

CONSOLIDATED ANNUAL RESULTS  
2017

**The Navigator Company, S.A.**  
**Public Limited Company**

**Share Capital:** 500 000 000 Euros

**Corporate Entity:** 503 025 798

Registered at the Commercial  
Register of Setúbal

**Headquarters:** Península de Mitrena  
Freguesia do Sado · Setúbal



THE  
**NAVIGATOR**  
COMPANY

**Highlights 2017 (vs. 2016)**

- Group sells 1 578 thousand tons of UWF, in line with previous year
- **Turnover up +4% with strong performance in pulp, energy and tissue business:**
  - Pulp sales grow 19% in value, with volume and price both rising.
  - Power sales up 13% in value
  - 10% increase in value of tissue sales
- **EBITDA grows to € 404 million, (up 2%),** and EBITDA/Sales margin holds steady at 25 %
- **M2 cost cutting programme continues, with estimated positive impact of € 27 million**
- **Significant improvement in financial results to - € 8 million (vs. - € 21 million),** thanks to lower cost of borrowing and net gains on currency hedges
- Capital projects on track for new tissue mill in Cacia and capacity expansion at Figueira da Foz pulp mill, totalling the value of € 70 million in the period
- **Navigator signs agreement to sell its pellets business in US for a price of USD 135 million**

**Highlights 4<sup>th</sup> Quarter 2017 (vs. 4<sup>th</sup> Quarter 2016)**

- **Pulp, paper and tissue prices evolve favourably over quarter**
- Turnover up 1% to € 427 million
- Less pulp available for market due to production stoppage and need to replenish stocks
- **EBITDA of € 104 million (up 8%), reflecting positive impact of cost cutting**
- Group joins forces with 2017 Web Summit as sustainable partner, offsetting carbon emissions associated with the event
- **Navigator scores A- Leadership, in its first Carbon Disclosure Project (CDP) rating in Climate Change**



# CONSOLIDATED ANNUAL RESULTS 2017

## Leading Indicators – IFRS

(quarterly indicators not audited)

in million euros	FY 2017	FY 2016	% Change (5) 2017/2016
<b>Total sales</b>	1 636.8	1 577.4	3.8%
<b>EBITDA <sup>(1)</sup></b>	<b>403.8</b>	<b>397.4</b>	<b>1.6%</b>
<b>Operating profits</b>	255.0	230.4	10.7%
<b>Financial results</b>	- 7.7	- 20.8	-63.0%
<b>Net earnings</b>	<b>207.8</b>	<b>217.5</b>	<b>-4.5%</b>
<b>Cash flow</b>	356.6	384.6	-28.0
<b>Free Cash Flow <sup>(2)</sup></b>	198.1	183.8	14.3
<b>Capex</b>	114.7	138.6	-23.9
<b>Net debt <sup>(3)</sup></b>	692.7	640.7	52.0
<b>EBITDA/Sales (%)</b>	<b>24.7%</b>	<b>25.2%</b>	<b>-0.5 pp</b>
<b>ROS</b>	12.7%	13.8%	-1.1 pp
<b>ROE</b>	17.2%	17.8%	-0.6 pp
<b>ROCE</b>	13.6%	12.3%	1.3 pp
<b>Equity ratio</b>	48.6%	51.2%	-2.6 pp
<b>Net Debt/EBITDA <sup>(4)</sup></b>	1.72	1.61	0.10

in million euros	Q4 2017	Q4 2016	% Change Q4 17/Q4 16	Q3 2017	% Change Q4 17/Q3 17
<b>Total sales</b>	427.0	422.0	1.2%	397.2	7.5%
<b>EBITDA <sup>(1)</sup></b>	<b>103.8</b>	<b>95.9</b>	<b>8.2%</b>	<b>101.7</b>	<b>2.1%</b>
<b>Operating profits</b>	69.6	52.3	33.0%	62.0	12.2%
<b>Financial results</b>	- 1.2	- 4.2	-71.1%	1.8	-166.5%
<b>Net earnings</b>	<b>62.0</b>	<b>83.2</b>	<b>-25.5%</b>	<b>49.8</b>	<b>24.6%</b>
<b>Cash flow</b>	96.2	126.8	-30.6	89.4	6.8
<b>Free Cash Flow <sup>(2)</sup></b>	49.3	82.7	-33.4	75.9	-26.6
<b>Capex</b>	39.0	38.0	1.0	40.5	-1.4
<b>Net debt <sup>(3)</sup></b>	692.7	640.7	52.0	742.0	-49.3
<b>EBITDA/Sales (%)</b>	<b>24.3%</b>	<b>22.7%</b>	<b>1.6 pp</b>	<b>25.6%</b>	<b>-1.3 pp</b>
<b>ROS</b>	14.5%	19.7%	-5.2 pp	12.5%	2.0 pp
<b>ROE</b>	21.4%	27.8%	-6.5 pp	16.8%	4.6 pp
<b>ROCE</b>	14.8%	11.1%	3.7 pp	13.2%	1.6 pp
<b>Equity ratio</b>	48.6%	51.2%	-2.6 pp	46.7%	1.9 pp
<b>Net Debt/EBITDA <sup>(4)</sup></b>	1.72	1.61	0.10	1.87	-0.16

(1) Operating profits + depreciation + provisions

(2) Var. Net debt + dividends + purchase of own shares

(3) Interest-bearing net debt – liquid assets

(4) EBITDA corresponding to last 12 months

(5) Variation in figures not rounded up/down



## 1. ANALYSIS OF RESULTS

### 2017 vs. 2016

Turnover for 2017 stood at € 1 637 million, up by 3.8%, sustained essentially by strong performance in sales of pulp, power and tissue. Paper sales, which totalled € 1.2 billion and contributed to 73% of turnover, were 0.9% below the previous year.

2017 was a very positive year for pulp, as the sector benefited from a series of unexpected developments and several adjustments which kept supply down and, in combination with vigorous demand, caused prices to rally significantly, month after month, both in China and in Europe, with the industry experiencing successive price rises. In this context, Navigator's pulp sales grew by 7% to around 311 thousand tons. The benchmark PIX – BHKP index in euros recorded an average price of 725 €/ton, as compared to 628 €/ton in the previous year (up 15%). The Group's average price also followed an upward course, rising 12% over the year, with pulp sales growing by 19% in value, to a total of € 164 million.

Conditions in the UWF paper market also improved gradually over the year, with progressively stronger order books in Europe and in overseas markets. Through to the end of November, global demand for UWF increased by approximately 0.2%, with growth concentrated in Asian markets, and China in particular. In Europe, apparent consumption held steady (up 0.1%), with demand rising for Folio and Cutsite, and declining for reels. The Group recorded strong performance in the volume of paper sales, which totalled 1 578 thousand tons, roughly equal to the previous year (-8.6 thousand tons; -0.5%), whilst improving its product mix, in terms of quality (premium sales up 57 thousand tons) and its own brands (up 45 thousand tons).

Although the price index for Europe – PIX A4 – evolved positively over the year, average prices in 2017 were still lower than in 2016 – 815 €/ton vs. 824 €/ton (down 1%). Over the course of the year, the Navigator Group successfully implemented four price rises which allowed it to reverse some of the decline experienced in the final quarter of 2016. However, depreciation of the EURUSD and EURGBP exchange rates and the evolving market mix did not allow Navigator to



completely reverse this trend, resulting that the Group's average sales prices ended the year practically unchanged in relation to the previous year.

In tissue business, the market showed a recovery in demand, driven by economic growth, especially in the tourism sector. At the same time, competition has increased in the Iberian Peninsula and production costs have also risen, fuelled by higher pulp prices. In this environment, Navigator recorded an increase in its output of reels and finished products, thanks to the expansion in production and converting capacity in 2015. The sales volume was up by 9% in relation to 2016, with an improvement in the mix of products sold and a reduction in the share of reels in total sales. This improvement, combined with progressive implementation of price rises starting in October (and continuing in January), enabled the Group to record an increase in its average sales price of 1.4%, and sales in value totalling € 74.4 million (up 10.3%).

In the energy sector, electricity sales grew by 13% in value in 2017, reflecting successful operation of our power generation assets. It should be recalled that power sales in 2016 were adversely affected by the stoppage of turbo-generator 3 at the renewable cogeneration plant at the Setúbal pulp mill and the breakdown in turbo-generator 4 at the cogeneration plant at the Cacia pulp mill. Power sales from the operation of the natural gas combined-cycle power stations also benefited from the sharp hike (roughly 18% year-on-year) in Brent prices, which directly influences the index to which prices are linked.

Navigator's total gross power output in 2017 was up by 5% on 2016. In another important development, 2017 was the first full year of operation for the solar power plant on the roof of the Setúbal paper mill (ATF), operating on a self-consumption basis.

In its first year of operation in the United States, Colombo Inc. recorded its first pellets sales, achieving a volume of 120.6 thousand tons, and a sales value of € 15 million. As previously reported, the mill started up in an adverse market environment and also experienced a number of teething problems in production and in marketing the pellets, which continued over several months, which led to a negative impact on EBITDA from this business unit of approximately € 16 million.



In this general context, EBITDA totalled € 403.8 million, almost 2% up on the figure recorded in the previous year, reflecting an EBITDA/Sales margin of 24.7%.

It is important to note that this EBITDA figures includes a number of one-off factors which occurred in 2017 with a combined negative impact of around € 3.7 million. Had it not been for these factors, EBITDA in 2017 would have totalled € 407.6 million.

The most significant of these non-recurrent impacts were:

- the forest fires, with a negative impact in the year estimated at € 7 million, reflected in the accounts under biological assets.
- compensation received in relation to the fire in Vila Velha de Ródão and the turbo-generator in Setúbal, together amounting to a positive inflow of € 6.5 million.

Turning to recurrent factors, the Group recorded a reduction in variable production costs, in particular for wood (thanks to the purchasing mix) and also in logistical and packaging costs. In fixed costs, it should be noted that personnel costs rose by around € 11.5 million in 2017, due essentially to a growing workforce in the new businesses (Colombo and tissue), the increase in the pension fund expenses through a new defined contribution plan extended to all employees in Portugal, and also the values of the performance bonus payable the following year.

As previously reported, the Group has set in motion an ongoing process of improving operational efficiency through sustained reductions in production costs, in the form of a wide-ranging programme known as M2: *Mais e Melhor*, or More and Better. The programme was launched in 2015 and again achieved highly positive results in 2017, exceeding the targets set and impacting EBITDA by around € 27 million. Over the course of 2017, some 126 initiatives were launched and implemented, most importantly negotiations for wood, chemicals (for pulp and paper), energy and product packaging.

Financial results in the period showed a clear improvement, with a loss of € 7.7 million, in contrast to a loss of € 20.8 million in 2016. This reduction of roughly € 13 million in financial costs was achieved essentially by bringing down borrowing costs, which have continued to evolve very positively. Interest expense in 2017 was down by € 4.9 million in relation to 2016 (including interest on the High Yield loan,



whose payment premium amounted to € 6.4 million), in a scenario in which average gross debt was higher than in the previous year. Results from currency hedge operations also improved significantly, due to the weaker dollar, with gains up by € 6 million on 2016, partially offsetting the negative effect on sales.

Pre-tax income amounted to € 247.4 million, compared with € 209.6 million in the previous year, a very positive comparison due to the impairment recognition in 2016 of € 48.9 million, related to Mozambique.

In view of all this, net income for the year totalled € 207.8 million, as compared to net income of € 217.5 million in 2016. It is important to note that net income in 2016 was boosted by the reversal of tax provisions as well as from the effect of the extraordinary tax revaluation regime resulting in a positive tax value of € 7 million, as compared to a negative one in 2017 of approximately € 40 million.

At the end of December, the Group's net debt totalled € 693 million, up by € 52 million on year-end 2016. This increase was due essentially to payment of dividends of € 250 million in June and July, and the capital projects currently under way, with a total value of € 114.7 million in 2017.

In terms of working capital, a reduction of € 20.3 million was recorded in inventories, due to a sharp drop in stocks of finished products, and, conversely, a steep rise in balances payable to the State – Assets and Liabilities – in the amount of € 43.0 million, which is essentially due to the fact that no advancement on corporate income tax payments (IRC) were made during 2016.

In this context, free Cash Flow generated in the period rose to € 198.1 million (vs. € 183.8 million in 2016). The Net Debt / EBITDA ratio is 1.72, slightly up from the figure of 1.61 recorded at year-end 2016, but still at a very comfortable level.

#### **4<sup>th</sup> Quarter 2017 vs 4<sup>th</sup> Quarter 2016**

Turnover in the fourth quarter stood at € 427 million, representing an increase of 1.2% in relation to the same period in the previous year and reflecting the gradual improvement in market conditions over the course of 2017, in particular with



regard to the paper price. It is important to point out that these two quarters are difficult to compare, insofar as operational performance at sales level in the 4<sup>th</sup> quarter of 2016 was exceptional, and was the Group's best ever quarter.

Bearing this in mind, paper sales in the 4<sup>th</sup> quarter totalled approximately 420 thousand tons, as compared to 431 thousand tons sold in the same period in 2016. However, there was a significant improvement in the average sales price which rose by almost 4%, enabling Navigator to record sales worth € 324.5 million euros, up 1.2% on the same period in 2016.

In pulp business, the Group recorded a significant improvement of roughly 31% in the sales price. However, following on from the growth in sales in the first nine months of 2017, when sales were up by 25.1% on the same period in the previous year, the quantity of pulp available to the market was significantly constrained by the annual maintenance shutdown at the Cacia pulp mill and the need to replenish stocks, in advance of the production stoppage planned for late March at the Figueira da Foz mill due to the capacity expansion project currently under way. As a result, the volume of pulp sales stood at around 60 thousand tons, down by 33% from the final quarter of 2016.

The Group recorded growth in tissue sales, in terms of both volume (up 4%) and price (up 5%), resulting in a sales value of € 19.1 million for the quarter. Energy sales also performed well, growing by 5% in volume and 0.5% in price. Pellets sales represented an additional increase in turnover of roughly € 3 million in relation to the same period in 2016.

EBITDA for the 4<sup>th</sup> quarter of 2017 stood at € 103.8 million, as compared to a figure of € 95.9 million in the same quarter in 2016. In 2017, EBITDA was negatively affected by the impact of forest fires, bringing down the total by € 4.8 million in the final quarter.

Financial results improved to a loss of € 1.2 million, as compared to a loss of € 4.2 million in the 4<sup>th</sup> quarter of 2016, reflecting gains of € 2.9 million on currency hedge operations. As a result, net income totalled € 61.9 million, down from the figure of € 83.2 million recorded in the last quarter of 2016.



## Operating indicators

### Pulp and paper

(in 000 tons)	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>BEKP Output</b>	359.0	382.4	377.4	357.3	371.9
<b>BEKP Sales</b>	89.8	90.4	92.0	68.8	59.7
<b>UWF Output</b>	392.4	396.4	383.4	406.1	406.7
<b>UWF Sales</b>	431.3	371.3	400.6	386.4	419.9
<b>FOEX – BHKP Euros/ton</b>	607	645	719	747	805
<b>FOEX – BHKP USD/ton</b>	654	686	792	877	948
<b>FOEX – A4- BCopy Euros/ton</b>	807	803	808	819	831

### Tissue

(in 000 tons)	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Reels Output</b>	14.7	14.7	13.6	13.0	14.8
<b>Output of finished products</b>	10.8	11.7	12.6	12.2	12.4
<b>Sales of reels and goods</b>	2.7	2.7	1.7	1.1	1.8
<b>Sales of finished products</b>	10.8	11.3	12.3	12.3	12.2
<b>Total sales of tissue</b>	13.5	14.0	14.0	13.3	14.0

### Energy

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Production (GWh)</b>	549.4	561.3	556.4	535.9	573.7
<b>Sales (GWh)</b>	440.7	449.4	446.8	426.0	462.8



## 2. STRATEGIC DEVELOPMENT

The Group's capital expenditure in 2017 totalled around € 115 million. Two major development projects - construction of a new tissue mill in Cacia (with reel production and converting capacity) and improvements to pulp production efficiency and environmental performance at the Figueira da Foz mill - accounted for more than two thirds of this figure. These capex projects got under way in 2017 and will continue into 2018, involving total investment of approximately € 205 million (€ 120 million in Cacia and € 85 million in Figueira da Foz), of which € 70 million has already been spent.

In 2017, the project to expand capacity in Figueira da Foz represented investment of € 40 million and the new tissue mill in Cacia approximately € 30 million. Recurrent investment in pulp and paper business totalled € 41 million and the current tissue operation in Vila Velha de Rodão and others, about € 4 million.

### **Mozambique**

As previously reported, the Group has decided to proceed with its investment project in that country at a more moderate pace and phased overtime. Thus, this more conservative approach led to the recording of several impairments in relation to investment in Mozambique, so that in December 2017 the balance sheet value is residual, representing less than 1% of total consolidated assets. During the year, the Group incurred in expenses a net amount of € 8.8 million with its operations in Mozambique, with € 4.1 million registered as costs, impacting negatively EBITDA. Portucel Moçambique is however ready to proceed further with its forestry plans, as soon as circumstances in the country – most of which are under discussion with the Mozambique authorities - permit.

### **Colombo – Pellets Business**

At the end of 2017, the Group announced that it had signed a contract to sell its pellets business to a joint venture managed and operated by an associate of Enviva Holdings, LP, for a total transaction value of USD 135 million, which might be adjusted. The sale is currently subject to a number of prior conditions and



clearance by the regulatory authorities, as is normal in this type of transaction, and the process is expected to be concluded during the first half of 2018.

### **Inpactus**

Inpactus is a new project focused on Innovative Products and Technologies, developed over the course of 2017. The aim is to set up a platform of excellence, combining the resources of industry and universities, to develop different areas of biorefinery, train human resources and generate business opportunities. The project brings together a consortium comprising Navigator Paper Figueira da Foz, Navigator Pulp Cacia, RAIZ (the Group's forestry and paper research institute) and the universities of Coimbra and Aveiro, in partnership with organisations in the scientific and technological system in Portugal and elsewhere.

The Inpactus is structured around 15 activities which will be developed over 4 years, involving total investment of € 15.2 million and benefiting from a total incentive of € 9 million.

In addition to ensuring international competitiveness in the areas of pulp, UWF printing and writing paper and tissue paper, with a view to developing distinctive and innovative products in these three segments, the challenges of the Inpactus project include taking advantage of changes associated with the new "bioeconomy" paradigm, developing emerging business areas in biorefinery and exploiting the added value that bio products can offer the economy and society.

### **3. OUTLOOK FOR 2018**

2017 was an extremely positive year for the pulp sector: prices were increased several times and ended the year at an all-time high near 1 000 USD/ton. Most price forecasts for 2018 are also positive, without any substantial increase in the supply of pulp expected in the next two years. However, fears as to whether prices are sustainable at this level exist and may lead to a degree of adjustment over 2018.

In the UWF sector, the Group took the lead in increasing prices on several occasions in 2017, and announced a fresh price rise for the North American market



in early 2018. Order books remain at comfortable levels, and a positive year can be expected for the sector, whilst evolution of the exchange rate is likely to remain the main cause for concern.

In tissue, January saw phase two of the current round of price increases, which started in October. The continued high level of pulp prices, combined with new capacity coming on to the market, will undoubtedly keep tissue producers under strong pressure again, especially in the case of non-integrated manufacturers.

Within this framework, Navigator's outlook for 2018 is positive in a year that will be particularly challenging for the Group, with the additional pulp capacity in Figueira da Foz due to start up in April, and the new tissue line in Cacia planned to produce its first reels in August.

Setúbal, 8<sup>th</sup> February 2018



**Conference call and Webcast**

**Date:** 8 February 2018

**Service times:** 17:00 - Western European Time – UTC

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The Navigator Company's new app is now available for download on App Store and on Google Play, in an optimised version for iPhone and iPad. To use the app, just download it from the following links:

- on App Store (Apple) at <https://itunes.apple.com/us/app/the-navigator-company-ir-media-app/id1257681817?mt=8>
- on Google Play (Android) at <https://play.google.com/store/apps/details?id=com.symexeconomics.nvg.pt>



#### 4. FINANCIAL STATEMENTS

##### CONSOLIDATED INCOME STATEMENT

Amounts in Euro	2017	2016
Revenues		
Sales	1,632,127,611	1,573,519,928
Services rendered	4,706,825	3,865,279
Other operating income		
Gains on the sale of non-current assets	1,627,544	660,775
Other operating income	28,177,175	40,858,579
Change in the fair value of biological assets	3,783,988	8,616,021
Costs		
Cost of inventories sold and consumed	(652,186,373)	(661,685,701)
Variation in production	(25,301,241)	(2,752,181)
Cost of materials and services consumed	(407,745,075)	(404,494,652)
Payroll costs	(156,044,826)	(144,513,475)
Other costs and losses	(25,307,538)	(16,633,337)
Provisions	(4,084,555)	(420,776)
Depreciation, amortization and impairment losses	(144,703,899)	(166,661,123)
<b>Operational results</b>	<b>255,049,635</b>	<b>230,359,335</b>
Net financial results	(7,696,970)	(20,795,889)
<b>Profit before tax</b>	<b>247,352,665</b>	<b>209,563,446</b>
Income tax	(39,583,528)	7,266,333
<b>Net income</b>	<b>207,769,137</b>	<b>216,829,779</b>
Non-controlling interests	1,467	671,658
<b>Net profit for the period</b>	<b>207,770,604</b>	<b>217,501,437</b>



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in Euro	31-12-2017	31-12-2016
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Goodwill	377,339,466	377,339,466
Other intangible assets	3,878,245	4,300,642
Fixed tangible assets	1,256,558,958	1,294,978,932
Investment in property	99,174	426,838
Biological assets	129,396,936	125,612,948
Other financial assets	424,428	260,486
Investment in associates	-	-
Financial assets available for sale	-	81,636
Deferred tax assets	44,727,571	44,198,753
	<b>1,812,424,778</b>	<b>1,847,199,702</b>
<b>Current Assets</b>		
Inventories	188,598,738	208,888,472
Receivable and other current assets	240,705,381	215,877,823
State and other public entities	75,076,422	69,619,349
Cash and cash equivalents	125,331,036	67,541,588
	<b>629,711,578</b>	<b>561,927,232</b>
<b>Total Assets</b>	<b>2,442,136,355</b>	<b>2,409,126,934</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and Reserves</b>		
Share capital	500,000,000	717,500,000
Treasury shares	(1,002,084)	(1,002,084)
Fair value reserves	(3,020,990)	(7,571,781)
Legal reserves	109,790,475	99,709,036
Translation reserves	(13,966,898)	(779,369)
Free Reserves	217,500,000	-
Retained earnings	167,388,264	205,639,863
Net profit for the period	207,770,604	217,501,437
	<b>1,184,459,371</b>	<b>1,230,997,102</b>
Non-controlling interests	420,277	2,272,606
	<b>1,184,879,648</b>	<b>1,233,269,708</b>
<b>Non-current liabilities</b>		
Deferred taxes liabilities	83,023,517	59,859,532
Pensions and other post-employment benefits	5,090,242	6,457,116
Provisions	19,536,645	31,048,808
Interest-bearing liabilities	670,852,940	638,558,905
Other non-current liabilities	25,466,139	33,301,140
	<b>803,969,483</b>	<b>769,225,503</b>
<b>Current liabilities</b>		
Interest-bearing liabilities	150,205,591	69,702,381
Payables and other current liabilities	259,509,848	255,831,284
State and other public entities	43,571,785	81,098,059
	<b>453,287,224</b>	<b>406,631,724</b>
<b>Total liabilities</b>	<b>1,257,256,707</b>	<b>1,175,857,227</b>
<b>Total equity and liabilities</b>	<b>2,442,136,355</b>	<b>2,409,126,934</b>

