured based on observable spot exchange rates, the yield curves of

the respective currencies as well as the currency basis spreads between the respective currencies.

NOTE 09 Compilation of Equity

Amounts in NOK million	30.9.2018	31.12.2017
Share capital	100	100
Treasury shares	-	-
Share premium	1,346	1,346
Other paid-in capital	451	418
Translation effects	46	82
Hedging reserve (after tax)	-25	-120
Actuarial gains/losses	-22	-22
Retained earnings	1,213	1,085
GROUP EQUITY (CONTROLLING INTERESTS)	3,109	2,899

As of 30 September 2018, the company held 470,215 treasury shares at an average cost of NOK 79.67.

NOTE 10 Net interest-bearing debt¹

The various elements of net interest-bearing debt¹ are shown in the following table:

Amounts in NOK million	30.9.2018	31.12.2017
Non-current interest-bearing liabilities	1 061	743
Current interest-bearing liabilities including overdraft of cashpool	270	283
Non-current interest-bearing receivables (included in "Other Assets")	-4	-1
Cash and cash deposits	-231	-180
NET INTEREST-BEARING DEBT¹	1,096	845

NOTE 11 Related parties

The members of the Group Executive Management of Borregaard held a total of 890,000 stock options in the Company as of 30 September 2018.

NOTE 12 Assessments relating to impairment

No impairment indicators have been identified in the Borregaard Group's property, plant and equipment or intangible assets in the 3rd quarter of 2018.

¹ Non-GAAP measure, see page 21 for definition.

NOTE 13 Other matters and subsequent events

SALE OF MINORITY STAKE IN FINE CHEMICALS COMPANY

In the 3rd quarter, Borregaard recognised a gain of NOK 20 million related to the sale of a minority stake in Polycarbon Industries, Inc (PCI) in USA. The shares were sold in connection with the acquisition of PCI by the French Novacap Group. Borregaard received a minority

stake in PCI in 2008 as part of the consideration for the sale of its fine chemicals assets in Newburyport, MA. The gain is recognised as part of Financial items in the income statement.

¹ Non-GAAP measure, see page 21 for definition.

NON-GAAP MEASURES

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

CASH FLOW FROM OPERATIONS

Cash flow from operations is defined by Borregaard as:

	Cash flow from operating activities (IFRS)
+	Tax paid
+/-	Net financial items
+/-	Dividend (share of profit) from JV
=	Cash flow operations

EBITA ADJUSTED (EBITA ADJ.)

EBITA adj. is defined by Borregaard as operating profit before amortisation and other income and expenses.

EBITA ADJ. MARGIN

EBITA adj. margin is defined by Borregaard as EBITA adj. divided by operating revenues

EBITDA ADJUSTED (EBITDA ADJ.)

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

EQUITY RATIO

Equity ratio is defined by Borregaard as equity (including non-controlling interests) divided by equity and liabilities.

EXPANSION INVESTMENTS

Expansion investments is defined by Borregaard as investments made in order to expand production capacity, produce new products or to improve the performance of existing products. Such investments include business acquisitions, pilot plants, capitalised

research and development costs and new distribution set-ups.

OTHER INCOME AND EXPENSES

Other income and expenses is defined by Borregaard as non-recurring items or items related to other periods or to a discontinued business or activity. These items are not viewed as reliable indicators of future earnings based on the business areas' normal operations. These items will be included in the Group's operating profit.

LEVERAGE RATIO

Leverage ratio is defined by Borregaard as net interest bearing debt (see note 10) divided by last twelve months' (LTM) EBITDA adj.

NET INTEREST-BEARING DEBT

Net interest-bearing debt is defined by Borregaard as interest-bearing liabilities minus interest-bearing assets (see Note 10).

CAPITAL EMPLOYED

Capital employed is defined by Borregaard as the total of net working capital, intangible assets, property, plant and equipment and investment in joint venture minus net pension liabilities and deferred tax excess value.

RETURN ON CAPITAL EMPLOYED (ROCE)

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

	1.1 - 30.9	1.1 - 31.12	
Capital employed end of	2018	2017	2017
Q3, 2016		3,413	
Q4, 2016		3,508	3,508
Q1, 2017		3,754	3,754
Q2, 2017		4,003	4,003
Q3, 2017	4,044	4,044	4,044
Q4, 2017	4,256		4,256
Q1, 2018	4,454		
Q2, 2018	4,578		
Q3, 2018	4,620		
AVERAGE	4,390	3,744	3,913
EBITA ADJ. (LTM)	595	800	749
ROCE (%)	13.6	21.4	19.1



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