

The Navigator Company, S.A.
Public Limited Company

Share Capital
500 000 000 Eur

Corporate Entity
503 025 798
Registered at
the Commercial
Register
of Setúbal

Headquarters
Península
de Mitrena.
Freguesia
do Sado
- Setúbal



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INTERIM RESULTS
1ST QUARTER
2019

Highlights 1st Quarter 2019 (vs. Q1 2018)

- **Turnover grows to € 422 million (up 9.6%), growing in all business segments**
- **EBITDA of € 104.9 million**, up 3.3% on recurrent EBITDA in Q1 2018 and down 5.5% on published EBITDA for Q1 2018, which included the impact of € 9.4 million from sale of pellets business
- Net income of € 49.3 million, compared with € 53.3 million in the same period last year, which also included the positive impact of sale of the pellets business
- **Capex totalled € 32.5 million vs € 28.6 million in 2018. Navigator invested an amount of €4.6 million in its own shares.**
- **Group stays focussed on its cost reduction programme, achieving impact of approximately € 2.9 million on EBITDA in the quarter**
- Net interest-bearing debt of € 676.9 million, keeping the Net Debt / Ebitda ratio at a comfortable level of 1,5 X, in line with the end of 2018.
- Navigator undertakes restructuring of debt, diversifying sources of funding and extending debt maturity
- **General Meeting approved dividend payment of € 200 million, in line with the amount paid in 2018, (equivalent to 0.27943€/share), and employee´s profit sharing up to € 23 million**

Leading Indicators (unaudited)

Million euros	Q1 2019	Q1 2018	% Change ⁽⁸⁾ Q1 19/Q1 18
Total Sales	421.8	384.9	9.6%
EBITDA ⁽¹⁾	104.9	110.9	-5.5%
EBITDA Without Pellets ⁽²⁾	104.9	101.5	3.3%
Operating Profits (EBIT)	66.2	78.0	-15.1%
Financial Results	- 3.9	- 5.5	-28.7%
Net Earnings	49.3	53.2	-7.5%
Cash Flow	88.0	86.2	1.8
Free Cash Flow ⁽³⁾	9.9	134.0	- 124.1
Capex	32.5	28.6	3.9
Remunerated Net Debt ⁽⁴⁾	676.9	558.7	118.2
EBITDA/Sales	24.9%	28.8%	-4.0 pp
EBITDA Without Pellets/Sales	24.9%	26.4%	-1.5 pp
ROS	11.7%	13.8%	-2.2 pp
ROE ⁽⁵⁾	16.4%	17.7%	-1.3 pp
ROCE ⁽⁶⁾	14.0%	17.0%	-3.0 pp
Equity Ratio	44.4%	49.7%	-5.3 pp
Remunerated Net Debt/EBITDA ⁽⁷⁾	1.51	1.32	0.19

1. Operating profits + depreciation + provisions;

2. Recurrent EBITDA excludes effect of sale of pellets business + anti-dumping duty

3. Variation net debt + dividends + purchase of own shares

4. Interest-bearing liabilities - liquid assets

5. ROE = Annualised net profit / Average Shareholders' Funds last 12 months

6. Annualised operating profit / Average Capital Employed last 12 months

7. (Interest-bearing liabilities - liquid assets) / EBITDA corresponding to last 12 months

8. Variation in figures not rounded up/down

1. ANALYSIS OF RESULTS

Q12019 vs Q12018

The Navigator Company recorded turnover in the first quarter 2019 of € 442 million, up by 9.6% on the same quarter in 2018. With sales of € 300 million, the paper sector accounted for 71% of turnover, energy for 11% (€ 44 million), pulp more than 9% (€ 40 million), and tissue business around 8% (€ 33 million). The period was marked by upwards movement in prices for UWF paper and BEKP pulp in relation to the first quarter of 2018 and by growing sales volumes for pulp and tissue.

Growth in volume of pulp available for sale

Output of pulp in the first quarter of 2019 stood at approximately 370 thousand tons, 7% up on the same period in 2018, when the company was subject to limitations on output, due in particular to a number of stoppages in Setúbal. As a result, the quantity of pulp available for sale in 2019 was above that in the previous year, although in line with the first quarters of previous years, making it possible to record an increase in pulp sales of 17% to 62 thousand tons.

Over the course of the quarter, the benchmark sale price for pulp - BHKP PIX - in USD tended to fall, dropping at the end of March to 971 USD/ton, down almost 5.2% in relation to the year-end price of 1,024 USD/ton. The average sale price for the quarter was 991 USD/ton, as compared to 1,013 USD in the first quarter of 2018, representing a reduction of 2.2%. However, the evolution of the EUR/USD exchange rate meant that the benchmark pulp price in Euros behaved differently, and rose to an average price in 2019 of 872 €/ton, as compared to 824 €/ton in 2018. The Group's average price moved upwards over the period, above the PIX performance in Euros, when excluding off-grade pulp sales from the new capacity in Figueira da Foz mill. Pulp sales in value stood at around € 40 million, up by 22%.

Rising sale price for paper

In paper business, UWF sales totalled 353 thousand tons, 2% down on the same period in 2018, due essentially to production deviations that resulted from the adjustments still being made in heavyweight production on paper machine 3 in Setúbal, and to a 4 day production stoppage, as a result of the strike in January on paper machine 4 in Setúbal.

However, rising sale prices for paper permitted the Group to record turnover of € 300 million, up by 6% on the same quarter in 2018. In fact, the average benchmark price for UWF paper (A4 B-copy), was 8% higher in the first quarter than in the same period in 2018, and also rose over the course of the quarter. The Group's average price outperformed the index, driven by implementation of price rises over the course of 2018 and also in early 2019, in Europe (which remained throughout the quarter), and also by the favourable evolution of the EUR/USD exchange rate.

75% growth in value of tissue sales

In tissue business, there was a significant increase of 76% in the volume of sales to 23.7 thousand tons, as a result of the start-up of the new tissue plant in Aveiro. The value of sales stood at € 33 million, up 75% in relation to the first quarter of 2018. This growth in volume brought two distinct changes to the business. On the one hand, sales of finished product grew by around 37% to 17.6 thousand tons, and on the other hand the Group recorded a sharp increase in sales of reels (X9), to 6.1 thousand tons, which did not exist last year.

Both finished products and reels benefited from significant price rises in relation to Q1 2018, clearly necessary to offset the increase in costs - especially in terms of pulp, chemicals and energy. However, the faster growth in reels business, typical of the early stages of production in a new tissue mill, altered the mix of products sold, which had an impact on the average sales price.

Energy Business benefits from higher sales prices

In energy business, the group's electricity sales totalled around 44 M€ at the end of the first quarter of 2019, representing an increase of 5.5% in relation to the figures for the same period in the previous year.

This figure was boosted essentially by the increase in the benchmark Brent price, 25% higher than in the previous year. Power output was in line with 2018 figures, at approximately 551 GWh for the first quarter of the year.

Navigator records 3% growth in recurrent EBITDA

In this context, EBITDA stood at € 104.9 million, as compared with recurrent EBITDA of € 101.5 million in the first quarter of 2018, excluding the positive impact of € 9.4 million relating to sales of the pellets business in the US. The EBITDA / Sales margin in 2019 was 24.9% (as compared with a recurrent margin of 26.4% in 2018).

In terms of production costs, reference should be made to an increase of around € 11.6 million in energy costs, due to rising purchase prices for electricity and natural gas. Fibres continued to have a negative impact of approximately € 6.9 million, due essentially to the increase in acquisition of long fibre (due to the new capacity of Aveiro tissue mill) and acquisition of short fibre at the Vila Velha de Ródão plant. Also significant was the increase in wood purchasing costs, due essentially to certified wood representing a larger proportion of the wood purchased in Portugal, rising from 34% to 49% of total, as well as the price increase of woodchips in International markets, and to the evolution of EUR/USD exchange rate for wood purchased outside the Iberian peninsula (a stronger USD impacts negatively on wood imports).

In fixed costs, personnel costs performed favourably, although there was negative performance in operating and maintenance costs.

In this context, Navigator actively pressed ahead with its M2 cost-reduction and operational excellence programme, resulting in a positive YoY impact of € 2.9 million in EBITDA. A total of 82 cost-cutting initiatives are currently under way, and 56 of these have made a positive contribution to this impact. The top-performing initiatives in progress include speed increase on PM1at Figueira da Foz, which, by optimising a series of operational issues, has increased output, and two projects relating to optimising wood and paper logistics by using alternative means and techniques of transport and transport management.

Cash flow generation affected by variation in working capital

The Cash Flow from operations generated in the quarter was € 88 million, as compared to € 86 million in 2018. Free Cash flow in the quarter stood at € 9.9 million, as compared to € 134 million in 2018. It should be noted that cash flow in Q1 2018 was affected positively by a cash inflow of € 67.6 million from the sale of the pellets business. There was also a significant rise in balances receivable from the State in 2019, as a result of deferral of VAT rebates: rebates from the State relating to two months (January and February), totalling € 45.1 million, were only received in April, when the corresponding rebates in 2018 had been received during the first quarter.

In 2019, in view of the operating cash flow generated, the evolution of free cash flow was impacted by a capex of € 32.5 million (vs. € 28.6 million in 2018), as well as by the increase in working capital, mainly due to the rise in inventories of € 27.4 million. Inventories were higher in particular for tissue, due to the development of new business, and in the stocks of finished and intermediate products in pulp, tissue and UWF, allowing to improve customer service.

As a result, at the end of March, Navigator's interest-bearing debt totalled € 676.9 million, down by € 6.1 million in relation to year-end 2018. The Net Debt / Ebitda ratio remains at a conservative value of 1.5x.

Navigator restructures debt, diversifies sources of funding and extends maturity of borrowing

In view of the approaching maturity of a substantial portion of its debt (including back-up facilities), which was due in 2020, Navigator decided to undertake a restructuring process, which was implemented over the first quarter of 2019. This process involved contracting four loans and two backup facilities, with a total value of € 455 million, with the corresponding cancellation of two facilities

which were due to mature next year. The main results of this process were as follows:

- Extension of maturities: the new loans have an average lifetime of between 5 and 7 years (as opposed to an average maturity of 2.6 years at year-end 2018);
- Increase in fixed rate component: all the new loans were contracted on a fixed rate basis;
- Reduction of costs in relation to the discontinued operations;
- Diversification of funding sources, with the inclusion of a new international bank in the line-up of lenders;
- Conversion of a back-up facility into a “green” commercial paper facility, the first operation of its kind in Portugal.

This last operation, in which the pricing terms are linked to evolution of a specific score awarded by an ESG consultant has also helped to bolster the Navigator Group's commitment to sustainability.

Financial results improve by € 1.6 million

As a result the Group recorded a financial loss of € 3.9 million (improving € 1.6 million), thanks to a positive impact of € 1.1 million from the result of investments of surplus liquidity and € 3.8 from the effects of the sum of \$ 45 million still to be received for the sale of the pellets business, in relation to which a reduction in net value vs, nominal value of € 3.3 million was recorded last year.

Negative factors included the foreign exchange results from hedging programmes undertaken by the company, which evolved negatively by € 2.6 million (contrasting with a positive figure at the start of 2018) and implementation of IFRS 16, which had a negative impact of € 0.4 million.

Pre-tax profits totalled € 62.2 million (as compared to € 72.4 million), with the effective rate staying at roughly the same level as 2018, thanks to reversal of tax provisions of approximately € 3 million.

As a result, the Group recorded net income in the first quarter of 2019 of € 49.3 million, as compared with € 53.2 million in 2018.

IFRS 16

On 1 January 2019, Navigator adopted IFRS 16. The 2018 results have not been restated in accordance with this accounting standard. The main impacts of the adoption of IFRS 16 in the Income Statement were: reduction in the value of rentals in Third Party Supplies and Services by around € 2.1 million, increase in depreciation of approximately € 1.9 million and an increase in interest of € 0.4 million. In the Balance Sheet, it was registered an amount of €50.3 million in lease assets.

OPERATING INDICATORS

Pulp and paper

(in 000 tons)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
BEKP Output	346.1	335.4	392.7	377.4	369.8
BEKP Sales	53.1	60.9	63.1	76.3	62.1
UWF Output	385.8	392.9	393.9	362.7	363.9
UWF Sales	361.2	395.1	380.7	376.0	353.0
FOEX – BHKP Euros/ton	824	878	903	914	872
FOEX – BHKP USD/ton	1013	1046	1050	1043	991
FOEX – A4- BCopy Euros/ton	845	864	882	900	914

Tissue

(in 000 tons)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Reels Output	14.1	14.4	17.8	25.3	26.4
Output of finished products	13.6	14.7	18.6	19.1	18.0
Sales of reels and goods	0.6	0.1	0.0	1.1	6.1
Sales of finished products	12.8	14.9	16.7	16.8	17.6
Total sales of tissue	13.4	15.0	16.7	17.9	23.7

Energy

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Production (GWh)	553.5	536.1	536.2	565.1	550.8
Sales (GWh)	444.7	435.8	428.5	452.7	442.0

2. INVESTMENT

Navigator recorded total investment of € 32.5 million in the first quarter. This amount includes maintenance and current investments of approximately € 19.2 million, as well as € 4.6 million relating to completion of the new tissue mill in Aveiro and the remaining investment in heavyweight production.

Investment in the period includes a figure of € 8.6 million classified internally as "regulatory", directed essentially at improving environmental and sustainability performance at Group plants. The main investment made this quarter was in the construction work on a new biomass boiler at the Figueira da Foz mill, replacing the existing boiler and the natural gas Combined Cycle Power Station. This biomass boiler is part of the Group's wider Carbon Neutrality Programme and will make it possible to replace use of a fossil fuel by a renewable fuel (biomass), leading to a reduction in fossil CO₂ emissions at that mill site. Investments in this area also included sleeve filters on the biomass boilers in Setúbal and Aveiro, as well as the revamping and redesign of effluent treatment in Vila Velha de Ródão.

3. OUTLOOK

Demand for market pulp is expected to revive in the upcoming quarters, more visible in the second quarter, particularly in September, albeit much subject to global economic performance, to the sentiment of buyers in China, in response to government stimulus measures and the negotiations with the US. The supply reductions for the coming months, through the conversion of paper grade pulp and maintenance shutdowns and increases in tissue capacity between over 2019 and 2020 will be two of the main factors of rebalancing from the market, especially, in demand for short fibre pulp. With a slight upturn in demand and the absence of any significant increases in supply until the second half of 2021, a moderate upward evolution in pulp prices can be expected, for both fibres, over the second half of 2019.

In tissue business, 2019 will be a year of consolidating recent investments, with a view to increasing total sales. The main goal will be to achieve sizeable gains in sales of finished products, as the industrial operation matures and Navigator's share of the target markets grows. Additionally, the Company aims to improve the tissue business margin following the strong effort achieved in price increase.

In paper business, several manufacturers have announced Uncoated Woodfree capacity closures and/or conversions in 2019 in Europe (-200 thousand tons/year), in Asia (-750 thousand tons/year) and in Latin America (-180 thousand tons/year) which, in the light of prospects for an upturn of stable global demand, make it possible to ensure a better balance in the market and to compensate for the new



investments in Uncoated. In the United States, a significant reduction in supply is also expected due to the exit of the UWF business from a major US producer.

However, the permanent macroeconomic environment is a major factor of uncertainty. The global economic slowdown and the current international framework of protectionist policies (with the important side effects that may occur) are factors that Navigator sees with concern.

Extensive maintenance shutdowns are planned for the second quarter at the pulp mills in Setúbal and Aveiro, as well as at the paper mills in Setúbal and Figueira da Foz.

In 2019, production and operating costs continue to deserve special attention. In this context, the Company has continued the cost reduction and operational excellence program M2 and also started the Zero Based Budget project in April with the objective of defining and implementing a set of fixed cost reduction initiatives (operating costs, general and administrative expenses, and personnel costs of non-industrial areas), which should materialize in 2020.

Lisbon, 9 May 2019

Conference call and Webcast

Date: Friday 10 May 2019

Service times: 12:00 (Western European Time – UTC)

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All numbers should be followed by the **pincode:** 94983363#

4. FINANCIAL STATEMENT

CONSOLIDATED INCOME STATEMENT

Amounts in Euros	3 meses 31-03-2019	3 meses 31-03-2018
Revenues		
Sales	420,454,510	383,558,961
Services Rendered	1,380,658	1,380,538
Other Operating Income		
Gains on the Sale of Non-current Assets	86,939	17,199,398
Other Operating Income	9,618,441	2,471,951
Change in the Fair Value of Biological Assets	(1,298,685)	1,215,853
Costs		
Cost of Inventories Sold and Consumed	(193,920,298)	(172,993,517)
Variation in Production	25,051,523	22,176,632
Cost of Materials and Services Consumed	(111,929,332)	(96,196,092)
Payroll Costs	(38,476,632)	(40,839,377)
Other Costs and Losses	(6,093,544)	(7,051,157)
Provisions	(1,289,005)	890,419
Depreciation, Amortization and Impairment Losses	(37,419,356)	(33,861,430)
Operational Results	66,165,217	77,952,180
Financial gains	2,480,907	2,010,949
Financial losses	(6,414,757)	(7,527,238)
Net Financial Results	(3,933,850)	(5,516,289)
Group share of (loss) / gains of associated companies and joint ventures	(5,812)	-
Profit Before Tax	62,225,555	72,435,891
Income Tax	(12,953,611)	(19,187,500)
Net Income	49,271,944	53,248,391
Non-Controlling Interests	(2,949)	929
Net Profit for the Period	49,268,995	53,249,320

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in Euros	31-03-2019	31-12-2018
	(unaudited)	
ASSETS		
Non-Current Assets		
Goodwill	377,339,466	377,339,466
Other Intangible Assets	13,246,890	2,886,251
Fixed Tangible Assets	1,232,166,435	1,239,008,735
Lease Assets (IFRS 16)	50,291,168	-
Investment in Property	97,116	97,527
Biological Assets	118,315,882	119,614,567
Other Financial Assets	104,070,107	63,168,912
Investment in Associates	-	-
Financial Assets Available for Sale	2,522,026	-
Other Assets	-	-
Deferred Tax Assets	72,496,966	71,006,775
	1,970,546,056	1,873,122,233
Current Assets		
Inventories	249,787,256	222,376,871
Receivable and Other Current Assets	271,812,347	307,750,689
State and Other Public Entities	86,043,379	79,751,430
Cash and Cash Equivalents	175,542,298	80,859,784
	783,185,279	690,738,774
Non-Current Assets Available for Sale	-	-
Non-Current Assets Available for Sale	-	-
	-	-
Total Assets	2,753,731,335	2,563,861,007
EQUITY AND LIABILITIES		
Capital e Reservas		
Share Capital	500,000,000	500,000,000
Treasury Shares	(5,629,882)	(2,317,915)
Fair Value Reserves	(7,969,931)	(5,633,483)
Legal Reserves	100,000,000	100,000,000
Other Reserves	197,292,250	197,292,250
Translation Reserves	(19,008,568)	(20,575,294)
Advancement on Profits	407,994,483	192,512,197
Net Profit for the Period	49,274,893	225,135,403
	1,221,953,245	1,186,413,158
Non-Controlling Interests	205,822	204,263
Total Equity	1,222,159,067	1,186,617,421
Liabilities		
Non-Current Liabilities		
Deferred Taxes Liabilities	68,194,613	66,123,135
Pensions and Other Post-Employment Benefits	20,378,817	7,324,279
Provisions	41,451,103	43,065,470
Interest-bearing Liabilities	840,615,263	652,025,122
Lease Liabilities (IFRS 16)	43,799,232	-
Other Non-Current Liabilities	78,215,892	82,324,405
	1,092,654,920	850,862,411
Current Liabilities		
Interest-Bearing Liabilities	11,805,556	111,805,556
Lease Liabilities (IFRS 16)	6,706,034	-
Payables and Other Current Liabilities	335,196,457	323,800,570
State and Other Public Entities	85,209,301	90,775,049
	438,917,348	526,381,175
Total Liabilities	1,531,572,268	1,377,243,586
Total Equity and Liabilities	2,753,731,335	2,563,861,007