

Q2 2016

QUARTERLY REPORT 2ND QUARTER 2016



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Q2 2016

2ND QUARTER IN BRIEF

- *All-time high EBITA adj.¹ for the Group*
- *Positive currency effects in all business areas*
- *High sales volumes and good results for Performance Chemicals and Fine Chemicals*
- *Improved product mix and result in Specialty Cellulose*
- *Energy conservation measures contributed to lower production costs*
- *Strong cash flow*

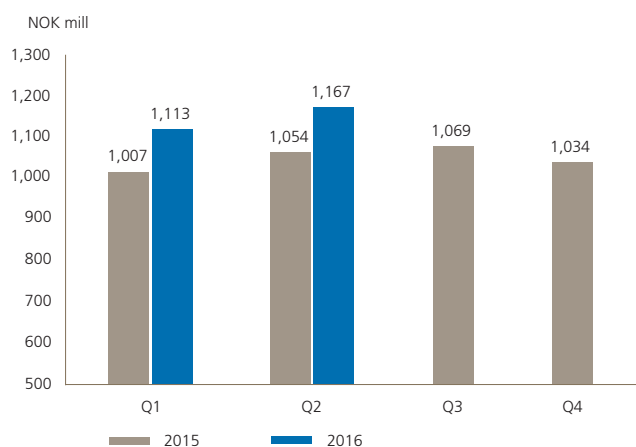


¹ Non-GAAP measure, see page 21 for definition.

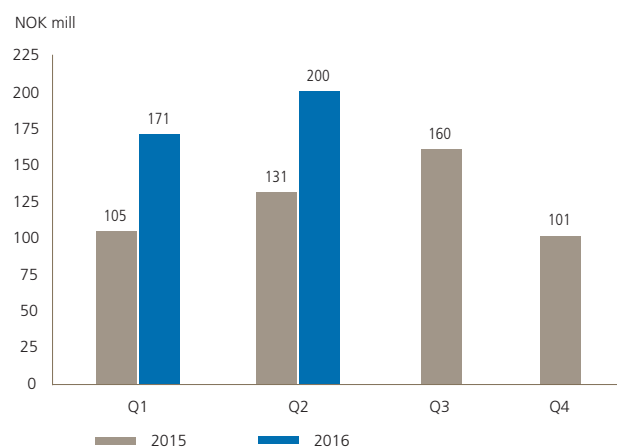
THE GROUP

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2016	2015	2016	2015	2015
Operating revenues	2	1,167	1,054	2,280	2,061	4,164
EBITDA adj. ¹		269	196	505	365	758
EBITA adj. ¹	2	200	131	371	236	497
Profit/loss before taxes		207	125	368	225	506
Earnings per share (NOK)		1.54	0.92	2.75	1.66	3.86
Net interest-bearing debt	10	610	825	610	825	624
Equity ratio (%)		54.2	53.7	54.2	53.7	49.4
Leverage ratio ¹		0.68	1.10	0.68	1.10	0.82
Return on capital employed ¹ (%)		18.8	16.0	18.8	16.0	15.6

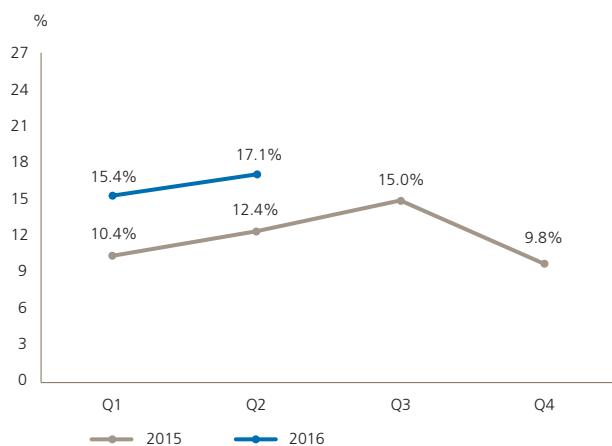
OPERATING REVENUES



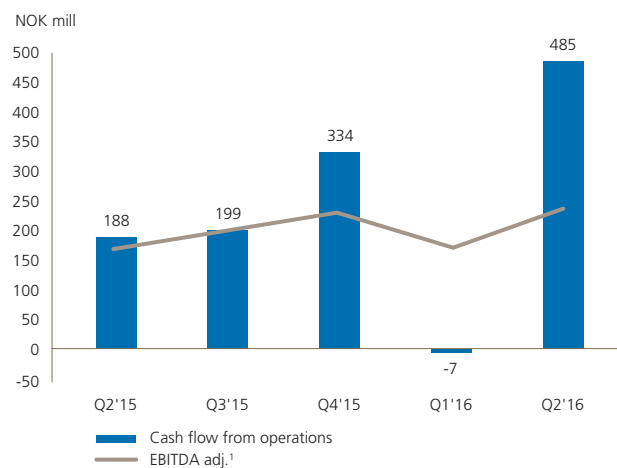
EBITA ADJ.¹



EBITA ADJ. MARGIN¹



CASH FLOW FROM OPERATIONS¹



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

SECOND QUARTER

Borregaard's operating revenues were NOK 1,167 million (NOK 1,054 million)² in the 2nd quarter of 2016. EBITA adj.¹ increased to NOK 200 million (NOK 131 million), an all-time high quarterly result. Compared with the 2nd quarter of 2015, all business areas improved their EBITA adj.¹ Currency, including hedging effects, contributed positively by approximately NOK 75 million, benefitting all business areas. Hedging effects were NOK -24 million (NOK -54 million). Energy conservation measures contributed to lower production costs at the Sarpsborg site. The Group achieved its best ever lost-time injury rate with an H1 value³ of 1.0 for a rolling twelve-month period.

Performance Chemicals achieved an all-time high quarterly EBITA adj.¹ level as positive currency effects and an increased sales volume more than off-set a weaker product mix and slightly lower prices in sales currency. The progress in Specialty Cellulose was mainly due to positive currency effects, a better product mix and lower production costs. The improved EBITA adj.¹ in Other Businesses was due to positive currency effects and a strong quarter for Fine Chemicals, partly off-set by a higher net cost level (including EU grant, see note 13) for the Exilva project.

Other income and expenses¹ were NOK 13 million (NOK 0 million). NOK 73 million reflects additional insurance compensation for property damage caused by the fire at the production site in Sarpsborg in October 2015. A provision of NOK 60 million has been made for remediation of contaminated soil related to previously phased-out chlor-alkali technology.

Net financial items were NOK -5 million (NOK -6 million). Group profit before tax was NOK 207 million (NOK 125 million). Tax expense was NOK -53 million (NOK -33 million), giving a tax rate of 26% (26%).

Earnings per share were NOK 1.54 (NOK 0.92).

Cash flow from operations¹ was NOK 485 million (NOK 188 million). The improvement was mainly due to a high EBITDA adj.¹ level and a significant decrease in net working capital.

FIRST HALF

In the 1st half of 2016, Borregaard's operating revenues were NOK 2,280 million (NOK 2,061 million). EBITA adj.¹ was NOK 371 million (NOK 236 million). Results improved in Performance Chemicals and Specialty Cellulose, while Other Businesses was stable. Currency effects were the main contributor to higher results. Overall, costs were stable in local currencies. Hedging effects were NOK -67 million (NOK -124 million).

Other income and expenses¹ were NOK 13 million (NOK 0 million). Net financial items amounted to NOK -14 million (NOK -11 million). Profit before tax increased to NOK 368 million (NOK 225 million). The tax charge was NOK 94 million (NOK 60 million), giving a tax rate of 26% (27%).

Earnings per share were NOK 2.75 (NOK 1.66).

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

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

³ Number of injuries resulting in sick-leave per million hours worked.

THE BUSINESS AREAS

PERFORMANCE CHEMICALS

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2016	2015	2016	2015	2015
Operating revenues	584	515	1 134	1,018	2,008
EBITA adj. ¹	140	127	278	238	447
EBITA adj. margin ¹ (%)	24.0	24.7	24.5	23.4	22.3

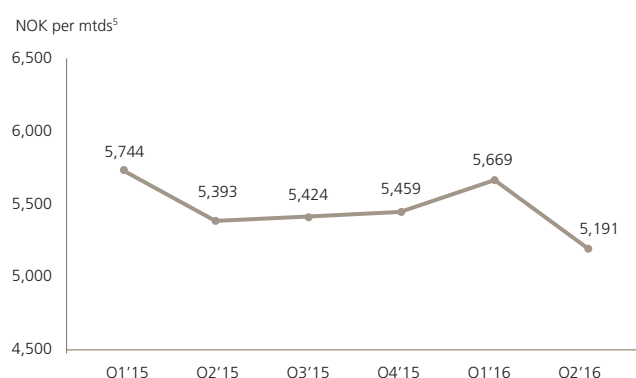
SECOND QUARTER

Performance Chemicals had 2nd quarter operating revenues of NOK 584 million (NOK 515 million). EBITA adj.¹ was NOK 140 million (NOK 127 million), an all-time high result for a single quarter. Sales volume grew by 13%, largely explained by the added Flambeau volume. Positive currency effects were partly off-set by a weaker product mix and slightly lower prices in sales currency. Product mix was affected by challenging market conditions in the construction and oil sectors and by reallocation of sales volumes. Sales to agrochemicals continued to develop positively.

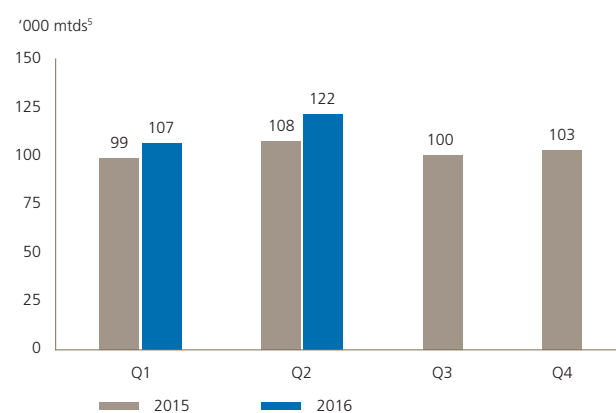
FIRST HALF

In the 1st half of 2016, Performance Chemicals had operating revenues of NOK 1,134 million (NOK 1,018 million). EBITA adj.¹ reached NOK 278 million (NOK 238 million). Market conditions were generally challenging with lower demand, stronger competition and price pressure in key applications and certain regions. Sales volume was 11% above the corresponding period of 2015, largely driven by the added Flambeau volume going into low and medium-value applications. Favourable currency impact more than compensated for a weaker product mix and slightly lower prices in sales currency.

GROSS AVERAGE SALES PRICE⁴



SALES VOLUME⁴



¹ Non-GAAP measure, see page 21 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.

SPECIALTY CELLULOSE

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2016	2015	2016	2015	2015
Operating revenues	385	365	768	701	1,436
EBITA adj. ¹	68	18	121	26	104
EBITA adj. margin ¹ (%)	17.7	4.9	15.8	3.7	7.2

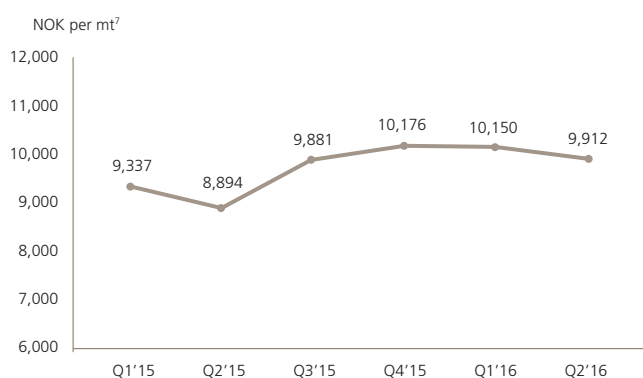
SECOND QUARTER

Specialty Cellulose 2nd quarter operating revenues increased to NOK 385 million (NOK 365 million). EBITA adj.¹ increased to NOK 68 million (NOK 18 million). The result improvement was due to beneficial currency effects, improved product mix, lower production costs and higher contribution from bioethanol, partly off-set by slightly lower prices in sales currency and a reduced sales volume. Hedging effects were NOK -11 million (NOK -29 million). Sales of highly specialised cellulose grades increased, while textile cellulose sales were reduced.

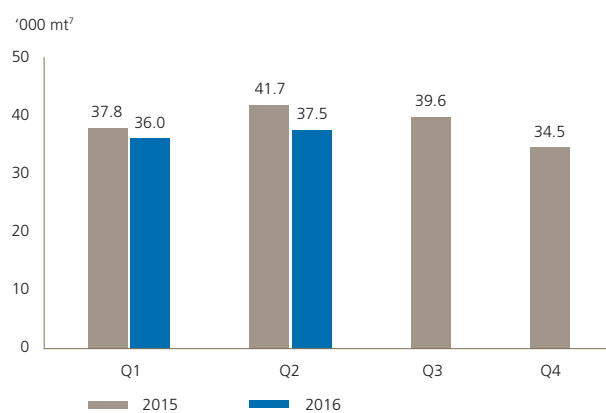
FIRST HALF

Operating revenues in the 1st half of 2016 were NOK 768 million (NOK 701 million). EBITA adj.¹ increased to NOK 121 million (NOK 26 million). Positive currency effects and an improved product mix more than compensated for slightly lower prices in sales currency and a reduced sales volume. Hedging effects were NOK -33 million (NOK -69 million).

GROSS AVERAGE SALES PRICE⁶



SALES VOLUME



¹ Non-GAAP measure, see page 21 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
	2016	2015	2016	2015	2015
Operating revenues	206	183	396	359	755
EBITA adj. ¹	-8	-14	-28	-28	-54
EBITA adj. margin ¹ (%)	-3.9	-7.7	-7.1	-7.8	-7.2

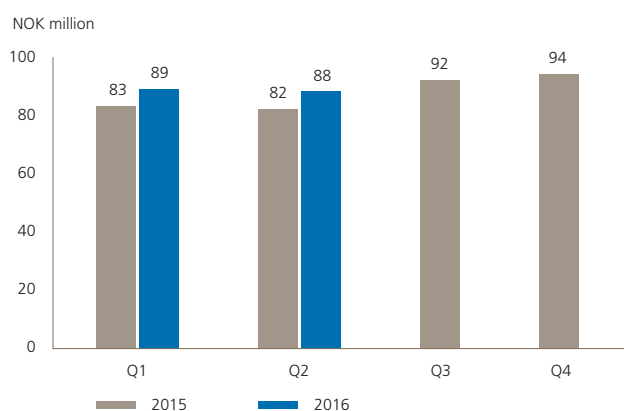
SECOND QUARTER

Other Businesses had total operating revenues of NOK 206 million (NOK 183 million) and an EBITA adj.¹ of NOK -8 million (NOK -14 million) in the 2nd quarter of 2016. EBITA adj.¹ in Ingredients improved mainly due to currency effects. Fine Chemicals achieved a strong result due to high shipments of key products and positive currency effects. Exilva net project costs (including EU grant) increased due to a higher level of business development activities.

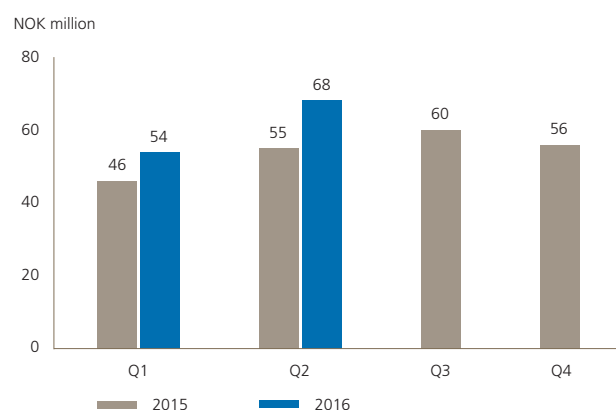
FIRST HALF

Operating revenues in Other Businesses were NOK 396 million (NOK 359 million) in the 1st half of 2016. EBITA adj.¹ was NOK -28 million (NOK -28 million). Beneficial currency effects for both Ingredients and Fine Chemicals and a positive sales development in Fine Chemicals were off-set by higher net costs in the Exilva project.

INGREDIENTS – SALES REVENUES



FINE CHEMICALS – SALES REVENUES



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

FOREIGN EXCHANGE AND HEDGING

Borregaard has a significant currency exposure which is hedged according to the company's hedging strategy. Compared with the 2nd quarter of 2015, the net positive impact of foreign exchange on EBITA adj.¹, including hedging effects, was approximately NOK 75 million. Hedging effects were NOK -24 million (NOK -54 million) in the 2nd quarter.

Compared with the 1st half of 2015, the net positive impact of foreign exchange on EBITA adj.¹, including

hedging effects, was approximately NOK 165 million. Hedging effects were NOK -67 million (NOK -124 million) in the 1st half.

Assuming FX rates as of 15 July 2016 (USD 8.37 and EUR 9.32) and based on currency exposure forecasts, Borregaard expects the net positive impact of foreign exchange on EBITA adj.¹ to be approximately NOK 40 million in the 3rd quarter of 2016 and NOK 235 million for the full year of 2016.

CASH FLOW AND FINANCIAL SITUATION

Cash flow from operating activities in the 2nd quarter of 2016 was NOK 433 million (NOK 146 million). The strong cash flow was due to a higher profit before tax and a significant decrease in net working capital. The net working capital was positively impacted by an up-front payment of close to NOK 100 million to the Exilva project from EU's Horizon 2020 programme and a reduction in the temporarily high level at the end of the 1st quarter of 2016.

In the 1st half of 2016, cash flow from operating activities was NOK 364 million (NOK 64 million). The increase was mainly due to a higher profit before tax and a significantly lower increase in net working capital than in the same period last year. Investments amounted to NOK 213 million (NOK 159 million). Replacement investments were impacted by the

construction of new wood chip seasoning silos (see note 13). Expansion investments were mainly related to the Exilva and Ice Bear projects. Dividend of NOK 149 million (NOK 124 million) was paid out in the 2nd quarter. Realised effect of hedging of net investments in subsidiaries was NOK 29 million in the 1st half of 2016 (NOK -10 million). The Group has sold and repurchased treasury shares in the 1st half of 2016 with a net payment of NOK 6 million (NOK 0 million).

On 30 June 2016, the Group had net interest-bearing debt totalling NOK 610 million (NOK 825 million), a decrease of NOK 153 million from the 1st quarter and NOK 14 million from year-end 2015. The Group was well capitalised with an equity ratio of 54.2% and a leverage ratio of 0.68.

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

SHARE INFORMATION

During the 2nd quarter of 2016, 165,000 share options were exercised at strike prices of NOK 17.65 and NOK 15.18. At the same time Borregaard repurchased 155,000 treasury shares at an average price of NOK 60.35 per share.

Total number of shares outstanding on 30 June 2016 was 100 million, including 448,880 treasury shares. Total number of shareholders was 7,685.

Borregaard ASA's share price was NOK 62.50 at the end of the 2nd quarter, compared with NOK 55.50 at the end of the 1st quarter of 2016 and NOK 49.40 at the end of 2015.

The share was traded ex dividend on 14 April 2016. Dividend was paid out on 22 April 2016.

OTHER MATTERS AND SUBSEQUENT EVENTS

NEW LIGNIN OPERATION IN FLORIDA IN FINAL PHASE OF APPROVAL

Borregaard and Rayonier Advanced Materials (RYAM) have concluded a market, technical and engineering analysis regarding a new lignin operation at RYAM's Fernandina Beach site in Florida to serve the growing demand for natural lignin-based products. Final review of the investment by the companies' boards of directors is anticipated during the second half of 2016 upon receipt of final permits and incentives from government entities. If the companies elect to proceed, operations are expected to commence approximately 18 months later. Cost of construction of the lignin plant is expected to be USD 135 million over two phases of the project. See Borregaard's stock exchange notices of 1 June 2015, 17 December 2015 and 28 June 2016.

SPANISH LIGNIN PARTNER SNIACE RE-LISTED ON MADRID STOCK EXCHANGE

Sniace S.A., Borregaard's partner in Spain and supplier of lignin raw material to LignoTech Ibérica, successfully completed the re-capitalisation of the company in late May. Sniace will initiate comprehensive maintenance work before resuming operations. See Borregaard's stock exchange notices of 26 June, 25 July and 8 September 2013, 21 March and 27 May 2016.

EU SUPPORT FOR COMMERCIALISATION OF EXILVA MICROFIBRILLAR CELLULOSE

A consortium of European companies and research institutions, with Borregaard as lead member, has been granted financial support for the development and commercialisation of Borregaard's Exilva microfibrillar cellulose under the Horizon 2020 Flagship programme, the EU Framework Programme for Research and Innovation. See note 13 and Borregaard's stock exchange notices from 16 March and 22 April 2016.

SILO FIRE INCIDENT

Additional property damage insurance compensation related to the silo fire incident in October 2015 is recognised as other income and expenses, see note 3. Operating losses related to the silo fire incident were insignificant in the 2nd quarter of 2016, see also note 13.

CHLOR-ALKALI PLANT

Borregaard is currently taking measures to strengthen the ground water barriers surrounding the chlor-alkali plant (mercury based until 1997) in order to prevent mercury leakage (see also note 13). When the ground water barriers have been strengthened, most likely at the end of 2017, a programme for cleaning or depositing polluted soil will be implemented. A total provision of NOK 60 million has been recognised in other income and expenses in the 2nd quarter of 2016, see note 3.

OUTLOOK

Market conditions for Performance Chemicals will still be affected by a weak business climate and strong price competition in important markets. Efforts to reallocate volume from markets affected by increased competition and reduced demand will continue. Lignin sales volume in 2016 is expected to increase by slightly more than the full-year impact of the Flambeau volume. Average price and product mix will be negatively affected by the added Flambeau volume and reallocation efforts. In the 3rd quarter of 2016, sales volume is forecast to be slightly below the preceding quarter.

In 2016, average cellulose price in sales currency is expected to be approximately 2% below the 2015 level. Price uncertainty is mainly related to textile cellulose.

Product mix in 2016 is forecast to improve slightly from 2015. In the 3rd quarter, total sales volume is expected to be in line with the corresponding quarter of 2015, and with a similar product mix.

No major changes are expected in market conditions for Ingredients and Fine Chemicals. Exilva project costs, net of EU grant, are expected to increase in 2016 due to start-up and additional marketing and business development activities. Other corporate costs will remain at largely the same level as in 2015.


Currency, including hedging impact, is expected to contribute positively in all business areas in the 2nd half of 2016, although less than in 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 2016, 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 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, 15 July 2016
The Board of Directors of Borregaard ASA



JAN ANDERS OKSUM

Chair



TERJE ANDERSEN



JON ERIK REINHARDSEN



KRISTINE RYSSDAL



RAGNHILD WIBORG



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
		2016	2015	2016	2015	2015
OPERATING REVENUES	2	1,167	1,054	2,280	2,061	4,164
Operating expenses		-898	-858	-1,775	-1,696	-3,406
Depreciation property, plant and equipment		-69	-65	-134	-129	-261
Amortisation intangible assets		-1	-	-2	-	-1
Other income and expenses ¹	3	13	-	13	-	37
OPERATING PROFIT		212	131	382	236	533
Financial items, net		-5	-6	-14	-11	-27
PROFIT BEFORE TAXES		207	125	368	225	506
Income tax expense	4	-53	-33	-94	-60	-122
PROFIT FOR THE PERIOD		154	92	274	165	384
Profit attributable to non-controlling interests		-	-	-1	-1	-2
Profit attributable to owners of the parent		154	92	275	166	386
EBITDA adj. ¹		269	196	505	365	758
EBITA ADJ.¹	2	200	131	371	236	497

EARNINGS PER SHARE

INTERIM EARNINGS PER SHARE

Amounts in NOK million	NOTE	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
		2016	2015	2016	2015	2015
Earnings per share (100 mill. shares)	5	1.54	0.92	2.75	1.66	3.86
Diluted earnings per share	5	1.54	0.92	2.75	1.67	3.87

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
		2016	2015	2016	2015	2015
PROFIT FOR THE PERIOD		154	92	274	165	384
ITEMS NOT TO BE RECLASSIFIED TO P&L						
Actuarial gains and losses (after tax)		-	-	-	-	-19
TOTAL		-	-	-	-	-19
ITEMS TO BE RECLASSIFIED TO P&L						
Change in hedging-reserve after tax (cash flow)	7	-1	85	211	69	-156
Change in hedging-reserve after tax (net investment in subsidiaries)	7	-4	7	21	-8	-52
Translation effects		11	-14	-28	15	66
TOTAL		6	78	204	76	-142
THE GROUP'S COMPREHENSIVE INCOME		160	170	478	241	223
Comprehensive income non-controlling interests		-2	-1	-2	-2	-3
Comprehensive income owners of the parent		162	171	480	243	226

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

THE GROUP'S CONDENSED BALANCE SHEET

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	30.6.2016	31.12.2015
Intangible assets	12	127	137
Property, plant and equipment	12	2,200	2,122
Other assets	8	121	121
Investments in joint venture		145	106
NON-CURRENT ASSETS		2,593	2,486
Inventories		671	676
Receivables	8	981	838
Cash and cash deposits	10	163	169
CURRENT ASSETS		1,815	1,683
TOTAL ASSETS		4,408	4,169
Group equity	9	2,385	2,056
Non-controlling interests		4	5
EQUITY		2,389	2,061
Provisions and other liabilities		335	408
Interest-bearing liabilities	8, 10	784	802
NON-CURRENT LIABILITIES		1,119	1,210
Interest-bearing liabilities	8, 10	9	9
Other current liabilities	8	891	889
CURRENT LIABILITIES		900	898
EQUITY AND LIABILITIES		4,408	4,169
Equity ratio		54.2 %	49.4%

CHANGES IN EQUITY

INTERIM CONDENSED CHANGE IN EQUITY

Amounts in NOK million	Note	1.1 - 30.6.2016			1.1 - 31.12.2015		
		Controlling interests	Non-controlling interests	Total equity	Controlling interests	Non-controlling interests	Total equity
Equity 1 January		2,056	5	2,061	1,941	8	1,949
PROFIT/LOSS FOR THE PERIOD		275	-	275	386	-2	384
Items in Comprehensive Income	6	205	-1	204	-160	-1	-161
THE GROUP'S COMPREHENSIVE INCOME	6	480	-1	479	226	-3	223
Paid dividend		-149	-	-149	-124	-	-124
Buy-back of treasury shares		-9	-	-9	-5	-	-5
Exercise of share options		5	-	5	3	-	3
Shares to employees		-	-	-	12	-	12
Reduced tax payable of exercised share options		-	-	-	-	-	-
Option costs (share based payment)		2	-	2	3	-	3
EQUITY AT THE CLOSE OF THE PERIOD		2,385	4	2,389	2,056	5	2,061

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
		2016	2015	2016	2015	2015
Profit before taxes		207	125	368	225	506
Amortisation, depreciation and impairment charges		69	65	135	129	269
Changes in net working capital, etc.		204	-8	-39	-202	-106
Dividend (share of profit) from JV		-16	-19	-38	-18	-14
Taxes paid		-31	-17	-62	-70	-92
CASH FLOW FROM OPERATING ACTIVITIES		433	146	364	64	563
Investments property, plant and equipment and intangible assets*		-142	-106	-213	-159	-430
Other capital transactions		1	-	2	3	5
CASH FLOW FROM INVESTING ACTIVITIES		-141	-106	-211	-156	-425
Dividends		-149	-124	-149	-124	-124
Proceeds from exercise of share options	9	2	-	3	-	11
Buy-back of shares	6	-9	-	-9	-	-5
Gain/(loss) on hedges for net investments in subsidiaries		18	33	29	-10	-76
NET PAID TO/FROM SHAREHOLDERS		-138	-91	-126	-134	-194
Proceeds from interest-bearing liabilities	10	100	100	100	100	100
Repayment from interest-bearing liabilities	10	-102	-2	-104	-4	-109
Change in interest-bearing receivables/other liabilities	10	-6	4	-15	-12	21
CHANGE IN NET INTEREST-BEARING LIABILITIES		-8	102	-19	84	12
CASH FLOW FROM FINANCING ACTIVITIES		-146	11	-145	-50	-182
CHANGE IN CASH AND CASH EQUIVALENTS		146	51	8	-142	-44
Cash and cash equivalents at beginning of period		18	-8	169	168	168
Change in cash and cash equivalents		146	51	8	-142	-44
Currency effects cash and cash equivalents		-1	-7	-14	10	45
CASH AND CASH EQUIVALENTS AT THE CLOSE OF THE PERIOD	10	163	36	163	36	169

* Investment by category

Replacement investments		95	69	129	100	246
Expansion investments ¹		47	37	84	59	184

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

NOTES

NOTE 01 Organisation and basis for preparation

GENERAL INFORMATION

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

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

Basis for preparation

These unaudited Interim Condensed Consolidated Financial Statements are prepared in accordance with

IAS 34 Interim Financial Reporting. Borregaard ASA is the parent company of the Borregaard Group presented in these Interim Condensed Consolidated Financial Statements.

The same accounting principles and methods of calculation have been applied as in the Consolidated Financial Statements for 2015 for the Borregaard Group.

Use of estimates

The same use of estimates has been applied as in the Consolidated Financial Statements for 2015.

NOTE 02 Segments

OPERATING REVENUES

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2016	2015	2016	2015	2015
BORREGAARD	1,167	1,054	2,280	2,061	4,164
Performance Chemicals	584	515	1,134	1,018	2,008
Specialty Cellulose	385	365	768	701	1,436
Other Businesses	206	183	396	359	755
Eliminations	-8	-9	-18	-17	-35

EBITA ADJ.¹

Amounts in NOK million	1.4 - 30.6		1.1 - 30.6		1.1 - 31.12
	2016	2015	2016	2015	2015
BORREGAARD	200	131	371	236	497
Performance Chemicals	140	127	278	238	447
Specialty Cellulose	68	18	121	26	104
Other Businesses	-8	-14	-28	-28	-54
RECONCILIATION AGAINST OPERATING PROFIT & PROFIT BEFORE TAX					
EBITA ADJ.¹	200	131	371	236	497
Amortisation intangible assets	-1	-	-2	-	-1
Other income and expenses	13	-	13	-	37
OPERATING PROFIT	212	131	382	236	533
Financial items, net	-5	-6	-14	-11	-27
PROFIT BEFORE TAXES	207	125	368	225	506

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

of allocations from the corporate headquarter.

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

NOTE 03 Other income and expenses

Other income and expenses were NOK 13 million in the 2nd quarter of 2016.

NOK 73 million reflects additional insurance compensation for property damage caused by the fire at the production site in Sarpsborg in October 2015. The additional insurance compensation has been agreed with the insurance companies based on detailed engineering for the construction of two new silos. In the 4th quarter of 2015, NOK 46 million was recognised for expected insurance compensation for property damage. The amount was net of deductibles

and write-down of assets. The investment costs will be capitalised and depreciated over the expected life of the silos.

A total provision of NOK 60 million has been recognised in other income and expenses, of which NOK 10 million is related to measures to prevent mercury from spreading. The remaining NOK 50 million is the estimated cost of the programme for cleaning and depositing polluted soil (see also note 13).

NOTE 04 Income tax expense

The tax rate of 26% (27%) for the first six months of 2016 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 27% to 25% from 1 January 2016. The normal tax rate is expected to be in the range 23 - 26%.

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.

NOTE 05 Earnings per share (EPS)

The share capital consists of 100 million shares. The company holds 448,880 treasury shares. As of 30 June 2016, there are 99,875,383 diluted shares

(99,735,212 as of 31 December 2015). Earnings per diluted share were NOK 1.54 in the 2nd quarter of 2016 (NOK 0.92 in the 2nd quarter of 2015).

NOTE 06 Stock options

During the 2nd quarter of 2016, 165,000 share options were exercised at a strike price of NOK 17.65 and NOK 15.18.

The Group Executive Management and other key employees hold a total of 1,113,800 stock options in three different share option programmes in Borregaard. The first programme has a total of 133,800 outstanding stock options at a strike price of NOK 15.18. The strike price has been adjusted for dividends in 2013, 2014, 2015 and 2016, NOK 4.85 in total. The share options for the first programme was vested on 18 October 2013 and can be exercised until the end of October 2016.

The second option programme, comprising 480,000 stock options granted in October 2014, has a strike price of NOK 46.50 adjusted for dividends in 2015 and 2016, NOK 2.75. The third option programme, comprising 500,000 stock options granted in October 2015, has a strike price of NOK 49.99 adjusted for dividend of NOK 1.50 in 2016. Options in programme two and three 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. The tax effect for the six months of 2016 relating to the hedging reserves amounts to NOK -44 million for cash

flow hedges (NOK -44 million) and NOK -34 million for hedges of net investments in subsidiaries (NOK -23 million). Total hedging reserve included in equity as of 30 June 2016 (after tax) amounts to NOK -133 million and NOK -92 million respectively (NOK -119 million and NOK -68 million).

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 2015 to the 2nd quarter of 2016. 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 2016:

FINANCIAL ASSETS

Amounts in NOK million	LEVEL	30.6.2016		31.12.2015	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Non-current financial receivables	2	68	68	71	71
Non-current derivatives	2	33	33	0	0
Current derivatives	2	8	8	8	8
TOTAL FINANCIAL ASSETS		109	109	79	79

FINANCIAL LIABILITIES

Non-current financial liabilities	2, 3	802	802	821	821
Non-current derivatives	2	98	98	258	258
Current financial liabilities	2	9	9	9	9
Current derivatives	2	127	127	212	212
TOTAL FINANCIAL LIABILITIES		1,036	1,036	1,300	1,300

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Amounts in NOK million		LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL INSTRUMENTS	30.6.2016	-927	-527	-400
FINANCIAL INSTRUMENTS	31.12.2015	-1,221	-821	-400

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	30.6.2016	31.12.2015
Share capital	100	100
Treasury shares	-1	-1
Share premium	1,346	1,346
Other paid-in capital	392	385
Translation effects	60	89
Hedging reserve	-222	-456
Actuarial gains/losses	-23	-23
Retained earnings	733	616
GROUP EQUITY (CONTROLLING INTERESTS)	2,385	2,056

As of 30 June 2016, the company held 448,880 treasury shares at an average cost of NOK 51.70.

NOTE 10 Net interest-bearing debt

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

Amounts in NOK million	30.6.2016	31.12.2015
Non-current interest-bearing liabilities	784	802
Current interest-bearing liabilities including overdraft of cashpool	9	9
Non-current interest-bearing receivables (included in "Other Assets")	-20	-18
Cash and cash deposits	-163	-169
NET INTEREST-BEARING DEBT	610	624

NOTE 11 Related parties

The members of the Group Executive Management of Borregaard hold a total of 603,800 stock options in the Company as of 30 June 2016.

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 2016.

NOTE 13 Other matters and subsequent events

NEW LIGNIN OPERATION IN FLORIDA IN FINAL PHASE OF APPROVAL

Borregaard and Rayonier Advanced Materials (RYAM) have concluded a market, technical and engineering analysis regarding a new lignin operation at RYAM's Fernandina Beach site in Florida to serve the growing demand for natural lignin-based products. Final review of the investment by the companies' boards of directors is anticipated during the second half of 2016 upon receipt of final permits and incentives from government entities. If the companies elect to proceed, operations are expected to commence approximately 18 months later. Cost of construction of the lignin plant is expected to be USD 135 million over two phases of the project. See Borregaard's stock exchange notices of 1 June 2015, 17 December 2015 and 28 June 2016.

SPANISH LIGNIN PARTNER SNIACE RE-LISTED ON MADRID STOCK EXCHANGE

Sniace S.A., Borregaard's partner in Spain and supplier of lignin raw material to LignoTech Ibérica, successfully completed the re-capitalisation of the company in late May. Sniace will initiate comprehensive maintenance work before resuming operations. See Borregaard's stock exchange notices of 26 June, 25 July and 8 September 2013, 21 March and 27 May 2016.

EU SUPPORT FOR COMMERCIALISATION OF EXILVA MICROFIBRILLAR CELLULOSE

A consortium of European companies and research institutions, with Borregaard as lead member, has been granted financial support for the development and commercialisation of Borregaard's Exilva microfibrillar cellulose under the Horizon 2020 Flagship programme, the EU Framework Programme for Research and Innovation. The support will cover up to 60% of Borregaard's project costs and make it possible to further increase business development activities in the Exilva project. The maximum amount which can be disbursed to Borregaard is EUR 25 million over a period of three years, starting 1 May 2016. The grant will be reduced if the project makes a profit during this period. See Borregaard's stock exchange notices from 16 March and 22 April 2016.

SILO FIRE INCIDENT

The property damage coverage related to the silo fire incident in October 2015 is recognised as other income and expenses, see note 3.

Actual losses related to the silo fire incident were insignificant in the 2nd quarter of 2016. Insurance compensation for actual losses in previous quarters has been recognised in the relevant quarters. An estimate of the total business interruption losses is difficult to make. Therefore, no future insurance compensation has been recognised, but will be recognised in the periods if and when business interruption losses occur.

CHLOR-ALKALI PLANT

Borregaard has operated a chlor-alkali plant at the site in Sarpsborg since 1949. Until 1997, the plant was based on mercury technology. This process led to pollution of the soil in the area surrounding the plant. In 1994, a groundwater barrier was built and a water monitoring programme was established. In the winter of 2015, a higher level of mercury was detected by the monitoring. Borregaard is currently taking measures to strengthen the ground water barriers in order to prevent mercury leakage. When the ground water barriers have been strengthened, most likely at the end of 2017, a programme for cleaning or depositing polluted soil will be implemented. The Norwegian Environment Agency has requested to be kept informed about the progress of the proposed measures from Borregaard. A total provision of NOK 60 million has been recognised in other income and expenses in the 2nd quarter of 2016, see note 3.

OTHER MATTERS

There have been no events after the balance sheet date that would have had an 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.

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.

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.

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.

	1.1 - 30.6	1.1 - 31.12	
Capital employed end of	2016	2015	2015
Q2, 2014		2,954	
Q3, 2014		2,949	
Q4, 2014		2,983	2,983
Q1, 2015		3,198	3,198
Q2, 2015	3,235	3,235	3,235
Q3, 2015	3,283		3,283
Q4, 2015	3,279		3,279
Q1, 2016	3,524		
Q2, 2016	3,481		
AVERAGE	3,361	3,064	3,196
EBITA ADJ. (LTM)	632	492	497
ROCE (%)	18.8	16.1	15.6



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