Borregaard

Q4 2018

QUARTERLY REPORT 4TH QUARTER 2018

CONTENTS

Q4 2018

4TH QUARTER IN BRIEF

- *EBITA adj.[1] NOK 94 million (NOK 109 million)[2]*
- *Growth in Industrial and Specialities for Performance Chemicals*
- *Increased costs related to Florida ramp-up and lignin distribution*
- *Higher wood costs and lower acetate sales in Speciality Cellulose*
- *Strong improvement in Ingredients*
- *Positive net currency impact*

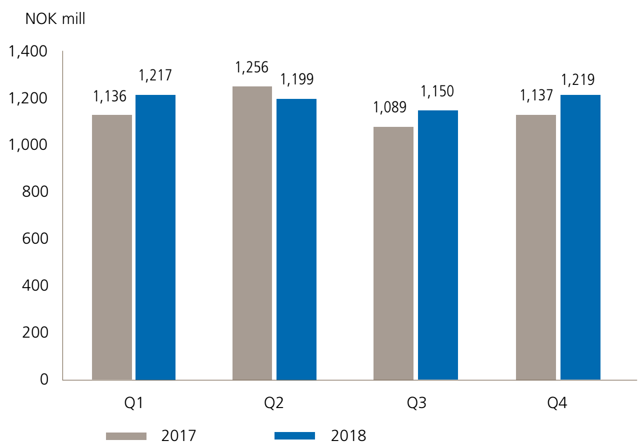
[1] *Non-GAAP measure, see page 22 for definition.*

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

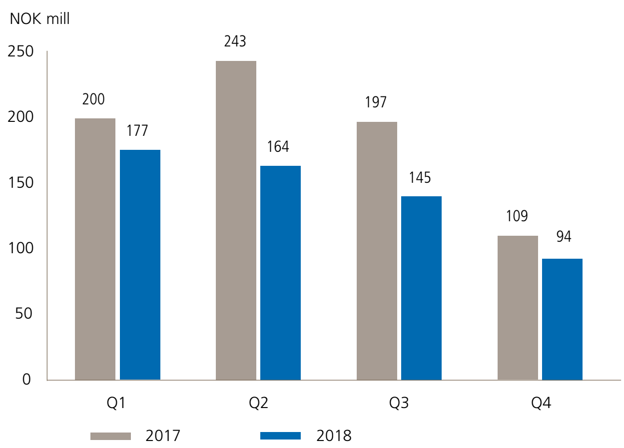
THE GROUP

Amounts in NOK million	Note	1.10 - 31.12 2018	1.10 - 31.12 2017	1.1 - 31.12 2018	1.1 - 31.12 2017
Operating revenues	2	1,219	1,137	4,785	4,618
EBITDA adj.[1]		183	191	903	1,055
EBITA adj.[1]	2	94	109	580	749
Profit/loss before taxes		84	89	562	715
Earnings per share (NOK)		0.80	0.90	4.76	5.66
Net interest-bearing debt[1]	10	1,297	845	1,297	845
Equity ratio[1] (%)		55.8	56.2	55.8	56.2
Leverage ratio[1]		1.44	0.80	1.44	0.80
Return on capital employed[1] (%)		12.7	19.1	12.7	19.1

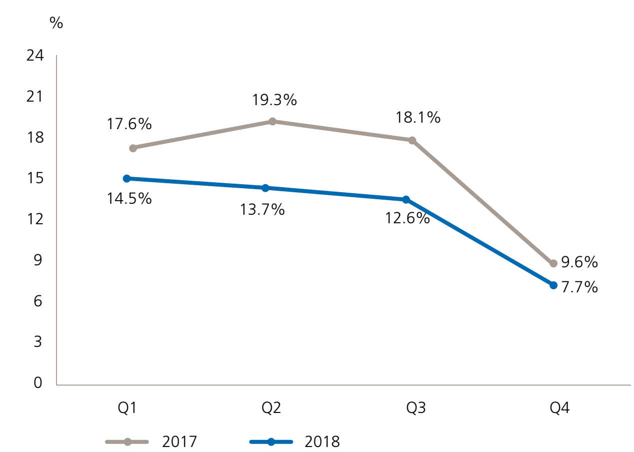
OPERATING REVENUES



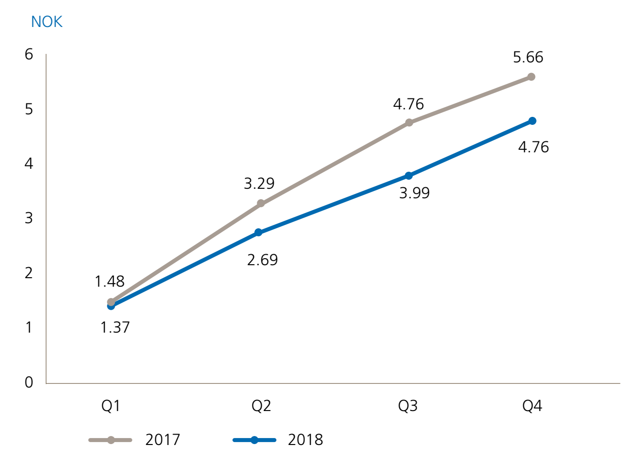
EBITA ADJ.[1]



EBITA ADJ. MARGIN[1]



EARNINGS PER SHARE CUMULATIVE



[1] *Non-GAAP measure, see page 22 for definition.*

FOURTH QUARTER

Borregaard's operating revenues reached NOK 1,219 million (NOK 1,137 million)[2] in the 4th quarter of 2018. EBITA adj.[1] was NOK 94 million (NOK 109 million). Other Businesses' result improved significantly compared with the corresponding quarter in 2017, whereas Performance Chemicals and Speciality Cellulose had a decline.

Performance Chemicals had a 3% increase in total sales volume driven by diversification and growth for Industrial and Specialities. EBITA adj.[1] decreased, due to higher fixed costs and depreciation from the Florida ramp-up, increased lignin distribution costs and continued strong price competition in the concrete admixture market. Higher wood costs and weaker product mix affected Speciality Cellulose negatively. Higher sales prices and sales volume in Ingredients were the main reasons for the improved result in Other Businesses. The net currency impact was positive.

Other income and expenses[1] were NOK 0 million (NOK -9 million) in the 4th quarter. Net financial items were NOK -9 million (NOK -10 million). Increased interest expenses were off-set by favourable foreign exchange effects. Profit before tax was NOK 84 million (NOK 89 million). Tax expense was NOK -19 million (NOK -4 million), giving a tax rate of 23% (4%) in the quarter. The tax rate is affected by accounting treatment of partly owned companies and carryforward losses not recognised as deferred tax assets, see Note 4.

Earnings per share were NOK 0.80 (NOK 0.90).

Cash flow from operations[1] was NOK 81 million (NOK 268 million). The reduction was mainly a result of a less favourable development in net working capital compared with the 4th quarter of 2017.

FULL YEAR 2018

For the full year of 2018, Borregaard's operating revenues increased to NOK 4,785 million (NOK 4,618 million). EBITA adj.[1] was NOK 580 million (NOK 749 million). The result in Other Businesses improved, whereas Performance Chemicals and Speciality Cellulose had a decline. Higher wood and caustic soda costs, increased lignin distribution costs, Florida ramp-up as well as lower sales of acetate cellulose affected EBITA adj.[1] negatively. In Other Businesses, the improved result was due to increased prices and sales volume for bio-based vanillin. The net currency impact, including hedging, was in total positive.

In 2018, Borregaard continued to implement its strategic initiatives and priorities. The new lignin plant in Florida started production, the new dehydration plant for bioethanol at the Sarpsborg site was completed and increased capacity for Ice Bear products in Speciality Cellulose was installed. The NOK 500 million investment programme to upgrade and specialise the production facilities for lignin products at the Sarpsborg site is on-going and will be completed in the 3rd quarter of 2019. Borregaard and Borg Havn (The Port of Borg) have agreed that the Port will build and own a 19,000 square metres warehouse for lignin products from the Sarpsborg site. The construction of the warehouse will be completed mid-2019.

The Group had a lost-time injury rate (LTI[3]) for 2018 of 3.5 (1.1). The number of total recordable injuries (TRI[4]) ended at 8.6 (8.8).

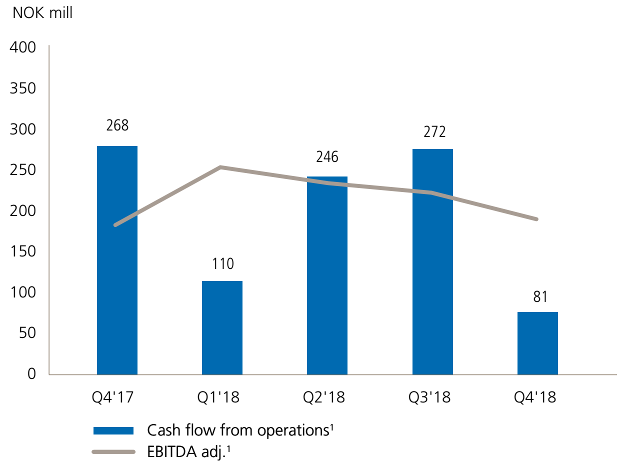
Other income and expenses[1] were NOK 0 million (NOK -9 million). Net financial items amounted to NOK -14 million (NOK -21 million). Profit before tax was NOK 562 million (NOK 715 million). Tax expense was NOK -137 million (NOK -157 million), giving a tax rate of 24% (22%). The tax rate is affected by accounting treatment of partly owned companies and carry forward losses not recognised as deferred tax assets, see Note 4. The corporate income tax rate in Norway was reduced from 23% to 22% from 1 January 2019.

[1] *Non-GAAP measure, see page 22 for definition.*
[2] *Figures in parentheses are for the corresponding period in the previous year.*
[3] *Number of lost time injuries per million hours worked*
[4] *Number of total recordable injuries per million hours worked*

Earnings per share were NOK 4.76 (NOK 5.66).

Cash flow from operations[1] was NOK 709 million (NOK 960 million). The reduction from 2017 was due to the cash effect of a lower EBITDA adj.[1] and an unfavourable development in net working capital. At the end of 2018, the Group was well capitalised with an equity ratio[1] of 55.8% (56.2%) and a leverage ratio[1] of 1.44 (0.80).

CASH FLOW FROM OPERATIONS[1]



THE BUSINESS AREAS

PERFORMANCE CHEMICALS

	1.10 - 31.12		1.1 - 31.12	
Amounts in NOK million	2018	2017	2018	2017
Operating revenues	552	521	2,237	2,176
EBITA adj.[1]	42	76	314	449
EBITA adj. margin[1] (%)	7.6	14.6	14.0	20.6

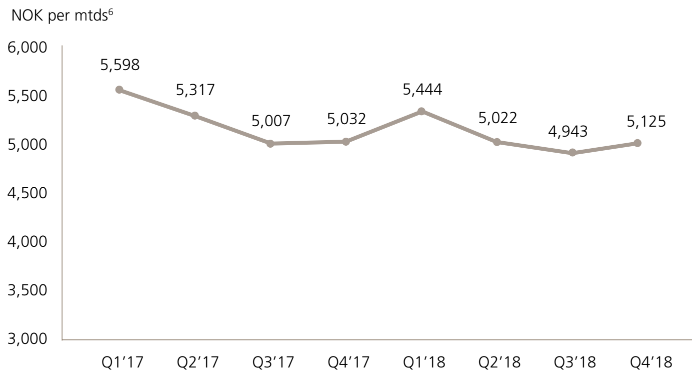
FOURTH QUARTER

Performance Chemicals' 4th quarter operating revenues increased to NOK 552 million (NOK 521 million). EBITA adj.[1] was NOK 42 million (NOK 76 million). The lower EBITA adj.[1] was mainly due to NOK 22 million higher fixed costs and depreciation for the Florida plant as well as higher distribution and other operating costs. However, distribution costs were slightly reduced from the high level in the 3rd quarter of 2018. Total sales volume was 3% higher than in the 4th quarter of 2017. The average price in sales currency was in line with the 4th quarter of 2017. Growth in Industrial and Specialities compensated for a challenging concrete admixture market for lignin products. Net currency effects were insignificant.

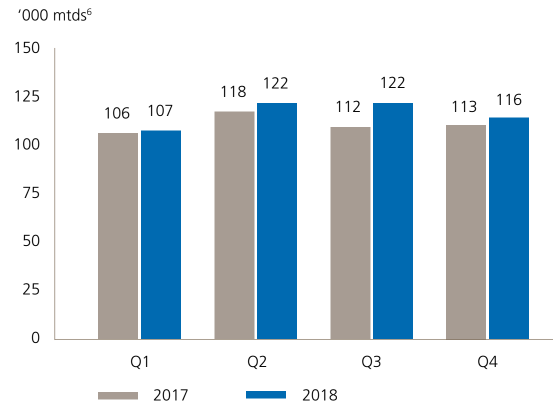
FULL YEAR 2018

For the full year, Performance Chemicals had operating revenues of NOK 2,237 million (NOK 2,176 million). EBITA adj.[1] was NOK 314 million (NOK 449 million). The EBITA adj.[1] reduction was mainly due to increased costs and depreciation in the start-up year for the new Florida plant and higher distribution and other operating costs. LignoTech Florida had an EBITA adj.[1] of NOK -75 million (NOK -7 million) in 2018. Increased sales volume, diversification and specialisation off-set the effect of continued strong competition and weaker prices for lignin products to the concrete admixture market. Total sales volume was 4% higher and the average price in sales currency was 1% lower than in 2017. Unfavourable net currency effects had a slightly negative impact compared with 2017.

GROSS AVERAGE SALES PRICE[5]



SALES VOLUME[5]



[1] Non-GAAP measure, see page 22 for definition.
[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	1.10 - 31.12 2018	1.10 - 31.12 2017	1.1 - 31.12 2018	1.1 - 31.12 2017
Operating revenues	427	435	1,669	1,698
EBITA adj.[1]	50	67	257	350
EBITA adj. margin[1] (%)	11.7	15.4	15.4	20.6

FOURTH QUARTER

Operating revenues in Speciality Cellulose were NOK 427 million (NOK 435 million). EBITA adj.[1] was NOK 50 million (NOK 67 million). Increased wood costs and weaker product mix as a result of lower sales of acetate cellulose were the main reasons for the EBITA adj.[1] reduction. Net currency effects were positive. The sales volume was lower than in the 4th quarter of 2017, while cellulose prices in sales currency were stable.

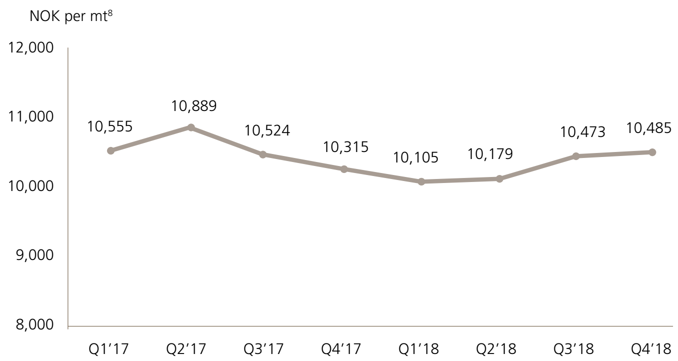
The Bioethanol result was in line with the corresponding quarter in 2017. A lower sales volume was off-set by higher prices and improved product mix.

FULL YEAR 2018

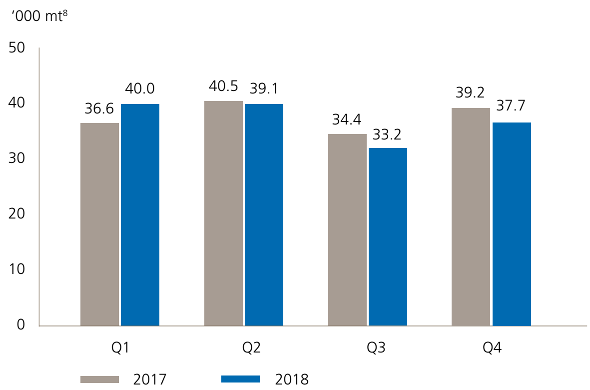
In 2018, operating revenues for Speciality Cellulose were NOK 1,669 million (NOK 1,698 million). EBITA adj.[1] was NOK 257 million (NOK 350 million). The reduced EBITA adj.[1] was due to higher wood and caustic soda costs and weaker product mix as a result of lower sales of acetate cellulose, partly off-set by positive net currency effects and lower energy costs. The wood costs increased by NOK 80 million from 2017. Cellulose prices in sales currency were stable compared with 2017. The cellulose ether market continued to develop positively, while the cellulose acetate market remained challenging. The volume share of highly specialised cellulose grades decreased to 62% (72%) due to lower acetate cellulose sales. Production output was in line with 2017.

The result for Bioethanol improved mainly due to improved product mix and increased sales prices. The new dehydration plant for bioethanol at the Sarpsborg site started production in the 1st quarter of 2018. With this investment, Borregaard has sufficient capacity to deliver its entire production as water-free bioethanol. This market is growing, mainly driven by increased demand for bioethanol in automotive fuel.

GROSS AVERAGE SALES PRICE[7]



SALES VOLUME



[1] *Non-GAAP measure, see page 22 for definition.*
[7] *Average sales price is calculated using actual FX rates, excluding hedging impact.*
[8] *Metric tonne.*

OTHER BUSINESSES

	1.10 - 31.12		1.1 - 31.12	
Amounts in NOK million	2018	2017	2018	2017
Operating revenues	253	190	927	783
EBITA adj.[1]	2	-34	9	-50
EBITA adj. margin[1] (%)	0.8	-17.9	1.0	-6.4

FOURTH QUARTER

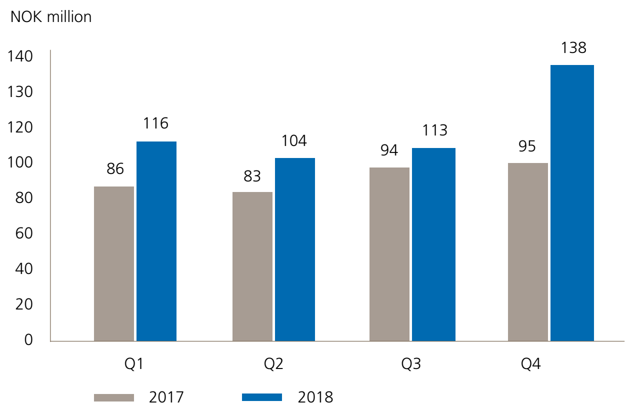
Operating revenues in Other Businesses increased to NOK 253 million (NOK 190 million) in the 4th quarter. EBITA adj.[1] improved to NOK 2 million (NOK -34 million), mainly due to a stronger result in Ingredients.

The stronger result in Ingredients is explained by increased sales prices and higher sales volume for bio-based vanillin. Fine Chemicals had higher sales but also increased costs. The result was in line with the 4th quarter of 2017. Cellulose Fibrils had a slight improvement in EBITA adj.[1]. Net corporate costs were in line with the corresponding quarter of 2017. The net currency impact in Other Businesses was slightly positive.

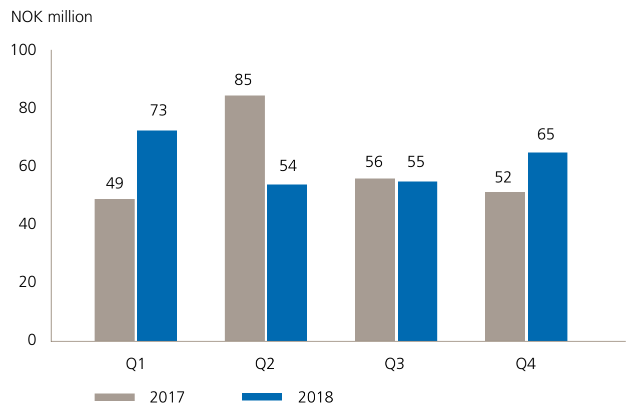
FULL YEAR 2018

For the full year, operating revenues in Other Businesses reached NOK 927 million (NOK 783 million). EBITA adj.[1] was NOK 9 million (NOK -50 million). A positive market trend and higher prices and sales volume for bio-based vanillin were the main reasons for the increase both in operating revenues and EBITA adj.[1] in Other Businesses. Fine Chemicals had sales in line with 2017, but higher costs resulted in an EBITA adj.[1] reduction. Cellulose Fibrils had a positive pipeline development in 2018, but continued to experience long lead-times for conversion of sales prospects. The positive effect of increased sales was off-set by plant optimisation and marketing costs, and the result was in line with 2017. Net corporate costs were similar to the 2017 level. The net currency impact in Other Businesses was insignificant.

INGREDIENTS – SALES REVENUES



FINE CHEMICALS – SALES REVENUES



[1] *Non-GAAP measure, see page 22 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 4th quarter of 2017, the net impact of foreign exchange on EBITA adj.[1], including hedging effects, was NOK 25 million positive. Hedging effects were NOK -1 million (NOK -10 million) in the 4th quarter.

In 2018, the net impact of foreign exchange on EBITA adj.[1], including hedging effects, was NOK 45 million when compared with 2017. Hedging effects were NOK -11 million (NOK -72 million).

Assuming currency rates as of 30 January 2019 (USD 8.48 and EUR 9.69) and based on currency exposure forecasts, Borregaard expects a net impact of foreign exchange on EBITA adj.[1] of approximately NOK 30 million in the 1st quarter of 2019 and NOK 70 million for the full year of 2019.

CASH FLOW AND FINANCIAL SITUATION

FOURTH QUARTER

Cash flow from operating activities in the 4th quarter was NOK 70 million (NOK 176 million). The decrease was mainly a result of a less favourable development in net working capital compared with the 4th quarter of 2017, partly off-set by lower tax payments. Investments amounted to NOK 213 million (NOK 339 million). Expansion investments[1] were mainly related to the upgrade and specialisation of the lignin operation in Norway and the Ice Bear project in Speciality Cellulose.

FULL YEAR 2018

Cash flow from operating activities was NOK 558 million (NOK 780 million). The decline from 2017 was due the cash effect of a lower EBITDA adj.[1] and an unfavourable development in net working capital partly off-set by lower tax payments. Investments amounted to NOK 762 million (NOK 968 million). Expansion investments[1], totalling NOK 416 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 -22 million (NOK 8 million). The Group has sold and repurchased treasury shares with a net payment of NOK 9 million (NOK 18 million).

At year-end, the Group had net interest-bearing debt[1] totalling NOK 1,297 million (NOK 845 million), an increase of NOK 201 million from the 3rd quarter of 2018 and an increase of NOK 452 million from year-end 2017.

The Group was well capitalized with an equity ratio[1] of 55.8% and a leverage ratio[1] of 1.44.

[1] *Non-GAAP measure, see page 22 for definition.*

DIVIDEND

The Board of Directors of Borregaard ASA will propose a dividend for 2018 of NOK 2.25 (NOK 2.00) per share to the Annual General Meeting. This corresponds to 47% of net profit. Dividend payment is estimated at NOK 224 million. The exact amount will depend on the number of treasury shares held at the date of the General Meeting.

SHARE INFORMATION

During the 4th quarter of 2018, 20,000 share options were exercised at a strike price of NOK 44.49 per share.

Total number of shares outstanding on 31 December 2018 was 100 million, including 450,215 treasury shares.

Total number of shareholders was 8,093. Borregaard ASA's share price was NOK 74.80 at the end of 2018, compared with NOK 83.40 at the end of the 3rd quarter and NOK 81.50 at the end of 2017.

OTHER MATTERS AND SUBSEQUENT EVENTS

NEW SUPPLY CONTRACT FOR ELECTRIC POWER BETWEEN BORREGAARD AND EIDSIVA VANNKRAFT

Borregaard and Eidsiva Vannkraft have entered into a new long-term supply contract for electric power for a total of 2.8 TWh to be supplied to the Sarpsborg site in the period 2020 to 2029. The new contract replaces the existing contract between the parties for the period 2020 to 2024, with a gradual reduction of annual deliveries from about 420 GWh in 2020 to about 130 GWh in 2029. See notification to the Oslo Stock Exchange on 12 December 2018.

PROLONGATION OF EU HORIZON 2020[9] FUNDING PERIOD FOR THE EXILVA PROJECT

In 2016 a consortium of European companies and research institutions, with Borregaard as a lead member, was granted financial support from the Bio-Based Industries Joint Undertaking for the development and commercialisation of Borregaard's Exilva microfibrillar cellulose under the European Union's Horizon 2020 Flagship programme[9]. The support was given for the three-year period 1 May 2016 - 30 April 2019. In this period, 60% of Borregaard's costs would be covered up to a maximum support amount of EUR 25 million.

With the current run rate the granted amount will not be fully utilised within the three-year period. The consortium has therefore applied for a 12-months prolongation of the grant period without increasing the total amount. The application has been approved by the Commission, and the grant period will therefore be prolonged until 30 April 2020. See notifications to the Oslo Stock Exchange on 22 April 2016, 16 March 2016 and 13 December 2018.

[9] *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.*

OUTLOOK

Continued strong competition and further price pressure for lignin products to the concrete admixture market is expected to be partly compensated by diversification and specialisation in 2019. Total sales volume in 2019 is forecast to increase by about 10%, mainly due to the ramp-up in Florida. The higher distribution costs will gradually decline over the next quarters. Fixed costs and depreciation for the Florida plant is expected to be approximately NOK 40 million higher in 2019 compared with 2018.

The average cellulose price in sales currency is expected to be in line with the 2018 level. Improved product mix will compensate for weaker prices for acetate and textile cellulose. Wood prices will increase further from the beginning of 2019, and Borregaard's wood costs in the first half of 2019 will increase by about NOK 50 million compared with the first half of 2018. In the 1st quarter of 2019, total sales volume is expected to be lower than in the corresponding quarter of 2018, with similar product mix.

Ingredients is expected to increase its result in 2019, driven by the positive market trend for bio-based vanillin. No major changes are expected in the market conditions for Fine Chemicals. Sales will gradually increase for Cellulose Fibrils, but lead-times for conversion of sales prospects are long. The remaining grant from EU Horizon 2020[9] will cover a smaller share of costs than in previous years. Corporate costs will remain at the same level as in 2018.

Sarpsborg, 30 January 2019
The Board of Directors of Borregaard ASA

THE GROUP´S CONDENSED INCOME STATEMENT

INTERIM CONDENSED INCOME STATEMENT

Amounts in NOK million	NOTE	1.10 - 31.12 2018	1.10 - 31.12 2017	1.1 - 31.12 2018	1.1 - 31.12 2017
OPERATING REVENUES	2	1,219	1,137	4,785	4,618
Operating expenses		-1,036	-946	-3,882	-3,563
Depreciation property, plant and equipment		-89	-82	-323	-306
Amortisation intangible assets		-1	-1	-4	-4
Other income and expenses[1]	3	-	-9	-	-9
OPERATING PROFIT		93	99	576	736
Financial items, net		-9	-10	-14	-21
PROFIT BEFORE TAXES		84	89	562	715
Income tax expense	4	-19	-4	-137	-157
PROFIT FOR THE PERIOD		65	85	425	558
Profit attributable to non-controlling interests		-15	-5	-51	-8
Profit attributable to owners of the parent		80	90	476	566
EBITDA adj[1]		183	191	903	1,055
EBITA ADJ[1]	2	94	109	580	749

EARNINGS PER SHARE

INTERIM EARNINGS PER SHARE

Amounts in NOK		1.10 - 31.12 2018	1.10 - 31.12 2017	1.1 - 31.12 2018	1.1 - 31.12 2017
Earnings per share (100 million shares)	5	0.80	0.90	4.76	5.66
Diluted earnings per share	5	0.80	0.90	4.76	5.66

THE GROUP'S CONDENSED COMPREHENSIVE INCOME STATEMENT

INTERIM CONDENSED COMPREHENSIVE INCOME STATEMENT

Amounts in NOK million	NOTE	1.10 - 31.12 2018	1.10 - 31.12 2017	1.1 - 31.12 2018	1.1 - 31.12 2017
PROFIT FOR THE PERIOD		65	85	425	558
ITEMS NOT TO BE RECLASSIFIED TO P&L					
Actuarial gains and losses (after tax)		5	-6	5	-6
TOTAL		5	-6	5	-6
ITEMS TO BE RECLASSIFIED TO P&L					
Change in hedging-reserve after tax (cash flow)	7	-196	-108	-103	82
Change in hedging-reserve after tax (net investment in subsidiaries)	7	-27	-17	-25	13
Translation effects		53	39	20	-7
TOTAL		-170	-86	-108	88
THE GROUP'S COMPREHENSIVE INCOME		-100	-7	322	640
Comprehensive income non-controlling interests		-8	-10	-42	-11
Comprehensive income owners of the parent		-92	3	364	651

[1] *Non-GAAP measure, see page 22 for definition.*

THE GROUP´S CONDENSED BALANCE SHEET

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	31.12.2018	31.12.2017
Intangible assets	12	100	111
Property, plant and equipment	12	3,623	3,126
Other assets	8	230	93
Investments in joint venture		100	118
NON-CURRENT ASSETS		4,053	3,448
Inventories		856	734
Receivables	8	956	971
Cash and cash deposits	10	86	180
CURRENT ASSETS		1,898	1,885
TOTAL ASSETS		5,951	5,333
Group equity	9	3,123	2,889
Non-controlling interests		198	107
EQUITY		3,321	2,996
Provisions and other liabilities		271	277
Interest-bearing liabilities	8,10	1,115	743
NON-CURRENT LIABILITIES		1,386	1,020
Interest-bearing liabilities	8,10	272	283
Other current liabilities	8	972	1,034
CURRENT LIABILITIES		1,244	1,317
EQUITY AND LIABILITES		5,951	5,333
Equity ratio[1]		55.8%	56.2%

CHANGES IN EQUITY

INTERIM CONDENSED CHANGE IN EQUITY

		1.1 - 31.12.2018			1.1 - 31.12.2017		
Amounts in NOK million	NOTE	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		476	-51	425	566	-8	558
Items in Comprehensive Income	6	-112	9	-103	85	-3	82
THE GROUP'S COMPREHENSIVE INCOME	6	364	-42	322	651	-11	640
Paid dividend		-199	-	-199	-349	-	-349
Buy-back of treasury shares		-32	-	-32	-29	-	-29
Exercise of share options		6	-	6	0	-	0
Shares to employees		23	-	23	15	-	15
Option costs (share based payment)		6	-	6	6	-	6
Transaction with non-controlling interest		66	133	199	-84	84	-
EQUITY AT THE END OF THE PERIOD		3,123	198	3,321	2,889	107	2,996

[1] *Non-GAAP measure, see page 22 for definition.*

THE GROUP'S CONDENSED CASH FLOW STATEMENT

INTERIM CONDENSED CASH FLOW STATEMENT

		1.10 - 31.12		1.1 - 31.12	
Amounts in NOK million	NOTE	2018	2017	2018	2017
Profit before taxes		84	89	562	715
Amortisation, depreciation and impairment charges		90	89	327	316
Changes in net working capital, etc.		-102	80	-194	-92
Dividend (share of profit) from JV		-	13	6	11
Taxes paid		-2	-95	-143	-170
CASH FLOW FROM OPERATING ACTIVITIES		70	176	558	780
Investments property, plant and equipment and intangible assets *		-213	-339	-762	-968
Other capital transactions		2	2	13	10
CASH FLOW FROM INVESTING ACTIVITIES		-211	-337	-749	-958
Dividends		-	-	-199	-349
Proceeds from exercise of options/shares to employees	9	1	-	23	11
Buy-back of shares	6	-	-	-32	-29
Gain/(loss) on hedges for net investments in subsidiaries		-40	-35	-22	8
NET PAID TO/FROM SHAREHOLDERS		-39	-35	-230	-359
Proceeds from interest-bearing liabilities	10	39	288	1,292	668
Repayment from interest-bearing liabilities	10	-24	-126	-960	-258
Change in interest-bearing receivables/other liabilities	10	14	12	-2	46
CHANGE IN NET INTEREST-BEARING LIABILITIES		29	174	330	456
CASH FLOW FROM FINANCING ACTIVITIES		-10	139	100	97
CHANGE IN CASH AND CASH EQUIVALENTS		-151	-22	-91	-81
Cash and cash equivalents at beginning of period		231	198	180	265
Change in cash and cash equivalents		-151	-22	-91	-81
Currency effects cash and cash equivalents		6	4	-3	-4
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	86	180	86	180

*Investment by category				
Replacement investments	189	144	346	344
Expansion investments[1]	24	195	416	624

[1] *Non-GAAP measure, see page 22 for definition.*

NOTES

NOTE 01 Organisation and basis for preparation

GENERAL INFORMATION

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

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

Basis for preparation

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

The same accounting principles and methods of calculation have been applied as in the Consolidated Financial Statements for 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"). The effects are described in Note 13.
- 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. See Note 13 for further details of implementation effects.
- 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 capitalised and that lease payments will be expensed as earlier.

NOTE 02 Segments

OPERATING REVENUES

	1.10 - 31.12		1.1 - 31.12	
Amounts in NOK million	2018	2017	2018	2017
BORREGAARD	1,219	1,137	4,785	4,618
Performance Chemicals	552	521	2,237	2,176
Speciality Cellulose	427	435	1,669	1,698
Other Businesses	253	190	927	783
Eliminations	-13	-9	-48	-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 22 for definition.

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cont. NOTE 02 Segments

EBITA ADJ.[1]

Amounts in NOK million	1.10 - 31.12 2018	1.10 - 31.12 2017	1.1 - 31.12 2018	1.1 - 31.12 2017
BORREGAARD	94	109	580	749
Performance Chemicals	42	76	314	449
Speciality Cellulose	50	67	257	350
Other Businesses	2	-34	9	-50
RECONCILIATION AGAINST OPERATING PROFIT & PROFIT BEFORE TAX				
EBITA ADJ.[1]	94	109	580	749
Amortisation intangible assets	-1	-1	-4	-4
Other income and expenses[1]	-	-9	-	-9
OPERATING PROFIT	93	99	576	736
Financial items, net	-9	-10	-14	-21
PROFIT BEFORE TAXES	84	89	562	715

SALES REVENUES

Amounts in NOK million	1.10 - 31.12 2018	1.10 - 31.12 2017	1.1 - 31.12 2018	1.1 - 31.12 2017
BORREGAARD	1,200	1,116	4,705	4,522
Performance Chemicals	537	508	2,183	2,117
Cellulose	399	398	1,548	1,566
Bioethanol	29	37	120	121
Fine Chemicals	65	52	247	242
Ingredients	138	95	471	358
Other	32	26	136	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 expenses[1]

There are no Other income and expenses[1] in the 4th quarter of 2018.

NOTE 04 Income tax expense

The tax rate of 24.4% (22.0%) for the twelve months of 2018 is a compilation of the tax rates in the various countries in which Borregaard operates and has taxable income. The corporate income tax rate in Norway was reduced from 23% to 22% from 1 January 2019. The reduction in tax rate is reflected in the calculation of deferred tax as of 31 December 2018.

Borregaard's tax rate for 2018 is higher than previously expected and there are several reasons for the 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). In additon, 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.

[1] *Non-GAAP measure, see page 22 for definition.*

NOTE 05 Earnings per share (EPS)

The share capital consists of 100 million shares. The company holds 450,215 treasury shares. As of 31 December 2018, there are 99,901,117 diluted shares (99,957,469 as of 31 December 2017). Earnings per diluted share were NOK 0.80 in the 4th quarter of 2018 and NOK 4.76 for the full year (NOK 0.90 in the 4th quarter and 5.66 for the full year of 2017).

NOTE 06 Stock options

During the 4th quarter of 2018, 20,000 share options were exercised at a strike of NOK 44.49.

The Group Executive Management and other key employees hold a total of 1,577,000 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 460,000 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.

	31.12.2018		31.12.2017	
Amounts in NOK million	Cash flow hedges	Hedges of net investments in subsidiares	Cash flow hedges	Hedges of net investments in subsidiares
Tax effect year-to-date	-39	-40	-11	-32
Hedging reserve after tax	-138	-110	-35	-85

[1] *Non-GAAP measure, see page 22 for definition.*

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 4th 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 31 December 2018:

FINANCIAL ASSETS

		31.12.2018		31.12.2017	
Amounts in NOK million	LEVEL	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial receivables	2	224	224	36	36
Non-current derivatives	2	3	3	48	48
Current derivatives	2	16	16	58	58
TOTAL FINANCIAL ASSETS		243	243	142	142
FINANCIAL LIABILITIES					
Non-current financial liabilities	2,3	1,116	1,116	753	753
Non-current derivatives	2	116	116	61	61
Current financial liabilities	2	272	272	283	283
Current derivatives	2	79	79	75	75
TOTAL FINANCIAL LIABILITIES		1,583	1,583	1,172	1,172

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million		LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL INSTRUMENTS 31.12.2018	-1,340	-	-740	-600
FINANCIAL INSTRUMENTS 31.12.2017	-1,030	-	-830	-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	31.12.2018	31.12.2017
Share capital	100	100
Treasury shares	-	-
Share premium	1,346	1,346
Other paid-in capital	645	418
Translation effects	93	82
Hedging reserve (after tax)	-248	-120
Actuarial gains/losses	-17	-22
Retained earnings	1,204	1,085
GROUP EQUITY (CONTROLLING INTERESTS)	3,123	2,889

As of 31 December 2018, the company held 450,215 treasury shares at an average cost of NOK 78.87.

NOTE 10 Net interest-bearing debt[1]

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

Amounts in NOK million	31.12.2018	31.12.2017
Non-current interest-bearing liabilities	1,115	743
Current interest-bearing liabilities including overdraft of cashpool	272	283
Non-current interest-bearing receivables (included in "Other Assets")	-4	-1
Cash and cash deposits	-86	-180
NET INTEREST-BEARING DEBT[1]	1,297	845

NOTE 11 Related parties

The members of the Group Executive Management of Borregaard held a total of 920,000* stock options in the Company as of 31 December 2018.

** Including stock options held by Liv Longva who has acted as a member of the Group Executive Management in 2018 during Tuva Barnholt's absence.*

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 4th quarter of 2018.

[1] *Non-GAAP measure, see page 22 for definition.*

NOTE 13 Other matters and subsequent events

IMPLEMENTATION OF IFRS 16

IMPACT OF IMPLEMENTATION OF IFRS 16 FROM 1 JANUARY 2019

Item	BALANCE SHEET AMOUNT AS OF 31 DECEMBER 2018	BALANCE SHEET AMOUNT AS OF 1 JANUARY 2019 (AFTER IMPLEMENTATION)
Total assets	5,951	6,184
Equity	3,321	3,321
Equity ratio	55.8%	53.7%

Discount rates used:
Machinery, vehicles and equipment: Incremental borrowing rate
Buildings: Implicit interest rate if available

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

NEW SUPPLY CONTRACT FOR ELECTRIC POWER BETWEEN BORREGAARD AND EIDSIVA VANNKRAFT

Borregaard and Eidsiva Vannkraft have entered into a new long-term supply contract for electric power for a total of 2.8 TWh to be supplied to the Sarpsborg site in the period 2020 to 2029. The new contract replaces the existing contract between the parties for the period 2020 to 2024, with a gradual reduction of annual deliveries from about 420 GWh in 2020 to about 130 GWh in 2029. See notification to the Oslo Stock Exchange on 12 December 2018.

PROLONGATION OF EU HORIZON 2020[9] FUNDING PERIOD FOR THE EXILVA PROJECT

In 2016 a consortium of European companies and research institutions, with Borregaard as a lead member, was granted financial support from the Bio-Based Industries Joint Undertaking for the development and commercialisation of Borregaard's Exilva microfibrillar cellulose under the European Union's Horizon 2020 Flagship programme[9]. The support was given for the three-year period 1 May 2016 - 30 April 2019. In this period, 60% of Borregaard's costs would be covered up to a maximum support amount of EUR 25 million.

With the current run rate the granted amount will not be fully utilised within the three-year period. The consortium has therefore applied for a 12-months prolongation of the grant period without increasing the total amount. The application has been approved by the Commission, and the grant period will therefore be prolonged until 30 April 2020.

See notifications to the Oslo Stock Exchange on 22 April 2016, 16 March 2016 and 13 December 2018.

[1] Non-GAAP measure, see page 22 for definition.

[9] 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.

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 - 31.12	
Capital employed end of	2018	2017
Q4, 2016		3,508
Q1, 2017		3,754
Q2, 2017		4,003
Q3, 2017		4,044
Q4, 2017	4,256	4,256
Q1, 2018	4,454	
Q2, 2018	4,578	
Q3, 2018	4,620	
Q4, 2018	4,937	
AVERAGE	4,569	3,913
EBITA ADJ. (LTM)	580	749
ROCE (%)	12.7	19.1

NOTES

Borregaard

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