

RESULTS FOR THE FIRST 9 MONTHS
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 first 9 months 2017 (vs. first 9 months 2016):

- Paper volume hits new record level of 1 158 thousand tons (up 3 thousand tons), with average price still lower than last year
- **Turnover up + 5% with strong performance in pulp, energy and tissue business:**
 - Pulp sales grow 32% in value, with volume and price both rising
 - Power sales up 16%, reflecting successful operation of power generation assets
 - Tissue sales grow by 11% in volume and value
- **EBITDA of € 300 million in line with previous year** and EBITDA/sales margin of 25% (vs. 26%)
- **Progress on cost cutting programme, with estimated positive impact on EBITDA of € 18 million**
- Net debt rises to € 742 million after pay-out of € 250 million (€ 0.3487/share) and investment of € 75.7 million; Net Debt / EBITDA ratio of 1.9
- **Financial costs slashed to - € 6.5 million (vs. - € 16.6 million)**, thanks to lower costs on borrowing operations and profits on currency hedges
- **Net income grows 8.6% to € 145.8 million**
- Development projects on new tissue plant in Cacia and capacity expansion at the Figueira da Foz pulp mill running on budget and on time

Highlights 3rd Quarter 2017 (vs. 3rd Quarter 2016)

- **Turnover up 5.4%, with rising pulp prices and increased volume of paper sales**
- EBITDA of € 101.7 million in the quarter (down 4.3%), including estimated impact of forest fires - € 1.4 million
- **Excellent Q3 cash flow generation: €75.9 million**
- 5th Sustainability Forum devoted to Circular Economy



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Leading Indicators – IFRS

(unaudited quarterly indicators)

in million euros	9M 2017	9M 2016	% Change (5) 9M 17 / 9M 16	
Total sales	1 209,8	1 155,4	4,7%	
EBITDA ⁽¹⁾	300,1	301,5	-0,5%	
Operating profits	185,5	178,0	4,2%	
Financial results	- 6,5	- 16,6	-61,0%	
Net earnings	145,8	134,3	8,6%	
Cash flow	260,4	257,8	2,6	
Free Cash Flow ⁽²⁾	148,7	101,1	47,7	
Capex	75,7	100,6	-24,9	
Net debt ⁽³⁾	742,0	723,4	18,6	
EBITDA / Sales (%)	24,8%	26,1%	-1,3 pp	
ROS	12,1%	11,6%	0,4 pp	
ROE	16,4%	15,1%	1,3 pp	
ROCE	13,2%	12,7%	0,5 pp	
Equity ratio	46,7%	47,6%	-0,9 pp	
Net Debt / EBITDA ⁽⁴⁾	1,87	1,82	0,05	

in million euros	Q3 2017	Q3 2016	% Change Q3 17/Q3 16	Q2 2017	% Change Q3 17/Q2 17
Total sales	397,2	376,8	5,4%	420,0	-5,4%
EBITDA ⁽¹⁾	101,7	106,2	-4,3%	108,2	-6,0%
Operating profits	62,0	70,1	-11,5%	71,4	-13,1%
Financial results	1,8	- 3,2	-157,5%	- 4,4	-141,6%
Net earnings	49,8	48,8	1,9%	60,5	-17,7%
Cash flow	89,4	84,9	4,4	97,3	-7,9
Free Cash Flow ⁽²⁾	75,9	69,7	6,2	48,7	27,2
Capex	40,5	25,3	15,2	20,9	19,6
Net debt ⁽³⁾	742,0	723,4	18,6	737,9	4,1
EBITDA / Sales (%)	25,6%	28,2%	-2,6 pp	25,8%	-0,2 pp
ROS	12,5%	13,0%	-0,4 pp	14,4%	-1,9 pp
ROE	16,8%	17,1%	-0,3 pp	20,5%	-3,8 pp
ROCE	13,2%	14,8%	-1,6 pp	15,4%	-2,2 pp
Equity ratio	46,7%	47,6%	-0,9 pp	44,9%	1,7 pp
Net Debt / EBITDA ⁽⁴⁾	1,87	1,82	0,05	1,84	0,03

(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

9 Months 2017 vs. 9 Months 2016

Turnover for the first nine months of 2017 stood at € 1 210 million, up by 4.7%, sustained essentially by strong operating performance in sales of pulp, power and tissue.

Pulp sales grew by around 25%, to more than 250 thousand tons, driven by the strong demand experienced over the period, with prices continuing on the upward course recorded since late 2016. The benchmark PIX – BHKP index in euros recorded an average price of 703 €/ton, as compared to 636 €/ton in the same period in 2016 (up 10.6%). The Group's average price also followed an upward course, with pulp sales growing by 32% in value, to a total of € 129.5 million.

Conditions in the paper market also improved gradually over the year, with progressively stronger order books in Europe and in overseas markets. The Group recorded a healthy volume of paper sales, setting a new record of 1 158 tons sold, around 3 thousand tons more than in the first nine months of 2016.

In the period, the Navigator Group implemented three price rises up to July, and also announced a fourth increase from September onwards. These increases helped to offset the price reduction recorded in the final quarter of 2016, with the Group's average price in the first nine months of 2017 still lower than the average price in the same period last year.

Despite the improvement in the product mix sold, with premium and own-brand products accounting for a larger share of sales, the Group's average price in Europe was brought down by the evolution of the exchange rate and by the evolution of the market mix. In Europe, the main impact was the weakness of sterling which, combined with an increase in sales in markets outside Europe, mostly USD-denominated, and with exchange rate trends in recent months, had a negative effect on the Group's overall sales average price.



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Tissue sales also recorded growth in volume, up by 11% to approximately 41 thousand tons, made possible by the expansion in production and converting capacity over the course of 2015. Portugal and Spain remained the Group's main geographical markets and away-from-home products represented a larger slice of sales. Overall, the product mix improved, with reels accounting for a smaller share of sales and, as a result, the average sales price was slightly higher than in the same period in 2016, with sales volume totaling € 55.3 million (up 11%).

At the end of the third quarter of 2017, power sales were up by 16% in value from the same reference date in 2016, reflecting successful operation of power generation assets, with especially strong performance from the renewable cogeneration plant and the combined-cycle natural gas power station at the Setúbal industrial complex. Of course, figures for power sales at the end of the 3rd quarter of 2016 had shown the negative impact of stoppages and breakdowns at the renewable cogeneration plants in Setúbal and Cacia. Due to these factors, Navigator's total gross power output at the end of the third quarter of 2017 was up by 6% year-on-year.

Power sales from the operation of the natural gas combined-cycle power stations also benefited from the sharp hike (roughly 20% year-on-year) in Brent prices, to which the sales price is indexed.

Having completed its new pellets mill in late 2016 in Greenwood, South Carolina, USA, the Group started up production and marketing of products in 2017. Sales up to the end of September totalled 91 thousand tons, and approximately € 12 million. The pellets business continues to contribute negatively to EBITDA, although the situation has improved in relation to the end of the 1st half.

In this general context, EBITDA totalled € 300.1 million, in line with the figure recorded in the previous year, and reflecting an EBITDA/Sales margin of 24.8%.



Concerning the impact of the forest fires up to the end of September in mainland Portugal (essentially in the central region of the country), estimates point to an area burned of roughly 216 thousand hectares, including 2700 hectares of Navigator's eucalyptus forests. As a result, biological assets have been written down by a total amount year to date of € 2.2 million (€1.4 million registered in Q3).

Over the course of the year, the Group has pressed ahead with its programme of cost optimisation and efficiency, M2, and results have continued to outperform targets. At the end of September, this programme's accumulated impact on EBITDA entailed an overall reduction in costs and an improvement in productivity adding up to around € 18 million, in relation to 2016.

Over this period, out of a total of 92 successfully launched initiatives, 24 projects achieved outstanding results, in particular in purchasing, where savings were recorded on energy (€ 2.6 million), product packaging (€ 2.3 million) and chemicals for pulp and paper (€ 1.0 million). Significant success has also been achieved in pulp and paper logistics (€ 1.1 million) and in manufacturing improvements and maintenance in industrial areas (€ 2.8 million). In product development and quality, higher competitiveness has been achieved through a more efficient product allocation and specification (€ 1.4 million) and strong performance was recorded in wood supplies, thanks to measures adopted to optimise logistical resources (€ 3.1 million).

Financial results through to the end of September improved in relation to the previous period, with a loss shrinking YoY from € 16.6 million to € 6.5 million euros. This was essentially due to a significant reduction in borrowing costs, thanks to the restructuring of the Group's debt concluded in 2016 as well as the commercial paper issue at very favourable rates. On a comparable basis, excluding the cost in 2016 of the decision to proceed with early repayment of a bond issue of € 6 million, interest expense fell by € 4.2 million, whilst financial results also benefited from gains of approximately € 3.2 million on forex hedges.



Net income totalled € 145.8 million, as compared to the figure of € 134.3 million recorded in the first nine months of 2016.

At the end of September, the Group's net debt stood at € 742 million, up by € 101.3 million from year-end 2016, reflecting essentially payment in June and July of dividends of € 250 million. Free cash flow generated over the period surged to € 148.7 million, as compared to € 101.1 million in the first nine months of 2016, whilst capex in the period totalled € 75 million, down by € 25 million on the accrued figure at the end of September 2016.

The Net Debt / EBITDA ratio is 1.87, slightly up from the figure of 1.61 recorded at year-end 2016.

3rd Quarter 2017 vs 3rd Quarter 2016

Third quarter performance reflected improving market conditions over the course of the year. Turnover grew by 5.4% when compared with the figure recorded in the same quarter last year, due essentially to strong performance in pulp business, where the sales price rose by almost 22%, and to the growing volume of paper sales (up 1.7%). Figures were also positive for sales of tissue and power, and the new pellets business also added roughly € 5 million euros to total Group turnover.

EBITDA stood at € 101.7 million in the 3rd quarter of 2017, as compared to a figure of € 106.2 million in the same period last year, when earnings were positively impacted by a series of non-recurrent items with a net impact of around € 3 million, related essentially to the discount rate used in valuing biological assets. In 2017, EBITDA was negatively affected by the impact of forest fires, bringing down the total by € 1.4 million in the third quarter.



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Financial results improved and the Group recorded a financial profit in the quarter by € 1.8 million, reflecting the gains recorded on forex hedges. As a result, net income totalled € 49.8 million, comparing positively with the figure of 48.8 million recorded in the third quarter of 2016.

Operating indicators

Pulp and paper

(in 000 tons)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
BEKP Output	370,2	373,4	367,8	359,0	382,4	377,4	357,3
BEKP Sales	64,6	65,1	71,2	89,8	90,4	92,0	68,8
UWF Output	397,7	397,0	399,9	392,4	396,4	383,4	406,1
UWF Sales	377,8	397,7	380,0	431,3	371,3	400,6	386,4
FOEX – BHKP Euros/ton	687	613	600	607	645	719	747
FOEX – BHKP USD/ton	757	694	670	654	686	792	877
FOEX – A4- BCopy Euros/ton	836	830	820	807	803	808	819

Tissue

(in 000 tons)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Reels Output	11,2	7,9	13,1	14,7	14,7	13,6	13,0
Output of finished products	10,1	10,0	10,9	10,8	11,7	12,6	12,2
Sales of reels and goods	1,7	2,2	2,4	2,7	2,7	1,7	1,1
Sales of finished products	9,7	10,7	10,7	10,8	11,3	12,3	12,3
Total sales of tissue	11,4	12,9	13,2	13,5	14,0	14,0	13,3

Energy

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Production (GWh)	508,1	519,7	537,2	549,4	561,3	556,4	535,9
Sales (GWh)	389,5	385,8	425,3	440,7	449,4	446,8	426,0



2. STRATEGIC DEVELOPMENT

Over the past three months, Group investment has picked up speed in the two major development projects in progress in Portugal: construction of a tissue plant in Cacia (with reels production and converting capacity) and upgrading pulp production efficiency and environmental performance at the Figueira da Foz mill. 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).

As a result, total capital expenditure in the first nine months of 2017 stood at € 75.7 million, divided between the capacity expansion project at Figueira da Foz (€ 34.3 million), recurrent pulp and paper business (€ 21.1 million), the new tissue mill in Cacia (17.3 million) and the existing tissue operation in Vila Velha de Rodão (€ 2.2 million).

Mozambique

As previously reported, the Group has decided to proceed with its capital project in Mozambique at a more moderate pace and to implement its plans in stages. At this moment, the project is essentially a forestry venture, with the option of industrial development involving construction of a large-scale pulp mill. The first phase includes developing a eucalyptus woodchip production and export operation, geared essentially to the Asian market. This is planned to be up and running by 2023, with phase two - if it goes ahead - being implemented up to 2030.

Operating through its subsidiary Portucel Moçambique, the Navigator Group is focused on resolving the outstanding issues, which include, among others, the legalization, regularization and demarcation of the DUAT (Direito de Utilização e Aproveitamento de Terra) areas, the revision of the access to land model, the confirmation of appropriate logistical conditions, the definition of a stable legal and fiscal framework and the project social acknowledgement. The Group expects that



the bulk of these issues will be overcome by the coming months, which will allow forestry plans to proceed at the envisaged pace.

3. OUTLOOK

Over the first nine months of 2017, the short fibre pulp market continued to present the strong performance recorded since the end of last year: demand has grown sharply, stock levels are low and upward pressure on prices is strong. Most forecasts for pulp prices in 2017 have been revised upwards, and concerns about the impact of new capacity have been partially offset by the production shutdowns still planned for 2017. However, the pace of growth in demand over recent quarters will be hard to sustain and the price differential between short and long fibre pulp has been at all-time lows, which could lead to a degree of adjustment in the market in 2018.

Conditions in the paper market also improved gradually over the year, and by the end of September global demand for UWF had grown by around 0.9%, with a special focus on Asian markets, and China in particular. In Europe, apparent consumption edged down by 0.3% in the first nine months of the year, although demand for folio sizes grew by approximately 2% and demand for cut size held steady in relation to the same period last year. The Group has taken the lead in a series of price increases since the start of the year, the last of these in September. Order books remain comfortably full, and sound performance can be expected in the fourth quarter. Forex trends, in particular the EUR/USD rate, remain the main cause for concern.

The tissue market has seen an increase in competition in the Iberian Peninsula and a rise in production costs caused by higher pulp prices. Navigator announced a price increase for its tissue products in Portugal and Spain, for gradual implementation from October to January 2018.

Setúbal, 26 October 2017



Subsequent events:

In October, Portugal was again ravaged by a large number of fires, estimated to have raised the total area burned to around 520 thousand hectares across the country and approximately 6100 hectares related to the Group, whose financial impact is still being assessed. It is difficult to estimate the consequences of these fires for wood supplies in future years, but at this time no risks are anticipated to the supply of wood to the Group's industrial units.

Conference call and Webcast

Date:

26 October 2017

Time:

17:00 - Western European Time – UTC

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All numbers should be followed by the pincode: 87253674#

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	9 Months Ending 30-09-2017	9 Months Ending 30-09-2016
Revenues		
Sales	1,206,126,730	1,152,396,501
Services rendered	3,669,409	2,997,235
Other operating income		
Gains on the sale of non-current assets	614,787	633,876
Other operating income	12,340,191	22,408,503
Change in the fair value of biological assets	3,186,006	10,579,146
Costs		
Cost of inventories sold and consumed	(494,858,603)	(499,277,864)
Variation in production	(1,409,554)	14,991,558
Cost of materials and services consumed	(300,891,039)	(285,838,409)
Payroll costs	(111,180,117)	(106,285,595)
Other costs and losses	(17,547,662)	(11,096,953)
Provisions	(3,055,219)	(2,961,513)
Depreciation, amortization and impairment losses	(111,529,226)	(120,518,942)
Operational results	185,465,703	178,027,543
Net financial results	(6,488,744)	(16,619,934)
Profit before tax	178,976,959	161,407,610
Income tax	(33,175,866)	(27,142,575)
Net Income	145,801,093	134,265,035
Non-controlling interests	(6,446)	22,383
Net profit for the period	145,794,647	134,287,418



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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in Euro	30-09-2017	30-09-2016	31-12-2016
ASSETS			
Non-Current Assets			
Goodwill	377,339,466	377,339,466	377,339,466
Other intangible assets	3,876,509	2,207,967	4,300,642
Fixed tangible assets	1,259,527,643	1,316,557,524	1,294,978,932
Investment in property	423,958	426,838	426,838
Biological assets	128,798,954	127,576,074	125,612,948
Other financial assets	400,415	260,486	260,486
Financial assets available for sale	-	-	81,636
Deferred tax assets	45,331,690	46,084,156	44,198,753
	1,815,698,635	1,870,452,511	1,847,199,702
Current Assets			
Inventories	223,775,143	241,324,650	208,888,472
Receivable and other current assets	213,688,882	210,718,429	215,877,823
State and other public entities	60,979,210	63,173,430	69,619,349
Cash and cash equivalents	111,548,132	51,786,449	67,541,588
	609,991,367	567,002,957	561,927,232
Total Assets	2,425,690,002	2,437,455,468	2,409,126,934
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	500,000,000	717,500,000	717,500,000
Treasury shares	(1,002,084)	(1,002,084)	(1,002,084)
Fair value reserves	(1,146,543)	(9,528,854)	(7,571,781)
Legal reserves	327,290,475	99,709,036	99,709,036
Translation reserves	(1,274,373)	385,650	(779,369)
Other Reserves	168,893,215	211,954,854	205,639,863
Net profit for the period	145,794,646	134,287,418	217,501,437
	1,138,555,336	1,153,306,020	1,230,997,102
Non-controlling interests	2,400,801	6,678,702	2,272,606
	1,140,956,137	1,159,984,722	1,233,269,708
Non-current liabilities			
Deferred taxes liabilities	70,414,901	82,049,563	59,859,532
Pensions and other post-employment benefits	6,910,375	907,456	6,457,116
Provisions	22,246,853	56,323,191	31,048,808
Interest-bearing liabilities	778,207,391	753,314,443	638,558,905
Other non-current liabilities	27,618,158	39,256,640	33,301,140
	905,397,679	931,851,292	769,225,503
Current liabilities			
Interest-bearing liabilities	75,332,675	21,896,937	69,702,381
Payables and other current liabilities	246,355,672	220,211,773	255,831,284
State and other public entities	57,647,841	103,510,741	81,098,059
	379,336,188	345,619,451	406,631,724
Total liabilities	1,284,733,867	1,277,470,744	1,175,857,227
Total equity and liabilities	2,425,690,003	2,437,455,466	2,409,126,934

