

4TH QUARTER 2019

 INTERIM REPORT



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Q4 2019

4TH QUARTER IN BRIEF

- EBITA adj.¹ NOK 73 million (NOK 94 million)²
- NOK 35 million impact from operational incidents at the Sarpsborg site, mainly affecting Speciality Cellulose
- Favourable product mix, but reduced sales volume and higher costs and depreciation in Performance Chemicals
- Continued strong improvement in Ingredients
- Positive net currency impact
- Strong cash flow from operations¹

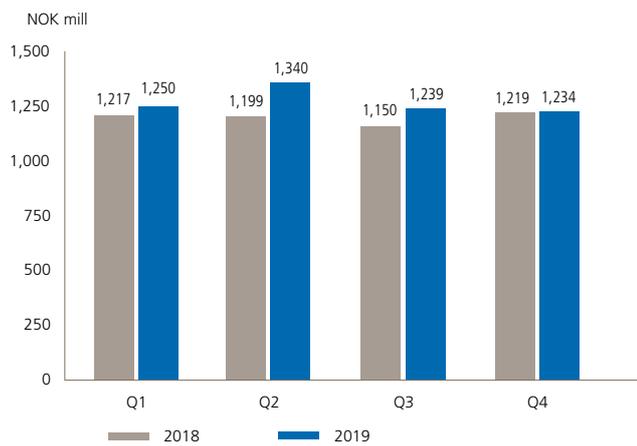
¹ Alternative performance measure, see page 22 for definition.

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

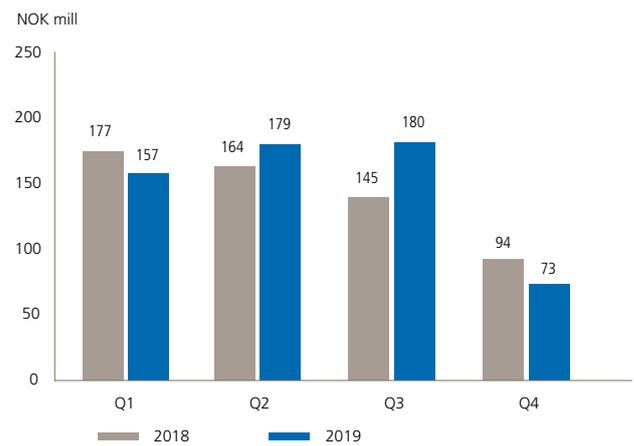
THE GROUP

Amounts in NOK million	Note	1.10 - 31.12		1.1 - 31.12	
		2019	2018	2019	2018
Operating revenues	2	1,234	1,219	5,063	4,785
EBITDA adj. ¹		183	183	1,007	903
EBITA adj. ¹	2	73	94	589	580
Profit/loss before taxes		30	84	467	562
Earnings per share (NOK)		0.38	0.80	4.17	4.76
Net interest-bearing debt ¹	11	1,489	1,297	1,489	1,297
Equity ratio ¹ (%)		51.4	55.8	51.4	55.8
Leverage ratio ¹		1.59	1.44	1.59	1.44
Return on capital employed ¹ (%)		10.9	12.7	10.9	12.7

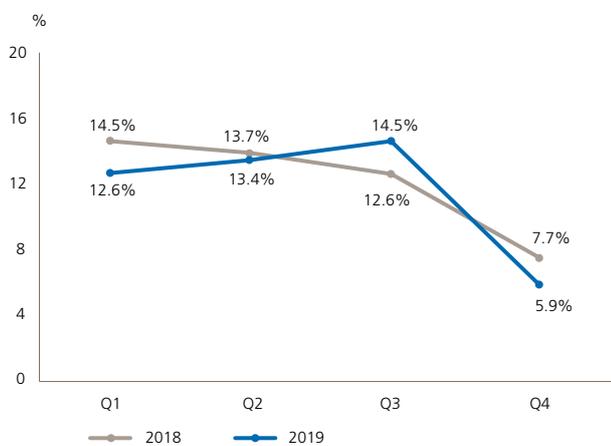
OPERATING REVENUES



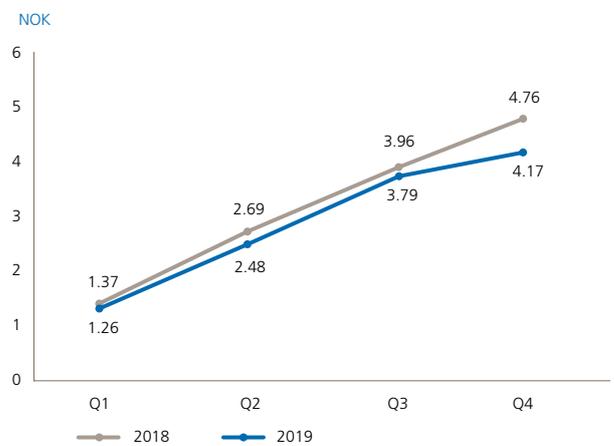
EBITA ADJ.¹



EBITA ADJ. MARGIN¹



EARNINGS PER SHARE CUMULATIVE



¹ Alternative performance measure, see page 22 for definition.

FOURTH QUARTER

Borregaard's operating revenues increased to NOK 1,234 million (NOK 1,219 million)² in the 4th quarter of 2019.

EBITA adj.¹ was NOK 73 million (NOK 94 million). Other Businesses improved its result, whereas Performance Chemicals and Speciality Cellulose had a decline. The operational incidents affecting production at the Sarpsborg site had a negative impact on EBITA adj.¹ of about NOK 35 million.

Performance Chemicals had reduced sales volume and higher costs and depreciation. Speciality Cellulose was negatively affected by the operational incidents at the Sarpsborg site. Other Businesses improved as a result of higher sales in Ingredients. The net currency impact was positive.

Other income and expenses¹ were NOK -11 million (NOK 0 million) in the 4th quarter due to write-downs and costs related to discontinuation of the SenseFi project.

Net financial items were NOK -31 million (NOK -9 million). Net interest expenses increased by NOK 7 million, mainly due to the implementation of IFRS 16 Leases. Other financial items had a negative change of NOK -12 million, mainly due to an increase in committed return on the Group's unfunded pension plan (see Note 4).

Profit before tax was NOK 30 million (NOK 84 million). Tax expense was NOK -12 million (NOK -19 million), giving a higher than normal tax rate of 40% (23%) in the quarter. Earnings per share were NOK 0.38 (NOK 0.80).

Cash flow from operations¹ was NOK 353 million (NOK 81 million), which was a strong improvement compared with the previous four quarters. The improvement was mainly a result of a significant reduction in net working capital in the 4th quarter.

FULL YEAR 2019

Borregaard's operating revenues reached NOK 5,063 million (NOK 4,785 million). EBITA adj.¹ was NOK 589 million (NOK 580 million). Other Businesses' result improved significantly, whereas Performance Chemicals and Speciality Cellulose had a decline. The net currency impact was positive. The implementation of IFRS 16 Leases had a positive impact of NOK 10 million on EBITA adj.¹.

Higher costs and increased depreciation affected EBITA adj.¹ in Performance Chemicals negatively compared with the full year of 2018. Higher wood costs and the operational incidents in the 4th quarter were the main reasons for a weaker result in Speciality Cellulose. Other Businesses improved, mainly as a result of higher sales prices for wood based vanillin.

Other income and expenses¹ were NOK -27 million (NOK 0 million) due to restructuring of the German lignin operation and write-downs and costs related to the discontinuation of the SenseFi project.

Net financial items amounted to NOK -91 million (NOK -14 million). Net interest expenses increased by NOK 37 million due to the implementation of IFRS 16 Leases, higher net interest-bearing debt and increased interest rates. Other financial items had a negative change of NOK -31 million, mainly related to an increase in committed return on the Group's unfunded pension plan in 2019 (see Note 4) and a NOK 20 million gain on sale of a minority stake in a US chemical company in 2018.

Profit before tax was NOK 467 million (NOK 562 million). Tax expense was NOK -116 million (NOK -137 million), giving a tax rate of 25% (24%). Earnings per share were NOK 4.17 (NOK 4.76).

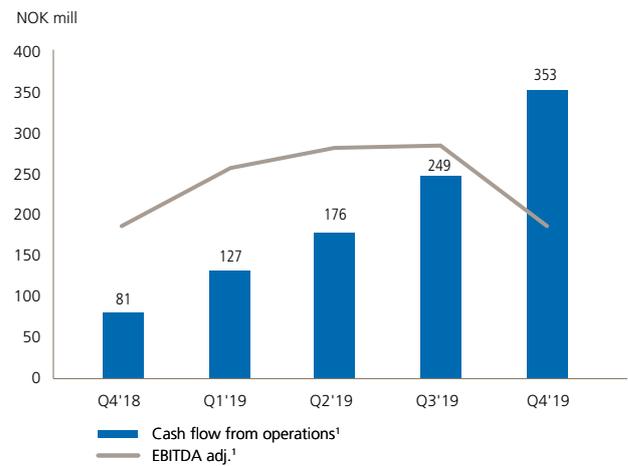
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¹ Alternative performance measure, see page 22 for definition.

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

cont. THE GROUP

Cash flow from operations¹ was NOK 905 million (NOK 709 million). The increase was mainly due to the positive cash effect of an increased EBITDA adj.¹ and a favourable development in net working capital compared with the full year of 2018.

CASH FLOW FROM OPERATIONS¹

¹ Alternative performance measure, see page 22 for definition.

BUSINESS AREAS

PERFORMANCE CHEMICALS

Amounts in NOK million	1.10 - 31.12		1.1 - 31.12	
	2019	2018	2019	2018
Operating revenues	548	552	2,330	2,237
EBITA adj. ¹	36	42	297	314
EBITA adj. margin ¹ (%)	6.6	7.6	12.7	14.0

FOURTH QUARTER

Operating revenues in Performance Chemicals were NOK 548 million (NOK 552 million) in the 4th quarter. EBITA adj.¹ was NOK 36 million (NOK 42 million). The decrease was due to reduced sales volume and higher operating costs and depreciation, partly offset by a favourable product mix and a positive currency impact.

The sales volume was lower than expected and declined by 4% compared with the 4th quarter of 2018. Sales volume for Industrial products declined whereas Specialities and Construction volumes were in line with the same quarter in 2018. Sales to concrete admixtures declined, but was more than compensated by growth in other construction applications. The average price in sales currency was in line with the 4th quarter of 2018.

Raw material deliveries from Flambeau River Papers ceased late in the 3rd quarter. The company filed for bankruptcy and was liquidated in the 4th quarter (see Other matters and subsequent events on page 11).

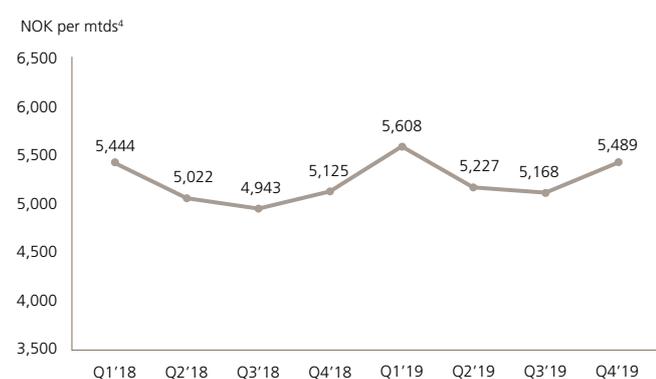
FULL YEAR 2019

Performance Chemicals had operating revenues of NOK 2,330 million (NOK 2,237 million). EBITA adj.¹ was NOK 297 million (NOK 314 million). EBITA adj.¹ declined as a result of increased depreciation and from higher costs related to the Florida operation, largely offset by positive net currency effects and a favourable product mix.

Sales volume increased marginally compared with 2018 with growth for Industrial products, stable volume for Specialities and a decline for Construction. Within Construction, sales to concrete admixtures declined whilst there was growth for other construction applications. The average price in sales currency was slightly below 2018.

Sales volume from the Florida plant was in accordance with the ramp-up plan. However, the profitability of the plant was below expectations, mainly due to an unfavourable product mix and higher distribution and fixed costs.

AVERAGE GROSS SALES PRICE³



SALES VOLUME³



¹ Alternative performance measure, see page 22 for definition.

³ Average sales price and sales volume reflect 100% of sales and volume from the IJV in South Africa. Average sales price is calculated using actual FX rates, excluding hedging impact.

⁴ Metric tonne dry solid.

SPECIALITY CELLULOSE

Amounts in NOK million	1.10 - 31.12		1.1 - 31.12	
	2019	2018	2019	2018
Operating revenues	426	427	1,725	1,669
EBITA adj. ¹	23	50	188	257
EBITA adj. margin ¹ (%)	5.4	11.7	10.9	15.4

FOURTH QUARTER

Operating revenues for Speciality Cellulose were NOK 426 million (NOK 427 million) in the 4th quarter. EBITA adj.¹ decreased to NOK 23 million (NOK 50 million), mainly as a result of the operational incidents at the Sarpsborg site. The incidents particularly affected Speciality Cellulose and resulted in reduced production volume and declassified products which have been sold at lower prices. However, sales volume was slightly higher than in the 4th quarter of 2018, resulting in a significant reduction in inventory. The average price in sales currency was 7% below the same period in 2018, mainly as a result of sales of declassified cellulose from operational incidents. Net currency effects were positive.

The result for bioethanol increased mainly due to higher sales volume.

FULL YEAR 2019

Operating revenues were NOK 1,725 million (NOK 1,669 million) for the full year of 2019. EBITA adj.¹ was NOK 188 million (NOK 257 million). The reduced EBITA adj.¹ was mainly due to increased wood costs and the operational incidents in the 4th quarter of 2019. Net currency effects were positive.

The average price in sales currency was slightly below 2018, mainly as a result of sales of declassified cellulose from the operational incidents. Highly specialised cellulose grades increased to 73% (62%) of sold volume.

The result for bioethanol increased due to higher sales and production volume, improved product mix and lower production costs.

AVERAGE GROSS SALES PRICE⁵



SALES VOLUME



¹ Alternative performance measure, see page 22 for definition.

⁵ Average sales price is calculated using actual FX rates, excluding hedging impact.

⁶ Metric tonne.

OTHER BUSINESSES

Amounts in NOK million	1.10 - 31.12		1.1 - 31.12	
	2019	2018	2019	2018
Operating revenues	277	253	1,073	927
EBITA adj. ¹	14	2	104	9
EBITA adj. margin ¹ (%)	5.1	0.8	9.7	1.0

FOURTH QUARTER

Other Businesses' operating revenues reached NOK 277 million (NOK 253 million). EBITA adj.¹ increased to NOK 14 million (NOK 2 million) due to a continued strong result in Ingredients. The net currency impact in Other Businesses was positive.

Ingredients' result continued to improve, mainly due to strong demand for wood based vanillin. Fine Chemicals had a weaker result compared with the same quarter in 2018. Sales volume was in line with the same quarter in 2018, but the product mix was weaker.

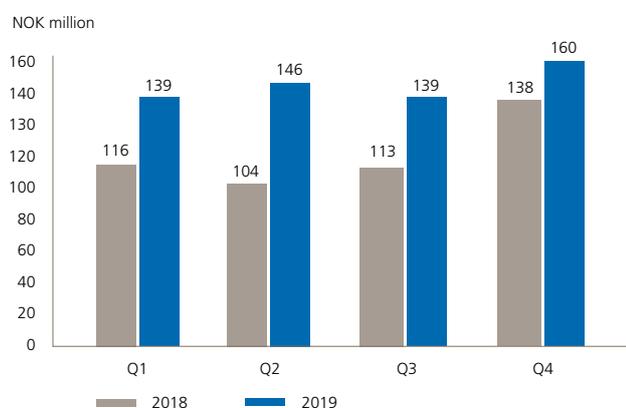
Cellulose Fibrils had a weaker result as reduced cost coverage from EU's Horizon 2020⁷ grant was not fully compensated by higher sales and improved productivity. The SenseFi project was discontinued during the quarter as the market potential was not considered sufficient to move the project to commercial operation.

Write-downs and costs related to the discontinuation of the project of NOK -11 million was recorded as Other income and expenses¹.

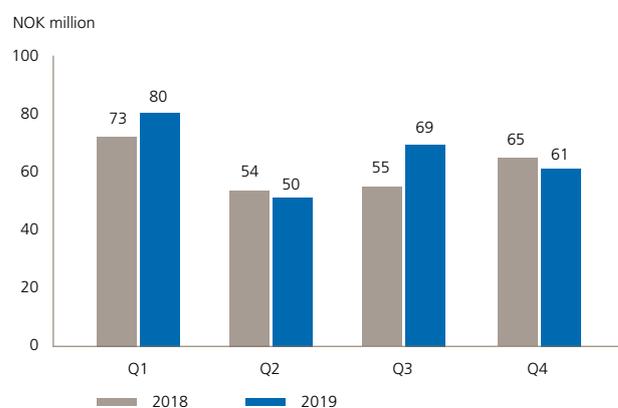
FULL YEAR 2019

Operating revenues in Other Businesses were NOK 1,073 million (NOK 927 million). EBITA adj.¹ increased to NOK 104 million (NOK 9 million). Higher sales prices for wood based vanillin was the main reason for the improved result. Fine Chemicals had a slightly better result compared with the full year of 2018. Cellulose Fibrils had a result in line with 2018, as reduced cost coverage from the EU grant was compensated by higher sales and improved productivity. The SenseFi project was discontinued in the 4th quarter. In 2019, this project had an EBITA adj.¹ impact of NOK -9 million. Net corporate costs were in line with 2018. The net currency impact in Other Businesses was positive.

INGREDIENTS – SALES REVENUES



FINE CHEMICALS – SALES REVENUES



¹ Alternative performance measure, see page 22 for definition.

⁷ The Exilva project has received funding from the Bio-Based Industries Joint Undertaking (BBI) under the European Union's Horizon 2020 research and innovation programme under grant agreement No 709746

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 strategy. Compared with the 4th quarter of 2018, the net impact of foreign exchange on EBITA adj.¹, including hedging effects, was NOK 15 million. Hedging effects were NOK -32 million (NOK -1 million) in the 4th quarter.

In 2019, the net impact of foreign exchange on EBITA adj.¹, including hedging effects, was NOK 95 million

when compared with 2018. Hedging effects were NOK -76 million (NOK -11 million).

Assuming currency rates as of 4 February 2020 (USD 9.23 and EUR 10.19) and based on currency exposure forecasts, Borregaard expects a net impact of foreign exchange on EBITA adj.¹ of approximately NOK 5 million in the 1st quarter of 2020 and NOK 30 million for the full year of 2020.

CASH FLOW AND FINANCIAL SITUATION

FOURTH QUARTER

Cash flow from operating activities in the 4th quarter was NOK 288 million (NOK 70 million), which was a strong improvement compared with the previous four quarters. The improvement was mainly a result of a significant reduction in net working capital in the 4th quarter.

Investments amounted to NOK 213 million (NOK 213 million). Expansion investments¹, totalling NOK 31 million (NOK 24 million), were mainly related to completion of the upgrade and specialisation of the lignin operation in Norway.

FULL YEAR 2019

Cash flow from operating activities was NOK 697 million (NOK 558 million). The increase was due to the positive cash effect of an increased EBITDA adj.¹, a favourable development in net working capital compared with 2018 and lower tax payments, partly offset by an increase in net interest payments and other financial expenses.

Investments amounted to NOK 583 million (NOK 762 million). Replacement investments were NOK 370 million (NOK 346 million). Expansion investments, totalling NOK 213 million (NOK 416 million), were mainly related to the upgrade and specialisation of the lignin operation in Norway and completion of the investment project in Florida.

Dividend of NOK 224 million (NOK 199 million) was paid out in the 2nd quarter. Realised effect of hedging of net investments in subsidiaries was NOK -26 million (NOK -22 million) for the full year of 2019. The Group has sold and repurchased treasury shares with a net payment of NOK 25 million (NOK 9 million).

At year-end, the Group had net interest-bearing debt¹ totalling NOK 1,489 million (NOK 1,297 million), an increase of NOK 192 million from year-end 2018.

The Group was well capitalised with an equity ratio¹ of 51.4% and a leverage ratio¹ of 1.59. The implementation of IFRS 16 Leases had a negative impact on the equity ratio¹ of 3.1%-points.

¹ Alternative performance measure, see page 22 for definition.

DIVIDEND

The Board of Directors of Borregaard ASA will propose a dividend for 2019 of NOK 2.30 (NOK 2.25) per share to the Annual General Meeting. This corresponds to 55%

of net profit. Dividend payment is estimated at NOK 229 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 2019, 42,000 share options were exercised at a strike price of NOK 42.24 per share. At the same time Borregaard repurchased 39,391 treasury shares at an average price of NOK 93.27.

Total number of shareholders was 6,342. Borregaard ASA's share price was NOK 95.00 at the end of the 2019, compared with NOK 97.00 at the end of the 3rd quarter and NOK 74.80 at the end of 2018.

Total number of shares outstanding on 31 December 2019 was 100 million, including 366,775 treasury shares.

OTHER MATTERS AND SUBSEQUENT EVENTS

LIGNIN RAW MATERIAL SUPPLIER FLAMBEAU RIVER PAPERS BANKRUPT

One of Borregaard's suppliers of lignin raw material, Flambeau River Papers LLC (Flambeau) in Wisconsin, USA, announced 8 May 2019 that it has undertaken a voluntary debt consolidation and administration mechanism in Wisconsin similar to a federal US Chapter 11 bankruptcy. See notification to the Oslo Stock Exchange on 9 May 2019.

In September, Flambeau ceased production and hence the raw material supply to Borregaard. Early November, the pulp and paper mill was sold to Niagara Worldwide. It is unclear whether the mill will start up again under the new ownership. The supply agreement for lignin raw material terminated as a result of the bankruptcy. Borregaard will continue to supply North American customers from other manufacturing sites.

The commercial value of the intangible assets related to the acquired Flambeau book of business for lignin products is considered to be intact. The book value was USD 2.8 million as of 31 December 2019.

Borregaard acquired Flambeau's lignin business in 2015 and entered into a long-term supply agreement for lignin raw material of approximately 40,000 tonnes per year. See notifications to the Oslo Stock Exchange on 21 October and 3 November 2015.

OPERATIONAL ISSUES AT SARPSBORG SITE IN THE 4TH QUARTER

Operational incidents affected production at the Sarpsborg site in the 4th quarter. The negative impact on EBITA adj.¹ was about NOK 35 million, mainly in Speciality Cellulose. Leakages in the water supply system resulted in reduced production volume and declassified speciality cellulose products. See notification to the Oslo Stock Exchange on 16 December 2019.

PULPWOOD PRICES FOR 1ST HALF 2020

Negotiations with the suppliers of spruce pulpwood and woodchips to the biorefinery in Sarpsborg are finished. Borregaard's wood costs in the first half of 2020 will be NOK 25-30 million lower than in the first half of 2019, thus continuing the trend of lower prices observed also in the second half of 2019. See notification to the Oslo Stock Exchange on 19 December 2019.

OUTLOOK

Continued strong competition and further price pressure for lignin products to the concrete admixture market and certain low value Industrial applications are expected to be partly compensated by diversification and specialisation in 2020. Total sales volume in 2020 is forecast to increase by 0-5%. Cost savings of NOK 40 million from the upgrade in Norway will be gradually realised through 2020 with full effect from 2021. The NOK 20 million cost savings from restructuring of the German lignin operation will have full effect in 2020.

The average cellulose price in sales currency is expected to increase 2% from the 2019 level, mainly from improved product mix. Borregaard's wood costs in the first half of 2020 will be NOK 25-30 million lower than in the first half of 2019. In the 1st quarter of 2020, total sales volume is expected to be higher than in the corresponding quarter of 2019, with similar product mix.

In Ingredients, the current price level for wood based vanillin is expected to continue. The ongoing capacity expansion will be gradually realised in 2020 with full effect from the second half of 2021. No major changes are expected in the market conditions for Fine Chemicals. Sales are gradually increasing for Cellulose Fibrils, but lead-times for conversion of sales prospects continues to be long. The remaining grant from EU Horizon 2020⁷ will end in April 2020, and will cover a smaller share of costs than in previous years. Corporate costs will remain at the same level as in 2019.

Sarpsborg, 4 February 2020
The Board of Directors of Borregaard ASA

⁷ The Exilva project has received funding from the Bio-Based Industries Joint Undertaking (BBI) under the European Union's Horizon 2020 research and innovation programme under grant agreement No 709746

THE GROUP'S CONDENSED INCOME STATEMENT

INTERIM CONDENSED INCOME STATEMENT

Amounts in NOK million	NOTE	1.10 - 31.12		1.1 - 31.12	
		2019	2018	2019	2018
OPERATING REVENUES	2	1,234	1,219	5,063	4,785
Operating expenses		-1,051	-1,036	-4,056	-3,882
Depreciation property, plant and equipment		-110	-89	-418	-323
Amortisation intangible assets		-1	-1	-4	-4
Other income and expenses ¹	3	-11	-	-27	-
OPERATING PROFIT		61	93	558	576
Financial items, net	4	-31	-9	-91	-14
PROFIT BEFORE TAXES		30	84	467	562
Income tax expense	5	-12	-19	-116	-137
PROFIT FOR THE PERIOD		18	65	351	425
Profit attributable to non-controlling interests		-20	-15	-66	-51
Profit attributable to owners of the parent		38	80	417	476
EBITDA adj ¹		183	183	1,007	903
EBITA adj ¹	2	73	94	589	580

EARNINGS PER SHARE

INTERIM EARNINGS PER SHARE

Amounts in NOK		1.10 - 31.12		1.1 - 31.12	
		2019	2018	2019	2018
Earnings per share (100 mill shares)	6	0.38	0.80	4.17	4.76
Diluted earnings per share	6	0.38	0.80	4.18	4.76

THE GROUP'S CONDENSED COMPREHENSIVE INCOME STATEMENT

INTERIM CONDENSED COMPREHENSIVE INCOME STATEMENT

Amounts in NOK million	NOTE	1.10 - 31.12		1.1 - 31.12	
		2019	2018	2019	2018
PROFIT FOR THE PERIOD		18	65	351	425
ITEMS NOT TO BE RECLASSIFIED TO P&L					
Actuarial gains and losses (after tax)		-4	5	-4	5
TOTAL		-4	5	-4	5
ITEMS TO BE RECLASSIFIED TO P&L					
Change in hedging-reserve after tax (cash flow)	8	125	-196	9	-103
Change in hedging-reserve after tax (net investment in subsidiaries)	8	15	-27	-12	-25
Translation effects		-22	53	11	20
TOTAL		118	-170	8	-108
THE GROUP'S COMPREHENSIVE INCOME		132	-100	355	322
Comprehensive income non-controlling interests		-26	-8	-64	-42
Comprehensive income owners of the parent		158	-92	419	364

¹ Alternative performance measure, see page 22 for definition.

THE GROUP'S CONDENSED BALANCE SHEET

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	31.12.2019	31.12.2018
Intangible assets	13	93	100
Property, plant and equipment	13	4,232	3,623
Other assets	9	251	230
Investments in joint venture		99	100
NON-CURRENT ASSETS		4,675	4,053
Inventories		931	856
Receivables	9	991	956
Cash and cash deposits	11	147	86
CURRENT ASSETS		2,069	1,898
TOTAL ASSETS		6,744	5,951
Group equity	10	3,306	3,123
Non-controlling interests		158	198
EQUITY		3,464	3,321
Provisions and other liabilities		294	271
Interest-bearing liabilities	9,11	1,399	1,115
NON-CURRENT LIABILITIES		1,693	1,386
Interest-bearing liabilities	9,11	628	272
Other current liabilities	9	959	972
CURRENT LIABILITIES		1,587	1,244
EQUITY AND LIABILITIES		6,744	5,951
Equity ratio ¹		51.4 %	55.8%

CHANGES IN EQUITY

INTERIM CONDENSED CHANGE IN EQUITY

Amounts in NOK million	NOTE	1.1 - 31.12.2019			1.1 - 31.12.2018		
		Controlling interests	Non-controlling interests	Total equity	Controlling interests	Non-controlling interests	Total equity
Equity 1 January		3,123	198	3,321	2,889	107	2,996
PROFIT/LOSS FOR THE PERIOD		417	-66	351	476	-51	425
Items in Comprehensive Income	8	2	2	4	-112	9	-103
THE GROUP'S COMPREHENSIVE INCOME	8	419	-64	355	364	-42	322
Paid dividend		-224	-	-224	-199	-	-199
Buy-back of treasury shares		-60	-	-60	-32	-	-32
Exercise of share options		18	-	18	6	-	6
Reduced tax payable of exercised share options		2	-	2			
Shares to employees		23	-	23	23	-	23
Option costs (share based payment)		8	-	8	6	-	6
Transaction with non-controlling interest		-3	24	21	66	133	199
EQUITY AT THE END OF THE PERIOD		3,306	158	3,464	3,123	198	3,321

¹ Alternative performance measure, see page 22 for definition.

THE GROUP'S CONDENSED CASH FLOW STATEMENT

INTERIM CONDENSED CASH FLOW STATEMENT

Amounts in NOK million	NOTE	1.10 - 31.12		1.1 - 31.12	
		2019	2018	2019	2018
Profit before taxes		30	84	467	562
Amortisation, depreciation and impairment charges		121	90	432	327
Changes in net working capital, etc.		171	-102	-85	-194
Dividend (share of profit) from JV		2	-	5	6
Taxes paid		-36	-2	-122	-143
CASH FLOW FROM OPERATING ACTIVITIES		288	70	697	558
Investments property, plant and equipment and intangible assets *		-213	-213	-583	-762
Other capital transactions		8	2	29	13
CASH FLOW FROM INVESTING ACTIVITIES		-205	-211	-554	-749
Dividends		-	-	-224	-199
Proceeds from exercise of options/shares to employees	10	1	1	35	23
Buy-back of shares	7	-4	-	-60	-32
Gain/(loss) on hedges for net investments in subsidiaries		5	-40	-26	-22
NET PAID TO/FROM SHAREHOLDERS		2	-39	-275	-230
Proceeds from interest-bearing liabilities	11	52	39	1,750	1 292
Repayment from interest-bearing liabilities	11	-143	-24	-1,621	-960
Change in interest-bearing receivables/other liabilities	11	-1	14	-3	-2
CHANGE IN NET INTEREST-BEARING LIABILITIES		-92	29	126	330
CASH FLOW FROM FINANCING ACTIVITIES		-90	-10	-149	100
CHANGE IN CASH AND CASH EQUIVALENTS		-7	-151	-6	-91
Cash and cash equivalents at beginning of period		92	231	86	180
Change in cash and cash equivalents		-7	-151	-6	-91
Currency effects cash and cash equivalents		-4	6	1	-3
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	11	81	86	81	86
*Investment by category					
Replacement investments		182	189	370	346
Expansion investments ¹		31	24	213	416

¹ Alternative performance 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 2018 for the Borregaard Group.

IFRS 16, Leases, was implemented from 1 January 2019 according to "the modified retrospective method". See note 14 for impact on the Groups Financial Statements.

Use of estimates

The same use of estimates has been applied as in the Consolidated Financial Statements for 2018.

NOTE 02 Segments

OPERATING REVENUES

Amounts in NOK million	1.10 - 31.12		1.1 - 31.12	
	2019	2018	2019	2018
BORREGAARD	1,234	1,219	5,063	4,785
Performance Chemicals	548	552	2,330	2,237
Speciality Cellulose	426	427	1,725	1,669
Other Businesses	277	253	1,073	927
Eliminations	-17	-13	-65	-48

There is limited intercompany sales between the different segments and eliminations consist essentially of allocations from the corporate headquarter.

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cont. NOTE 02 Segments

EBITA ADJ.¹

Amounts in NOK million	1.10 - 31.12		1.1 - 31.12	
	2019	2018	2019	2018
BORREGAARD	73	94	589	580
Performance Chemicals	36	42	297	314
Speciality Cellulose	23	50	188	257
Other Businesses	14	2	104	9
RECONCILIATION AGAINST OPERATING PROFIT & PROFIT BEFORE TAX				
EBITA ADJ.¹	73	94	589	580
Amortisation intangible assets	-1	-1	-4	-4
Other income and expenses ¹	-11	-	-27	-
OPERATING PROFIT	61	93	558	576
Financial items, net	-31	-9	-91	-14
PROFIT BEFORE TAXES	30	84	467	562

SALES REVENUES

Amounts in NOK million	1.10 - 31.12		1.1 - 31.12	
	2019	2018	2019	2018
BORREGAARD	1,204	1,200	4,951	4,705
Performance Chemicals	520	537	2,231	2,183
Cellulose	386	399	1,587	1,548
Bioethanol	41	29	138	120
Fine Chemicals	61	65	260	247
Ingredients	160	138	584	471
Other	36	32	151	136

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

Other income and expenses¹ were NOK -11 million (NOK 0 million) in the 4th quarter due to write-downs

and costs related to discontinuation of the SenseFi project.

NOTE 04 Financial items

NET FINANCIAL ITEMS

Amounts in NOK million	1.10 - 31.12		1.1 - 31.12	
	2019	2018	2019	2018
Net interest expenses	-19	-12	-69	-32
Currency gain/loss	-3	-	-12	-3
Other financial items, net	-9	3	-10	21
NET FINANCIAL ITEMS	-31	-9	-91	-14

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¹ Alternative performance measure, see page 22 for definition.

cont. NOTE 04 Financial items

A cost of NOK 9 million (income of NOK 2 million in 2018) related to a committed return on the Group's unfunded pension plan was recorded in the 4th quarter of 2019. The unfunded pension plan is Borregaard's plan for employees in Norway who earn more than twelve times the Norwegian National Insurance

Scheme's basic amount (12G).

In 2018, other financial items were affected by a NOK 20 million gain on sale of a minority stake in a US chemical company.

NOTE 05 Income tax expense

The tax rate of 24.8% (24.4%) for 2019 is a compilation of the tax rates in the various countries in which Borregaard operates and has taxable income.

In addition to the compilation of the tax rates in the various countries in which Borregaard operates and has taxable income, the income tax rate for the Group is also impacted by the following: 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 carry forward losses in the Group which will not be recognised as deferred tax assets, and hence increase the Group's tax rate.

NOTE 06 Earnings per share (EPS)

The share capital consists of 100 million shares. The company holds 366,775 treasury shares. As of 31 December 2019, there are 99,807,055 diluted shares (99,901,117 as of 31 December 2018).

Earnings per diluted share were NOK 0.38 in the 4th quarter and NOK 4.18 for the full year (NOK 0.80 in the 4th quarter and NOK 4.76 for the full year of 2018).

NOTE 07 Stock options

During the 4th quarter of 2019, 42,000 share options were exercised at a strike price of NOK 42.24.

The Group Executive Management and other key employees hold a total of 1,384,000 stock options in four different share option programmes in Borregaard.

The first option programme, comprising 313,000 stock options granted in October 2015, has a strike price of NOK 42.24 adjusted for dividends in 2016-2019, NOK 9.25. The second option programme, comprising 331,000 stock options granted in February 2017, has a strike price

of NOK 96.36 adjusted for dividends in 2017-2019 of NOK 7.75. The third option programme, comprising 370,000 stock options granted in February 2018, has a strike price of NOK 75.75 adjusted for dividend in 2018 and 2019 of NOK 4.25. The fourth option programme, comprising 370,000 stock options granted in February 2019, has a strike price of NOK 80.10 adjusted for dividend in 2019 of NOK 2.25. 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 08 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	31.12.2019		31.12.2018	
	Cash flow hedges	Hedges of net investments in subsidiaries	Cash flow hedges	Hedges of net investments in subsidiaries
Tax effect year-to-date	-37	-44	-39	-40
Hedging reserve after tax	-129	-122	-138	-110

NOTE 09 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 2018 to the 4th quarter of 2019. 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 2019:

Amounts in NOK million	LEVEL	31.12.2019		31.12.2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial receivables	2	211	211	224	224
Non-current derivatives	2	29	29	3	3
Current derivatives	2	27	27	16	16
TOTAL FINANCIAL ASSETS		267	267	243	243
FINANCIAL LIABILITIES					
Non-current financial liabilities	2,3	1,401	1,401	1,116	1,116
Non-current derivatives	2	111	111	116	116
Current financial liabilities	2	562	562	272	272
Current derivatives	2	95	95	79	79
TOTAL FINANCIAL LIABILITIES		2,169	2,169	1,583	1,583

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL INSTRUMENTS 31.12.2019	-1,902	-	-1,502
FINANCIAL INSTRUMENTS 31.12.2018	-1,340	-	-600

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 10 Compilation of Equity

Amounts in NOK million	31.12.2019	31.12.2018
Share capital	100	100
Treasury shares	-	-
Share premium	1,346	1,346
Other paid-in capital	696	645
Translation effects	102	93
Hedging reserve (after tax)	-251	-248
Actuarial gains/losses	-21	-17
Retained earnings	1,334	1,204
GROUP EQUITY (CONTROLLING INTERESTS)	3,306	3,123

As of 31 December 2019, the company held 366,775 treasury shares at an average cost of NOK 92.15.

NOTE 11 Net interest-bearing debt¹

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

Amounts in NOK million	31.12.2019	31.12.2018
Non-current interest-bearing liabilities	1,399	1,115
Current interest-bearing liabilities including overdraft of cashpool	628	272
Non-current interest-bearing receivables (included in "Other Assets")	-4	-4
Cash and cash deposits	-147	-86
NET INTEREST-BEARING DEBT¹	1,876	1,297
IMPACT OF IFRS 16 LEASES	387	-
NET INTEREST-BEARING DEBT¹ EXCLUDING IMPACT OF IFRS 16 LEASES	1,489	1,297

NOTE 12 Related parties

The members of the Group Executive Management of Borregaard held a total of 766,000* stock options in the Company as of 31 December 2019.

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

NOTE 13 Assessments relating to impairment

Assets related to the SenseFi project are written down to the estimated net sales value in the 4th quarter of 2019, see Note 3. No other impairment indicators have been

identified in the Borregaard Group's property, plant and equipment or intangible assets in the 4th quarter of 2019.

¹ Alternative performance measure, see page 22 for definition.

NOTE 14 Other matters and subsequent events

LIGNIN RAW MATERIAL SUPPLIER FLAMBEAU RIVER PAPERS BANKRUPT

One of Borregaard's suppliers of lignin raw material, Flambeau River Papers LLC (Flambeau) in Wisconsin, USA, announced 8 May 2019 that it has undertaken a voluntary debt consolidation and administration mechanism in Wisconsin similar to a federal US Chapter 11 bankruptcy. See notification to the Oslo Stock Exchange on 9 May 2019.

In September, Flambeau ceased production and hence the raw material supply to Borregaard. Early November, the pulp and paper mill was sold to Niagara Worldwide. It is unclear whether the mill will start up again under the new ownership. The supply agreement for lignin raw material terminated as a result of the bankruptcy. Borregaard will continue to supply North American customers from other manufacturing sites.

The commercial value of the intangible assets related to the acquired Flambeau book of business for lignin products is considered to be intact. The book value was USD 2.8 million as of 31 December 2019.

Borregaard acquired Flambeau's lignin business in 2015 and entered into a long-term supply agreement for lignin raw material of approximately 40,000 tonnes per year. See notifications to the Oslo Stock Exchange on 21 October and 3 November 2015.

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.

NOTE 15 Implementation of IFRS 16 Leases

The effect of implementation of IFRS 16 from 1 January 2019 is not restated in the 2018 figures. In the table below, you will see the effects of the implementation of

IFRS 16 on the Consolidated Financial Statements for Borregaard.

INCOME STATEMENT

Amounts in NOK million	Borregaard (IAS 17) 1.10-31.12.2019	IFRS 16 EFFECTS			Borregaard total	Borregaard (IFRS 16) 1.10-31.12.2019
		Performance Chemicals	Speciality Cellulose	Other Businesses		
EBITDA adj ¹	163	15	-	5	20	183
Depreciation	-93	-13	-	-4	-17	-110
EBITA adj ¹	70	2	-	1	3	73
Operating profit	58	2	-	1	3	61
Net financial items	-26	-	-	-	-5	-31
Profit before tax	32	-	-	-	-2	30
Earnings per share	0.40	-	-	-	-0.02	0.38

INCOME STATEMENT

Amounts in NOK million	Borregaard (IAS 17) 1.1-31.12.2019	IFRS 16 EFFECTS			Borregaard total	Borregaard (IFRS 16) 1.1-31.12.2019
		Performance Chemicals	Speciality Cellulose	Other Businesses		
EBITDA adj ¹	935	50	1	21	72	1,007
Depreciation	-356	-43	-1	-18	-62	-418
EBITA adj ¹	579	7	-	3	10	589
Operating profit	548	7	-	3	10	558
Net financial items	-74	-	-	-	-17	-91
Profit before tax	474	-	-	-	-7	467
Earnings per share	4.24	-	-	-	-0.07	4.17

BALANCE SHEET

Amounts in NOK million	AS OF	AS OF	AS OF	AS OF
	31 DECEMBER 2018 (IAS 17)	1 JANUARY 2019 (IFRS 16)	31 DECEMBER 2019 (IAS 17)	31 DECEMBER 2019 (IFRS 16)
Total assets	5,951	6,184	6,364	6,744
Equity	3,321	3,321	3,471	3,464
Equity ratio %	55.8	53.7	54.5 %	51.4 %

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.

¹ Alternative performance measure, see page 22 for definition.

ALTERNATIVE PERFORMANCE MEASURES

In the discussion of the reported operating results, financial position and cash flows, Borregaard refers to certain measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. Borregaard management makes regular use of these Alternative Performance 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 Alternative Performance 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 11) divided by last twelve months' (LTM) EBITDA adj., excluding the impact on EBITDA adj. of IFRS 16 Leases.

NET INTEREST-BEARING DEBT

Net interest-bearing debt is defined by Borregaard as interest-bearing liabilities, excluding the impact of IFRS 16 Leases, minus interest-bearing assets (see Note 11).

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. The impact of IFRS 16 Leases on assets has been excluded.

RETURN ON CAPITAL EMPLOYED (ROCE)

Return on capital employed (ROCE) is defined by Borregaard as last twelve months' (LTM) EBITA adj., excluding the impact of IFRS 16 Leases, divided by average capital employed based on the ending balance of the last five quarters.

	1.1 - 31.12	
Capital employed end of	2019	2018
Q4, 2017		4,256
Q1, 2018		4,454
Q2, 2018		4,578
Q3, 2018		4,620
Q4, 2018	4,937	4,937
Q1, 2019	5,278	
Q2, 2019	5,421	
Q3, 2019	5,546	
Q4, 2019	5,435	
AVERAGE	5,323	4,569
EBITA ADJ. (LTM)	579	580
ROCE (%)	10.9	12.7



Borregaard

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