

Q2 2018

QUARTERLY REPORT 2ND QUARTER 2018



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Q2 2018



2ND QUARTER IN BRIEF

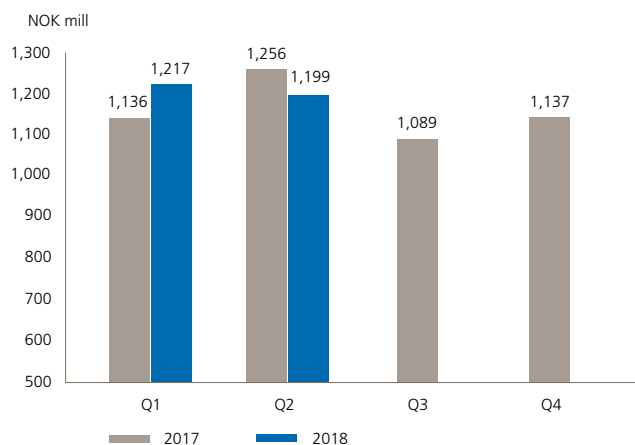
- *EBITA adj.¹ NOK 164 million (NOK 243 million)*
- *Increased total sales volume in Performance Chemicals, continued price pressure for construction products*
- *Lower acetate sales in Speciality Cellulose*
- *Higher sales prices in Ingredients, low deliveries in Fine Chemicals*
- *Cost increases related to wood, caustic soda and Florida ramp-up*
- *Successful start-up of the Florida plant*

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

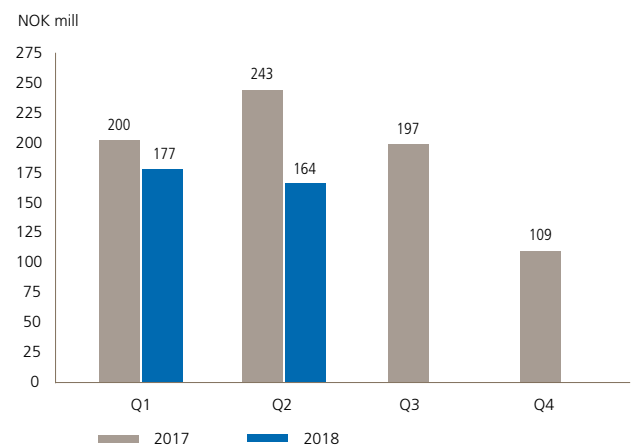
THE GROUP

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2018	2017	2018	2017	2017
Operating revenues	2	1,199	1,256	2,416	2,392	4,618
EBITDA adj. ¹		239	318	491	592	1,055
EBITA adj. ¹	2	164	243	341	443	749
Profit/loss before taxes		159	241	328	436	715
Earnings per share (NOK)		1.32	1.81	2.69	3.29	5.66
Net interest-bearing debt ¹	10	1,194	795	1,194	795	845
Equity ratio ¹ (%)		56.5	56.3	56.5	56.3	56.2
Leverage ratio ¹		1.25	0.72	1.25	0.72	0.8
Return on capital employed ¹ (%)		15.2	22.5	15.2	22.5	19.1

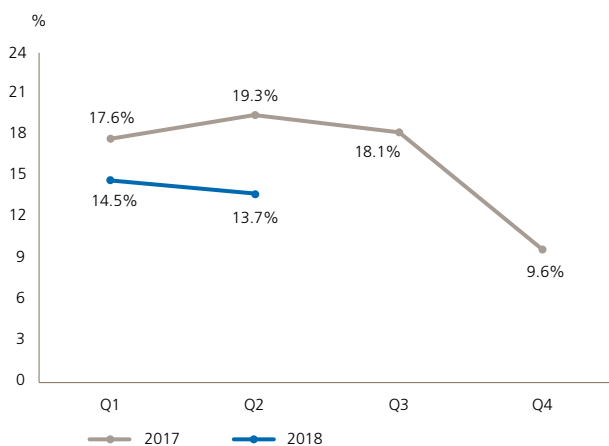
OPERATING REVENUES



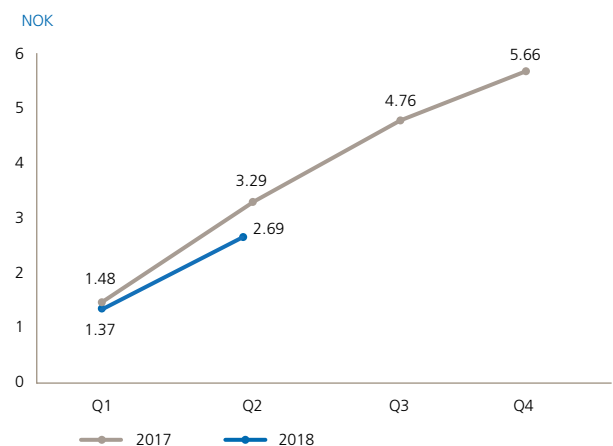
EBITA ADJ.¹



EBITA ADJ. MARGIN¹



EARNINGS PER SHARE CUMULATIVE



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

SECOND QUARTER

Borregaard's operating revenues were NOK 1,199 million (NOK 1,256 million)² in the 2nd quarter of 2018. EBITA adj.¹ was NOK 164 million (NOK 243 million). Costs increased by approximately NOK 40 million due to higher wood and caustic soda prices and ramp-up costs for the new Florida plant. The net currency impact was slightly positive.

In Performance Chemicals, higher sales of Miscellaneous and Specialities products led to a 3% overall increase in volume. EBITA adj.¹ declined, mainly due to strong price competition in regional construction markets and increased costs. 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 had a slightly weaker result where the effect of higher sales prices in Ingredients was off-set by low deliveries in Fine Chemicals.

Net financial items were NOK -4 million (NOK -1 million). The increase was due to less favourable foreign exchange effects and increased interest expenses as a result of higher net interest-bearing debt. Profit before tax was NOK 159 million (NOK 241 million). Tax expense was NOK -36 million (NOK -60 million), giving a tax rate of 23% (25%).

Earnings per share were NOK 1.32 (NOK 1.81).

Cash flow from operations¹ was NOK 246 million (NOK 201 million). The cash effect of a lower EBITDA adj.¹ was more than off-set by a favourable development in net working capital compared with the 2nd quarter of 2017. The net working capital was positively impacted by a close to NOK 100 million grant payment from EU's Horizon 2020 programme³ related to the commercialisation of Exilva.

FIRST HALF

In the 1st half of 2018, Borregaard's operating revenues increased to NOK 2,416 million (NOK 2,392 million).

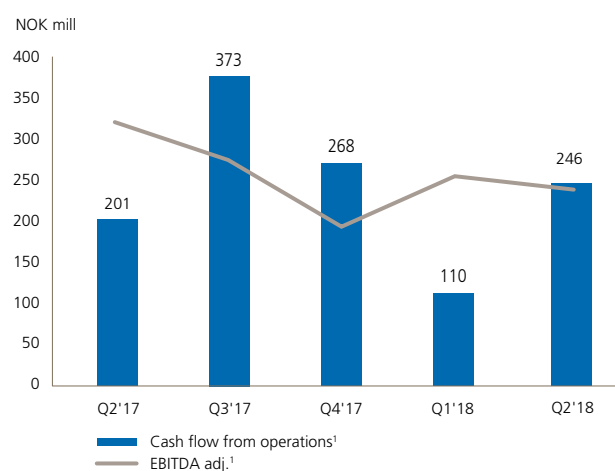
EBITA adj.¹ was NOK 341 million (NOK 443 million). Other Businesses' result improved, whereas Performance Chemicals and Speciality Cellulose had a decline. Higher wood and caustic soda prices, increased lignin distribution costs and ramp-up costs for the new Florida plant have in total had a negative impact on EBITA adj.¹ of about NOK 80 million compared with the 1st half of 2017. 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. The net currency impact was in total slightly positive.

Net financial items amounted to NOK -11 million (NOK -5 million). Profit before tax was NOK 328 million (NOK 436 million). Tax expense was NOK -73 million (NOK -108 million), giving a tax rate of 22% (25%).

Earnings per share were NOK 2.69 (NOK 3.29).

Cash flow from operations¹ was NOK 356 million (NOK 319 million). The cash effect of a lower EBITDA adj.¹ was more than off-set by a favourable development in net working capital, including the grant payment from EU's Horizon 2020 programme³, compared with the 1st half of 2017.

CASH FLOW FROM OPERATIONS¹



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

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

³ 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.

THE BUSINESS AREAS

PERFORMANCE CHEMICALS

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2018	2017	2018	2017	2017
Operating revenues	571	582	1,126	1,132	2,176
EBITA adj. ¹	102	141	217	273	449
EBITA adj. margin ¹ (%)	17.9	24.2	19.3	24.1	20.6

SECOND QUARTER

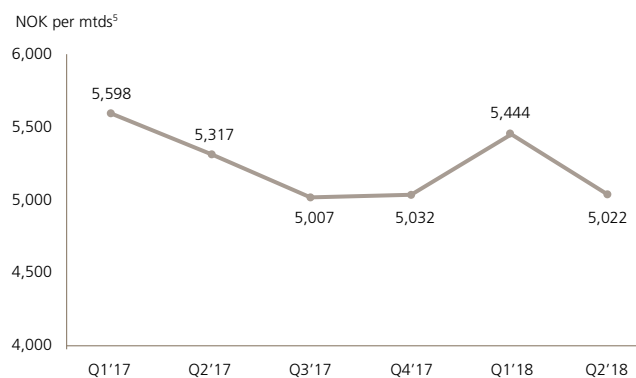
Performance Chemicals' operating revenues were NOK 571 million (NOK 582 million) in the 2nd quarter. EBITA adj.¹ was NOK 102 million (NOK 141 million). Total sales volume was 3% higher than last year as a result of increased sales of Miscellaneous and Specialities products. Inventories of finished goods were reduced. The average price in sales currency was 1.5% lower than in the corresponding quarter last year. The strong price competition continued in regional construction markets and affected the average price negatively. Operating costs increased due to the ramp-up of the new plant in Florida and higher maintenance and other costs at the lignin plant in Norway. The net currency impact was slightly negative.

The Florida project was completed on time and cost, and the new plant was inaugurated on 26 June 2018.

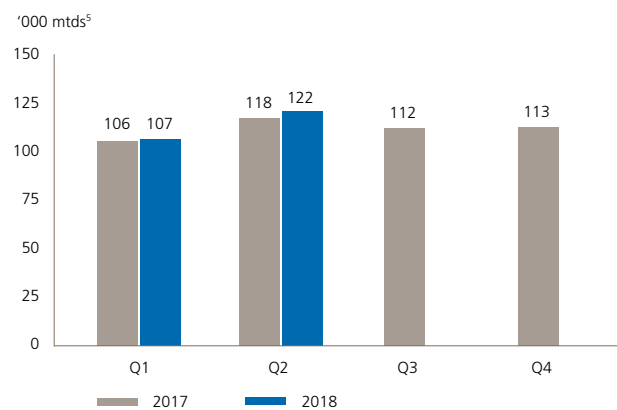
FIRST HALF

In the 1st half of 2018, Performance Chemicals had operating revenues of NOK 1,126 million (NOK 1,132 million). EBITA adj.¹ was NOK 217 million (NOK 273 million). Increased sales of specialities and improved product mix compensated partly for the negative impact from strong price competition in regional construction markets. Total sales volume increased by 2%. Increased costs related to the Florida plant, higher distribution costs and unfavourable net currency effects had a negative impact compared with the 1st half of 2017.

GROSS AVERAGE SALES PRICE⁴



SALES VOLUME⁴



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

⁴ 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.

⁵ Metric tonne dry solid.

SPECIALITY CELLULOSE

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2018	2017	2018	2017	2017
Operating revenues	427	468	861	880	1,698
EBITA adj. ¹	67	103	131	192	350
EBITA adj. margin ¹ (%)	15.7	22.0	15.2	21.8	20.6

SECOND QUARTER

Operating revenues in Speciality Cellulose were NOK 427 million (NOK 468 million) in the 2nd quarter of 2018. EBITA adj.¹ was NOK 67 million (NOK 103 million). Increased prices for wood and caustic soda and weaker product mix as a result of lower sales of acetate cellulose were the main reasons for the EBITA adj.¹ decline. Average price in sales currency was lower than in the 2nd quarter of 2017, mainly due to reduced textile cellulose prices. The cellulose ether market continues to develop positively, while the cellulose acetate market remains challenging. The net currency impact was positive.

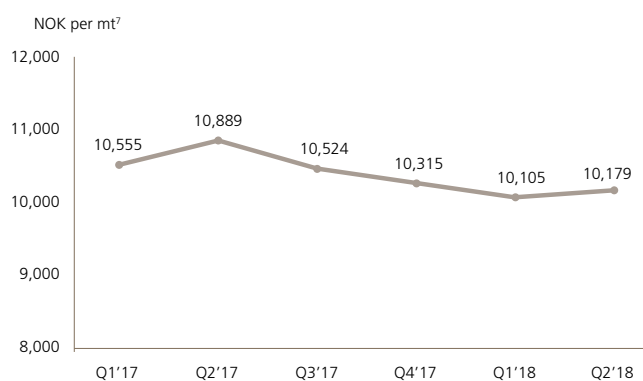
The result for Bioethanol improved due to increased sale of fuel grade bioethanol and cost savings from the investment in the new dehydration plant.

FIRST HALF

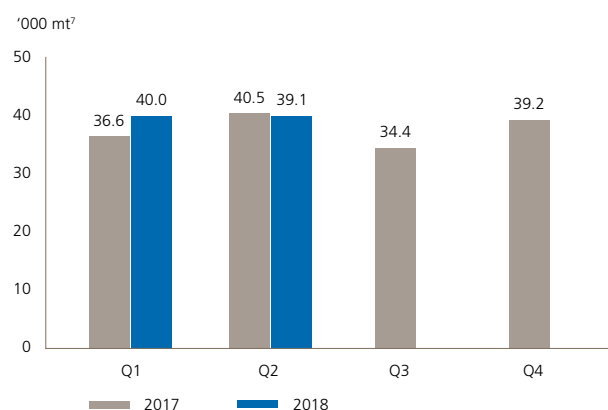
Operating revenues in the 1st half of 2018 were NOK 861 million (NOK 880 million). EBITA adj.¹ was NOK 131 million (NOK 192 million). Increased wood and caustic soda prices and weaker product mix as a result of lower sales of acetate cellulose were the main reasons for the EBITA adj.¹ decline. Net currency effects were positive.

The Bioethanol result improved due to increased sale of fuel grade bioethanol and cost savings from the investment in the new dehydration plant, which started up in the 1st quarter of 2018.

GROSS AVERAGE SALES PRICE⁶



SALES VOLUME



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

⁶ Average sales price is calculated using actual FX rates, excluding hedging impact.

⁷ Metric tonne.

OTHER BUSINESSES

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2018	2017	2018	2017	2017
Operating revenues	212	213	451	396	783
EBITA adj. ¹	-5	-1	-7	-22	-50
EBITA adj. margin ¹ (%)	-2.4	-0.5	-1.6	-5.6	-6.4

SECOND QUARTER

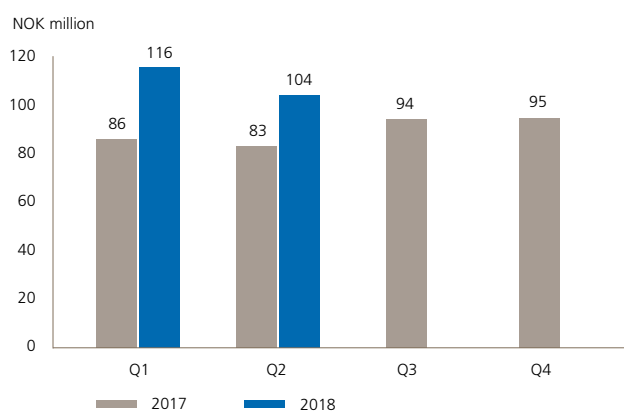
Other Businesses had operating revenues of NOK 212 million (NOK 213 million) and EBITA adj.¹ of NOK -5 million (NOK -1 million). A stronger result in Ingredients was more than off-set by low deliveries and a weaker result in Fine Chemicals.

Ingredients had a stronger result due to higher sales prices and increased sales volume, partly off-set by the impact of higher caustic soda prices. The positive market trend for wood-based vanillin continued. Fine Chemicals had a weaker result due to lower deliveries of a key product compared with the high deliveries in the same quarter last year. Cellulose Fibrils' net costs and result were in line with the 2nd quarter of 2017. Net corporate costs were also in line with the corresponding quarter of 2017. The net currency impact in Other Businesses was slightly negative.

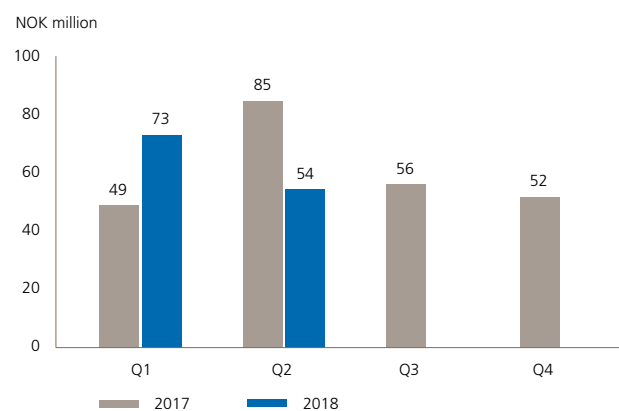
FIRST HALF

Operating revenues in Other Businesses reached NOK 451 million (NOK 396 million) in the 1st half of 2018. EBITA adj.¹ was NOK -7 million (NOK -22 million). A positive market trend for wood-based vanillin and higher sales volume were the main reasons for the increase both in operating revenues and EBITA adj.¹. Fine Chemicals had lower deliveries of a key product and Cellulose Fibrils had higher production and marketing costs, resulting in a weaker performance for both businesses. Net currency effects in Other Businesses were marginally negative.

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 2nd quarter of 2017, the net impact of foreign exchange on EBITA adj.¹, including hedging effects, was NOK 5 million positive. Hedging effects were NOK -6 million (NOK -35 million) in the 2nd quarter.

Assuming currency rates as of 16 July 2018 (USD 8.09 and EUR 9.48) and based on currency exposure forecasts, Borregaard expects a net impact of foreign exchange on EBITA adj.¹ of approximately NOK 20 million in the 3rd quarter and NOK 40 million for the full year compared with the same period last year.

CASH FLOW AND FINANCIAL SITUATION

SECOND QUARTER

Cash flow from operating activities in the 2nd quarter was NOK 179 million (NOK 158 million). A favourable development in net working capital compared with the corresponding quarter last year was partly off-set by the cash effect from a lower EBITDA adj.¹ and higher tax payments. The net working capital was positively impacted by a close to NOK 100 million grant payment from EU's Horizon 2020 programme³ related to the commercialisation of Exilva. Investments amounted to NOK 187 million (NOK 215 million). Expansion investments¹ were mainly related to the Florida project and the upgrade and specialisation of the lignin operation in Norway. Dividend of NOK 199 million (NOK 349 million) was paid out in the 2nd quarter.

FIRST HALF

In the 1st half of 2018, cash flow from operating activities was NOK 210 million (NOK 240 million). The decline was mainly due to the cash effect of a lower EBITDA adj.¹ and higher tax payments compared with the 1st half of 2017. This was largely off-set by a favourable development in net working capital compared with the 1st half of 2017,

including the grant payment from EU's Horizon 2020 programme³. Investments in the 1st half of 2018 amounted to NOK 364 million (NOK 374 million). Replacement investments were lower than the 1st half of 2017, while expansion investments¹ increased mainly as a result of the Florida project and the upgrade and specialisation of the lignin operation in Norway. 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 13 million (NOK -2 million) in the 1st half of 2018. The Group has sold and repurchased treasury shares in the 1st half of 2018 with a net payment of NOK 9 million (NOK 18 million).

On 30 June 2018, the Group had net interest-bearing debt¹ totalling NOK 1,194 million (NOK 795 million), an increase of NOK 349 million from year-end 2017. In June 2018, Borregaard issued a NOK 400 million open bond with a tenor of five years.

At the end of June, the Group was well capitalised with an equity ratio¹ of 56.5% and a leverage ratio¹ of 1.25.

¹ Non-GAAP measure, see page 19 for definition.

³ 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 2nd quarter of 2018, 95,000 share options were exercised at a strike price of NOK 41.00 per share. At the same time Borregaard repurchased 92,867 treasury shares at an average price of NOK 87.53.

Total number of shares outstanding on 30 June 2018 was 100 million, including 472,631 treasury shares.

Total number of shareholders was 8,367. Borregaard ASA's share price was NOK 88.00 at the end of the 2nd quarter, compared with NOK 74.00 at the end of the 1st quarter of 2018 and NOK 81.50 at the end of 2017. The share was traded ex dividend on 13 April 2018. Dividend was paid out on 20 April 2018.

OTHER MATTERS AND SUBSEQUENT EVENTS

LIGNOTECH FLORIDA PLANT OFFICIALLY OPENED

On June 26 2018, LignoTech Florida's new lignin plant in Fernandina Beach was officially opened. The USD 110 million investment represents a production capacity of 100,000 metric tonnes lignin measured as dry substance. In a planned second phase, the capacity can later be expanded by 50,000 tonnes.

LignoTech Florida is owned by Borregaard (55%) and Rayonier Advanced Materials (45%), and employs 51 persons in Fernandina Beach.

See notification to the Oslo Stock Exchange on 27 June 2018.

EXTENSION OF LIGNOTECH SOUTH AFRICA AGREEMENT

The owners of the lignin joint venture in South Africa, Borregaard and Sappi, have agreed on an extension of the agreement governing the lignin co-operation and on a reduction in the annual production capacity for lignin.

The parties have agreed to extend the term of the agreement to the end of 2032 (previously 2027).

With effect from 2021 the lignin production capacity will be scaled down from the current 180,000 tonnes to 130,000 metric tonnes dry substance per year. The reason is that Sappi's Saiccor dissolving pulp mill, which supplies the lignin raw material to the joint venture company, will be expanded in order to increase total cellulose capacity on the site. The expansion will be

based on magnesium sulphite technology, whereas the current calcium sulphite capacity will be reduced. The remaining calcium sulphite line will continue to supply lignin raw material to the joint venture.

LignoTech South Africa is a joint venture company owned by Borregaard (50%) and Sappi (50%), established in 1997.

See notification to the Oslo Stock Exchange on 4 July 2018 and 7 July 2015.

INCREASING PULPWOOD PRICES IN SCANDINAVIA

Wood prices continue to increase from the new level established at the beginning of the year. Borregaard's mid-year negotiations with suppliers of spruce pulpwood and woodchips to the biorefinery in Sarpsborg are practically finished. Borregaard's wood cost in the second half of 2018 will increase by about NOK 60 million on an annualised basis compared with the first half of the year.

See notification to the Oslo Stock Exchange on 4 July 2018.

OUTLOOK

Sales of lignin products to the construction sector is expected to be affected by continued strong competition and price pressure. Volume growth in Miscellaneous products will continue in order to diversify and optimise the product portfolio. A positive development for Specialities is expected in the 2nd half of 2018. Total sales volume in 2018 is forecast to increase by 5-10% compared with 2017, including the gradual ramp-up in Florida. Depreciation of the Florida plant will commence from 1 July 2018.

Average cellulose price in sales currency is expected to be in line with the 2017 level. Price uncertainty is mainly related to textile cellulose. Product mix will continue to be weaker than last year due to lower sales volume of acetate cellulose. In the 3rd quarter, both total sales volume and sales of highly specialised grades are expected to be in line with the 2nd quarter of 2018.

In Ingredients, the positive market trend for wood-based vanillin is expected to continue. No major changes are expected in the market conditions for Fine Chemicals. Sales will gradually increase for Cellulose Fibrils, but long lead-times for conversion of sales prospects are expected. Fixed costs and depreciation in Cellulose Fibrils are expected to be largely in line with 2017.

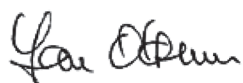
Wood and caustic soda costs will be significantly higher than in 2017, affecting mainly Speciality Cellulose and Ingredients (caustic soda only). Based on mid-year negotiations with suppliers, wood cost in the 2nd half of 2018 will increase by about NOK 60 million on an annualised basis compared with the 1st half of the year.

STATEMENT BY THE BOARD OF DIRECTORS

We confirm that, to the best of our knowledge, the unaudited interim condensed financial statements for the period 1 January to 30 June 2018, have been prepared in accordance with IAS 34 Interim Financial Reporting, and that the information in the financial statements gives a true and fair view of the business of

the Group and the Group's assets, liabilities, financial position and overall results, and that the half year report provides a fair overview of the information set out in the Norwegian Securities Trading Act section 5-6, fourth paragraph.

Sarpsborg, 16 July 2018
The Board of Directors of Borregaard ASA



JAN ANDERS OKSUM

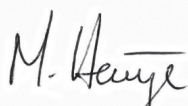
Chair



TERJE ANDERSEN



TOVE ANDERSEN



MARGRETHE HAUGE



HELGE AASEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLIE

President and CEO

THE GROUP'S CONDENSED INCOME STATEMENT

INTERIM CONDENSED INCOME STATEMENT

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2018	2017	2018	2017	2017
OPERATING REVENUES	2	1,199	1,256	2,416	2,392	4,618
Operating expenses		-960	-938	-1,925	-1,800	-3,563
Depreciation property, plant and equipment		-75	-75	-150	-149	-306
Amortisation intangible assets		-1	-1	-2	-2	-4
Other income and expenses ¹	3	-	-	-	-	-9
OPERATING PROFIT		163	242	339	441	736
Financial items, net		-4	-1	-11	-5	-21
PROFIT BEFORE TAXES		159	241	328	436	715
Income tax expense	4	-36	-60	-73	-108	-157
PROFIT FOR THE PERIOD		123	181	255	328	558
Profit attributable to non-controlling interests		-9	-	-14	-1	-8
Profit attributable to owners of the parent		132	181	269	329	566
EBITDA adj. ¹		239	318	491	592	1,055
EBITA adj. ¹	2	164	243	341	443	749

EARNINGS PER SHARE

INTERIM EARNINGS PER SHARE

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2018	2017	2018	2017	2017
Earnings per share (100 mill. shares)	5	1.32	1.81	2.69	3.29	5.66
Diluted earnings per share	5	1.32	1.81	2.70	3.29	5.66

THE GROUP'S CONDENSED COMPREHENSIVE INCOME STATEMENT

INTERIM CONDENSED COMPREHENSIVE INCOME STATEMENT

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2018	2017	2018	2017	2017
PROFIT FOR THE PERIOD		123	181	255	328	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	-20	26	85	40	82
Change in hedging-reserve after tax (net investment in subsidiaries)	7	-14	4	3	4	13
Translation effects		5	-8	-31	-2	-7
TOTAL		-29	22	57	42	88
THE GROUP'S COMPREHENSIVE INCOME		94	203	312	370	640
Comprehensive income non-controlling interests		-2	-	-13	-	-11
Comprehensive income owners of the parent		96	203	325	370	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	30.6.2018	31.12.2017
Intangible assets	12	103	111
Property, plant and equipment	12	3,345	3,126
Other assets	8	89	93
Investment in joint venture		102	118
NON-CURRENT ASSETS		3,639	3,448
Inventories		784	734
Receivables	8	1,004	971
Cash and cash deposits	10	90	180
CURRENT ASSETS		1,878	1,885
TOTAL ASSETS		5,517	5,333
Group equity	9	2,978	2,889
Non-controlling interests		137	107
EQUITY		3,115	2,996
Provisions and other liabilities		250	277
Interest-bearing liabilities	8, 10	1,011	743
NON-CURRENT LIABILITIES		1,261	1,020
Interest-bearing liabilities	8, 10	273	283
Other current liabilities	8	868	1,034
CURRENT LIABILITIES		1,141	1,317
EQUITY AND LIABILITIES		5,517	5,333
Equity ratio ¹		56.5 %	56.2 %

CHANGES IN EQUITY

INTERIM CONDENSED CHANGE IN EQUITY

Amounts in NOK million	NOTE	1.1 - 30.6.2018			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		269	-14	255	566	-8	558
Items in Comprehensive Income	6	56	1	57	85	-3	82
THE GROUP'S COMPREHENSIVE INCOME	6	325	-13	312	651	-11	640
Paid dividend		-199	-	-199	-349	-	-349
Buy-back of treasury shares		-30	-	-30	-29	-	-29
Exercise of share options		4	-	4	-	-	-
Shares to employees		23	-	23	15	-	15
Option costs (share based payment)		3	-	3	6	-	6
Transaction with non-controlling interest		-37	43	6	-84	84	-
EQUITY AT THE END OF THE PERIOD		2,978	137	3,115	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

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2018	2017	2018	2017	2017
Profit before taxes		159	241	328	436	715
Amortisation, depreciation and impairment charges		76	76	152	151	316
Changes in net working capital, etc.		7	-117	-135	-273	-92
Dividend (share of profit) from JV		3	-1	3	-3	11
Taxes paid		-66	-41	-138	-71	-170
CASH FLOW FROM OPERATING ACTIVITIES		179	158	210	240	780
Investments property, plant and equipment and intangible assets*		-187	-215	-364	-374	-968
Other capital transactions		5	5	9	7	10
CASH FLOW FROM INVESTING ACTIVITIES		-182	-210	-355	-367	-958
Dividends		-199	-349	-199	-349	-349
Proceeds from exercise of options/shares to employees	9	4	-	21	11	11
Buy-back of shares	6	-8	-	-30	-29	-29
Gain/(loss) on hedges for net investments in subsidiaries		-27	-11	13	-2	8
NET PAID TO/FROM SHAREHOLDERS		-230	-360	-195	-369	-359
Proceeds from interest-bearing liabilities	10	969	258	1,202	263	668
Repayment of interest-bearing liabilities	10	-731	-2	-933	-29	-258
Change in interest-bearing receivables/other liabilities	10	-4	15	-11	38	46
CHANGE IN NET INTEREST-BEARING LIABILITIES		234	271	258	272	456
CASH FLOW FROM FINANCING ACTIVITIES		4	-89	63	-97	97
CHANGE IN CASH AND CASH EQUIVALENTS		1	-141	-82	-224	-81
Cash and cash equivalents at beginning of period		92	182	180	265	265
Change in cash and cash equivalents		1	-141	-82	-224	-81
Currency effects cash and cash equivalents		-3	2	-8	2	-4
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	90	43	90	43	180
* Investment by category						
Replacement investments		51	46	83	124	344
Expansion investments ¹		136	169	281	250	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.

NOTE 02 Segments

OPERATING REVENUES

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2018	2017	2018	2017	2017
BORREGAARD	1,199	1,256	2,416	2,392	4,618
Performance Chemicals	571	582	1,126	1,132	2,176
Speciality Cellulose	427	468	861	880	1,698
Other Businesses	212	213	451	396	783
Eliminations	-11	-7	-22	-16	-39

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

of allocations from the corporate headquarter.

cont. next page

cont. NOTE 02 Segments

EBITA ADJ.¹

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2018	2017	2018	2017	2017
BORREGAARD	164	243	341	443	749
Performance Chemicals	102	141	217	273	449
Speciality Cellulose	67	103	131	192	350
Other Businesses	-5	-1	-7	-22	-50
RECONCILIATION AGAINST OPERATING PROFIT & PROFIT BEFORE TAX					
EBITA ADJ.¹	164	243	341	443	749
Amortisation intangible assets	-1	-1	-2	-2	-4
Other income and expenses ¹	-	-	-	-	-9
OPERATING PROFIT	163	242	339	441	736
Financial items, net	-4	-1	-11	-5	-21
PROFIT BEFORE TAXES	159	241	328	436	715

SALES REVENUES

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2018	2017	2018	2017	2017
BORREGAARD	1,179	1,225	2,374	2,335	4,522
Performance Chemicals	557	566	1,099	1,101	2,117
Cellulose	396	432	802	811	1,566
Bioethanol	31	28	59	58	121
Fine Chemicals	54	85	127	134	242
Ingredients	104	83	220	169	358
Other	37	31	67	62	118

Operating revenues consist of sales revenues and other revenues such as commissions and compensation for waste received for incineration.

NOTE 03 Other income and expenses¹

There are no Other income and expenses¹ in the 2nd quarter of 2018.

NOTE 04 Income tax expense

The tax rate of 22.3% (24.8%) for the first six 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 federal tax rate was reduced from 35% to 21%. Borregaard's tax rate is expected to be in the 20-23% range.

As the profit after tax from the joint venture is accounted for as part of operating profit (due to IFRS 11), this does not impact the Group's tax expense and thus reduces 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 472,631 treasury shares. As of 30 June 2018, there are 99,732,994 diluted shares (99,957,469

as of 31 December 2017). Earnings per diluted share were NOK 1.32 (NOK 1.81) in the 2nd quarter of 2018.

NOTE 06 Stock options

During the 2nd quarter of 2018, 95,000 share options were exercised at a strike price of NOK 41.00.

The Group Executive Management and other key employees hold a total of 1,649,000 stock options in four different share option programmes in Borregaard.

The first option programme, comprising 385,000 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 500,000 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 364,000 stock options granted in February 2017, has a strike price of NOK 98.61 adjusted for dividends in 2017 and 2018 (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 (NOK 2.00). 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	30.6.2018		30.6.2017	
	Cash flow hedges	Hedges of net investments in subsidiaries	Cash flow hedges	Hedges of net investments in subsidiaries
Tax effect year-to-date	15	-32	-24	-36
Hedging reserve after tax	50	-82	-77	-94

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 2nd 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 June 2018:

FINANCIAL ASSETS

Amounts in NOK million	LEVEL	30.6.2018		31.12.2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial receivables	2	34	34	36	36
Non-current derivatives	2	47	47	48	48
Current derivatives	2	65	65	58	58
TOTAL FINANCIAL ASSETS		146	146	142	142
FINANCIAL LIABILITIES					
Non-current financial liabilities	2, 3	1,021	1,021	753	753
Non-current derivatives	2	19	19	61	61
Current financial liabilities	2	273	273	283	283
Current derivatives	2	27	27	75	75
TOTAL FINANCIAL LIABILITIES		1,340	1,340	1,172	1,172

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL INSTRUMENTS 30.6.2018	-1 194	-594	-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	30.6.2018	31.12.2017
Share capital	100	100
Treasury shares	-	-
Share premium	1,346	1,346
Other paid-in capital	448	418
Translation effects	50	82
Hedging reserve (after tax)	-32	-120
Actuarial gains/losses	-22	-22
Retained earnings	1,088	1,085
GROUP EQUITY (CONTROLLING INTERESTS)	2,978	2,889

As of 30 June 2018, the company held 472,631 treasury shares at an average cost of NOK 80.57.

NOTE 10 Net interest-bearing debt¹

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

Amounts in NOK million	30.6.2018	31.12.2017
Non-current interest-bearing liabilities	1,011	743
Current interest-bearing liabilities including overdraft of cashpool	273	283
Non-current interest-bearing receivables (included in "Other Assets")	-	-1
Cash and cash deposits	-90	-180
NET INTEREST-BEARING DEBT¹	1,194	845

In June 2018, Borregaard issued a NOK 400 million open bond with a tenor of five years.

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 June 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 2nd quarter of 2018.

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

NOTE 13 Other matters and subsequent events

LIGNOTECH FLORIDA PLANT OFFICIALLY OPENED

On June 26 2018, LignoTech Florida's new lignin plant in Fernandina Beach was officially opened. The USD 110 million investment represents a production capacity of 100,000 metric tonnes lignin measured as dry substance. In a planned second phase, the capacity can later be expanded by 50,000 tonnes.

LignoTech Florida is owned by Borregaard (55%) and Rayonier Advanced Materials (45%), and employs 51 persons in Fernandina Beach.

See notification to the Oslo Stock Exchange on 27 June 2018.

EXTENSION OF LIGNOTECH SOUTH AFRICA AGREEMENT

The owners of the lignin joint venture in South Africa, Borregaard and Sappi, have agreed on an extension of the agreement governing the lignin co-operation and on a reduction in the annual production capacity for lignin.

The parties have agreed to extend the term of the agreement to the end of 2032 (previously 2027).

With effect from 2021 the lignin production capacity will be scaled down from the current 180,000 tonnes to 130,000 metric tonnes dry substance per year. The reason is that Sappi's Saiccor dissolving pulp mill, which supplies the lignin raw material to the joint venture company, will be expanded in order to increase total cellulose capacity on the site. The expansion will be

based on magnesium sulphite technology, whereas the current calcium sulphite capacity will be reduced. The remaining calcium sulphite line will continue to supply lignin raw material to the joint venture.

LignoTech South Africa is a joint venture company owned by Borregaard (50%) and Sappi (50%), established in 1997.

See notification to the Oslo Stock Exchange on 4 July 2018 and 7 July 2015.

INCREASING PULPWOOD PRICES IN SCANDINAVIA

Wood prices continue to increase from the new level established at the beginning of the year. Borregaard's mid-year negotiations with suppliers of spruce pulpwood and woodchips to the biorefinery in Sarpsborg are practically finished. Borregaard's wood cost in the second half of 2018 will increase by about NOK 60 million on an annualised basis compared with the first half of the year.

See notification to the Oslo Stock Exchange on 4 July 2018.

OTHER MATTERS

There have been no events after the balance sheet date that would have had a material impact on the financial statements or the assessments carried out.

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 - 30.06		1.1 - 31.12
Capital employed end of	2018	2017	2017
Q2, 2016		3,481	
Q3, 2016		3,413	
Q4, 2016		3,508	3,508
Q1, 2017		3,754	3,754
Q2, 2017	4,003	4,003	4,003
Q3, 2017	4,044		4,044
Q4, 2017	4,256		4,256
Q1, 2018	4,454		
Q2, 2018	4,578		
AVERAGE	4,267	3,632	3,913
EBITA ADJ. (LTM)	647	819	749
ROCE (%)	15.2	22.5	19.1



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