

INTERIM RESULTS 1<sup>ST</sup> HALF  
2017

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

**Share Capital:** 717 500 000 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 1<sup>st</sup> Half 2017 (vs. 1<sup>st</sup> Half 2016)**

- **Turnover up 4.4% with strong performance in pulp, energy and tissue business:**
  - Pulp sales increase by 40%
  - Electricity sales up by 23%, reflecting normal operation of renewable cogeneration facilities in Cacia and Setúbal
  - Tissue sales volume up 16%
  - Paper volume stood at 772 thousand tons, with prices lower than in previous year
- **Progress on cost cutting programme, with estimated impact on EBITDA of € 10 million**
- **EBITDA grows to € 198 million (vs. € 195 million), with EBITDA over sales margin of 24.4 % (vs. 25.1%)**
- Financial costs reduced by 38.3% thanks to recent financial restructuring; average cost of debt drops to 1.6%
- **Net earnings increased 12.4% to € 96.0 million (vs. € 85.5 million)**
- Net debt rises to € 738 million after first dividend payment of € 170 million (€ 0.2371/share) in early June; Net Debt / EBITDA ratio of 1.8
- **Capex projects in Figueira da Foz (Expansion of pulp capacity of 70,000 tAD/year) and in Cacia (new Tissue mill with capacity of 70,000 tAD/year)) proceeding on schedule and within budget.**

**Highlights 2<sup>nd</sup> Quarter 2017 (vs. 1<sup>st</sup> Quarter 2017)**

- Paper volume up 8%, to 400.6 thousand tons
- **EBITDA up 20% to € 108.2 million, and EBITDA/Sales margin rises 2.8 pp to 25.8%**
- Wildfires with little impact on Navigator's own forest holdings



# INTERIM RESULTS 1<sup>ST</sup> HALF 2017

## Summary of Leading Indicators – IFRS

(Quarter figures unaudited)

in million euros	H1 2017	H1 2016	% Change H1 17 / H1 16
<b>Total sales</b>	812.6	778.6	4.4%
<b>EBITDA <sup>(1)</sup></b>	<b>198.4</b>	<b>195.3</b>	<b>1.6%</b>
<b>Operating profits</b>	123.4	107.9	14.4%
<b>Financial results</b>	- 8.3	- 13.5	-38.3%
<b>Net earnings</b>	<b>96.0</b>	<b>85.5</b>	<b>12.4%</b>
<b>Cash flow</b>	171.0	172.8	-1.8
<b>Free Cash Flow <sup>(2)</sup></b>	72.8	31.3	41.5
<b>Capex</b>	35.2	75.3	-40.1
<b>Net debt <sup>(3)</sup></b>	737.9	793.2	-55.3
<b>EBITDA / Sales (%)</b>	<b>24.4%</b>	<b>25.1%</b>	<b>-0.7 pp</b>
<b>ROS</b>	11.8%	11.0%	0.8 pp
<b>ROE</b>	16.6%	14.6%	1.9 pp
<b>ROCE</b>	13.4%	11.4%	1.9 pp
<b>Equity ratio</b>	44.9%	46.2%	-1.3 pp
<b>Net Debt / EBITDA <sup>(4)</sup></b>	1.8	2.0	-0.1

in million euros	Q2 2017	Q1 2017	% Change Q2 / Q1
<b>Total sales</b>	420.0	392.7	7.0%
<b>EBITDA <sup>(1)</sup></b>	<b>108.2</b>	<b>90.2</b>	<b>20.0%</b>
<b>Operating profits</b>	71.4	52.0	37.2%
<b>Financial results</b>	- 4.4	- 3.9	11.0%
<b>Net earnings</b>	<b>60.5</b>	<b>35.6</b>	<b>70.0%</b>
<b>Cash flow</b>	97.3	73.7	23.6
<b>Free Cash Flow <sup>(2)</sup></b>	48.7	24.2	24.5
<b>Capex</b>	20.9	14.3	6.6
<b>Net debt <sup>(3)</sup></b>	737.9	616.6	121.3
<b>EBITDA / Sales (%)</b>	<b>25.8%</b>	<b>23.0%</b>	<b>2.8 pp</b>
<b>ROS</b>	14.4%	9.1%	5.3 pp
<b>ROE</b>	20.5%	11.4%	9.2 pp
<b>ROCE</b>	15.4%	11.1%	4.3 pp
<b>Equity ratio</b>	44.9%	51.8%	-6.8 pp
<b>Net Debt / EBITDA <sup>(4)</sup></b>	1.8	1.6	0.3

- (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



**Note on the fires in June in Pedrógão Grande**

*The Navigator Company and Altri were involved from the outset in fighting the wildfires which occurred in Portugal in June this year, deploying the specialist fire-fighting teams operated by Afocelca. The loss of human life as a result of these fires was tragic and unparalleled in the country's history, and the companies are united in wishing to support all those affected by these terrible events.*

*To this end, Navigator and Altri decided to contribute one million euros, of which half a million euros will go to a special fund set up by the Calouste Gulbenkian Foundation to help civil society organizations in the Pedrógão Grande region. This contribution is designed to minimize the consequences of the fires and tragedy which affected the municipalities of Pedrógão Grande, Figueiró dos Vinhos and Castanheira de Pera. The two forestry Companies also decided to invest restoring the hillsides, water courses and forest infrastructures in the areas affected by the fires, as set out in a technical plan for 12 distinct measures, and will also place the expertise of their staff at the disposal of these efforts.*



## 1. ANALYSIS OF RESULTS

### 1<sup>st</sup> Half 2017 vs. 1<sup>st</sup> Half 2016

Turnover increased by 4.4%, to € 812.6 million, sustained essentially by strong performance in sales of pulp, power and tissue.

Pulp sales grew by roughly 41%, to more than 182 thousand tons, driven by the strong demand recorded over the period and the increased availability of market pulp at the Cacia mill in relation to the 1<sup>st</sup> Half of 2016. Throughout the semester, pulp prices evolved positively and the benchmark PIX - BHKP index in euros averaged 682 €/ton, as compared to 649 €/ton in the same period in the previous year. In spite of a positive evolution over the first half of 2017, the Group's average price in this period remained slightly below the first half of 2016 and pulp sales in value totalled € 92 million, representing a growth of 40%.

Paper business was also marked by gradually improving market conditions, with a significant upturn in orders in Europe. In this setting, the Navigator Group implemented two price rises over the first half, resulting in an improvement in its average prices between December 2016 and June 2017 of approximately 3.3%. However, this improvement is not yet visible in the average value of the market price index, PIX-A4-B copy, which recorded an average price of 805 €/ton in the first half of 2017 vs. 833 €/ton in the first half of 2016. In volume, the Group sold a total of 772 thousand tons of UWF paper, with sales rising significantly from the first to the second quarter, remaining in line with volume in the first half of 2016. In terms of value, paper sales stood at € 584.2 million, as compared with € 604.3 million. Attention should be drawn to the improvement in the mix of products sold, with premium segment sales up by 2.4% YoY.

Tissue sales recorded growth, up by 15.6% in volume, to approximately 28 thousand tons, taking full advantage of the expansion in production and converting capacity over the course of 2015. The increase in quantities sold, combined with a slight decline in the average sales price, resulted in tissue sales worth € 37.1 million (up 13.0%).



In the first half of 2017, the value of power sales increased by 23% in relation to the first half of 2016, reflecting the normal operation of the renewable cogeneration facilities in Cacia and Setúbal. It should be recalled that power sales in the first half of 2016 were adversely affected by (i) the stoppage of TG3 at the renewable cogeneration plant at the Setúbal pulp mill; (ii) the breakdown in TG4 at the cogeneration plant at the Cacia pulp mill. Power sales also benefited from rising Brent prices in relation to the same period in the previous year, which has a direct influence on the relevant index.

Total gross power output was up by 8.7% in the first half of 2017 in relation to the same period in 2016, driven in particular by the increase in renewable cogeneration output at the Cacia pulp mill (+44.8%) and in renewable cogeneration at the Setúbal pulp mill (+52.3%). The biomass power stations in Cacia and Setúbal, exclusively dedicated to generating power sales to the national grid, also enjoyed strong performance, with gross output rising by 6.5% and 9.1% respectively.

In its new pellets production business in the United States, the Group recorded its first sales in 2017, achieving a sales volume of 65 thousand tons by the end of the first half, with turnover of approximately € 7.4 million. The plant is still at the start-up phase, and has experienced some problems in the production and marketing of pellets. Taking a prudent approach, the Company decided to recognize these impacts in its accounts during its first operating first half, recording a total of € 2.0 million in non-recurrent costs and extraordinary costs, with EBITDA contribution from the pellets business still negative at this point.

In this context, EBITDA totalled € 198.4 million, 1.6% up on the figure recorded in the previous year, and reflecting an EBITDA/Sales margin of 24.4%.

Throughout the first half, the Group continued to work on the global reduction of costs and on improving productivity. Therefore, the number of initiatives under the M2 program recorded an increase, which translated into significant cost reduction estimated at € 10 million. The most positive impact was recorded on energy



purchases (€ 1.9 million), purchases of packaging (€ 1.5 million) and dispatch logistics (€ 0.8 million).

In terms of wood costs, the Group recorded an overall improvement in average production costs thanks to the reduction achieved in purchase prices, which offset the increase in specific consumption, resulting from the use of wood from sources offering poorer industrial performance.

In terms of the forest fires which occurred in June in the municipalities of Pedrógão Grande, Góis and Sertã, estimates point to a burned area of around 50 thousand hectares, with roughly 800 hectares of Navigator forests affected. Although the direct impact of this fire on the Group's forest holdings was not significant, several Portuguese suppliers have been affected, and it is still too early to evaluate the possible impact of these fires on future years. In any case, no risks are currently anticipated to the supply of wood to the Group's industrial plants.

In terms of financial results for the first half, the Group recorded costs of € 8.3 million euros, as compared with costs of € 13.5 million recorded in the first half of 2016. This improvement was due essentially to the significant reduction in borrowing costs, with interest expense down by approximately € 4.0 million, thanks to the restructuring of debt and contracting of new borrowing. When compared YoY, financial results were also positively impacted by non-recurring impacts in 2016, namely the premium paid for the call exercise on the high yield bond and the reversal of costs associated with tax contingencies.

Net income totalled € 96.0 million, as compared € 85.5 million recorded in the first half of 2016.

At the end of the first half, the Group's net debt stood at € 737.9 million, up by € 97.2 million from year-end 2016, reflecting essentially payment of dividends of €



170 million. Free cash flow generated in the period totalled € 72.8 million, as compared with € 31.3 million in the first half of the previous year, positively impacted by the reduced amount in Capex.

The Net Debt / EBITDA ratio is 1.84, slightly up from the figure of 1.61 recorded at year-end 2016, still inferior to the 2.0 registered at the end of the first half of 2016.

### **2<sup>nd</sup> Quarter 2017 vs 1<sup>st</sup> Quarter 2017**

Second quarter performance reflected improving market conditions over the first months of the year. Turnover grew by 7.0% in comparison with the previous quarter, due essentially to the increased volume of paper sales (+7.9%), and strong performance in pulp business, where the sales volume was up by 1.8%, accompanied by a rise of 11.5% in the BHKP benchmark price index (in euros).

As a result, 2<sup>nd</sup> quarter EBITDA stood at € 108.2 million, representing an increase of 20%, whilst the EBITDA/Sales margin improved by 2.8 pp, to 25.8%. EBIT totalled € 71.4 million, as against € 52 million in the first half.

Net income of € 70 million recorded in the 2<sup>nd</sup> quarter compares very favourably with € 35.6 million in the 1<sup>st</sup> quarter, benefiting from a lower effective tax rate, due to adjustments made related to overestimated taxes in 2016.



## Operating indicators

### Pulp and paper

(in 000 tons)	1T 2016	2T 2016	3T2016	4T2016	1T2017	2T 2017
<b>BEKP Output</b>	370.2	373.4	367.8	359.0	382.4	377.4
<b>BEKP Sales</b>	64.6	65.1	71.2	89.8	90.4	92.0
<b>UWF Output</b>	397.7	397.0	399.9	392.4	396.4	383.4
<b>UWF Sales</b>	377.8	397.7	380.0	431.3	371.3	400.6
<b>FOEX – BHKP Euros/ton</b>	687	613	600	607	645	719
<b>FOEX – BHKP USD/ton</b>	757	694	670	654	686	792
<b>FOEX – A4- BCopy Euros/ton</b>	836	830	820	807	803	808

### Tissue

(in 000 tons)	1T 2016	2T 2016	3T2016	4T2016	1T2017	2T 2017
<b>Reels Output</b>	11.2	7.9	13.1	14.7	14.7	13.6
<b>Output of finished products</b>	10.1	10.0	10.9	10.8	11.7	12.6
<b>Sales of reels and goods</b>	1.7	2.2	2.4	2.7	2.7	1.7
<b>Sales of finished products</b>	9.7	10.7	10.7	10.8	11.3	12.3
<b>Total sales of tissue</b>	11.4	12.9	13.2	13.5	14.0	14.0

### Energy

(in 000 tons)	1T 2016	2T 2016	3T2016	4T2016	1T2017	2T 2017
<b>Production (GWh)</b>	508.1	519.7	537.2	549.4	561.3	556.4
<b>Sales (GWh)</b>	389.5	385.8	425.3	440.7	449.4	446.8



## 2. STRATEGIC DEVELOPMENT

The Group has pressed ahead with its development projects as announced, in particular the construction of a tissue mill in Cacia and expansion of pulp capacity at the Figueira da Foz mill. As a result, capital expenditure in the first half totalled € 35.2 million, divided essentially between the project in Figueira da Foz (€ 19.7 million), pulp and paper business (€ 8.8 million), and tissue in Cacia and Vila Velha de Rodão (€ 4.6 million).

### **Tissue project in Cacia**

This project involves building a state-of-the-art tissue paper production line and respective facilities for conversion into end products, with nominal annual capacity of approximately 70 thousand tons, benefitting from pulp-tissue integration synergies and total investment of roughly € 120 million. Progress made in the first half included selection of the main plant suppliers and obtaining various licenses. Work also started on preparing the site and civil construction got under way. The project is currently proceeding up to schedule, and the tissue paper machine is planned to start up in Q3 2018.

### **Expansion of Pulp Capacity in Figueira da Foz**

The project at the Figueira da Foz site is designed to improve production efficiency and environmental performance, whilst at the same time increasing annual capacity by 70 thousand tons, to a total of 650 thousand tons of BEKP pulp. Overall investment is estimated at around € 85 million euros and includes important operational and environmental improvements, namely in terms of reduction of odour, residues, air and liquid emissions. Significant progress was made in starting up construction work on piles and adjudication of the civil construction contract. Installation of the main plant is planned for September 2017; the Company estimates that the first production tests will start after the maintenance stoppage programmed for March 2018.



## **Mozambique**

Navigator remains fully committed to the forestry and industrial project it has been pursuing in Mozambique since 2009. However, in view of the changes in the general environment in which the project is being undertaken, in particular the higher operating risks due to the political, social and economic situation in general, the Company has decided to proceed with investment at a more moderate pace and implement the project in phases, with the approval of the Mozambican Government. At this moment, the project in Mozambique is focussed on forestry development as a necessary condition to the development an industrial project involving the construction of a large-scale pulp mill.

At this stage, the Group is also assessing whether to implement a production operation for eucalyptus wood chip, geared essentially to the Asian market. A pilot operation which started in late 2016 was successfully completed at the end of the first quarter, involving the export of 2 thousand tons of eucalyptus wood to Portugal from Zambézia through the Port of Nacala. Armed with this practical experience gained on the ground, the Company has identified a series of conditions which need to be met before it is able to advance with a wood chip production and export operation, and has informed the government of Mozambique of these requirements. Operating through its subsidiary Portucel Moçambique, the Navigator Group is focused on resolving these issues, and expects most of them to be overcome by the end of 2017, with the support of IFC (International Finance Corporation), partner and investor in this project.

## **3. OUTLOOK**

At the close of the first half of 2017, expectations continue to point to a gradual upturn in the world economy, with favourable performance in the developed and also the emerging markets. Particularly positive signs can be observed in the Economic and Monetary Union countries, where various indicators have returned to their highest levels prior to the international financial crisis, confirming the scenario of robust growth in the second quarter. In the emerging markets, China leads the



way in economic performance, with the full range of indicators pointing towards sustained growth.

In the short fibre pulp market, business was strong throughout the first half, with sharp growth in demand, low levels of stocks and upwards pressure on prices. Most forecasts for pulp prices in 2017 have been revised upwards, with industry analysts pointing to an average price for this year of around 790 USD/ton, well above the average price in 2016. There is uncertainty as to the impact of new pulp capacity expected to come on to the market as from the second half of this year, although this impact may be softened by the effect of production stoppages also planned for 2017.

In the paper market, the Group has felt the benefit of improving market conditions as from the end of 2016, in a trend which continued throughout the first half. Significantly, global figures from PPPC/Eurograph point to growth in UWF demand of 1.1% (YTD May 2017), making this the only segment in printing papers to record growth in the last two years. After implementing two price rises during the first half, the Group has announced a further price increase for its products to be implemented from July onwards, in Europe and in markets in the Middle East and Northern Africa. These increases are a consequence of the improvement of the pulp market conditions, which directly benefit Navigator's integrated business. The Group's 60-day order book is currently at an all-time high, allowing it to anticipate a fairly robust third quarter.

Tissue business in 2017 is feeling the effects of the stronger economy in general, and of rising employment and income levels in particular, although it has also reflected a sharp rise in competition in Iberia. The Group will continue to work on developing its sales, although it expects increased pressure on margins due to the sharp rise in pulp prices and new capacity coming on to the market.

Setúbal, 27 July 2017



## Subsequent Events

### Payment of Dividends

On 5 July, The Navigator Company paid the second tranche of dividends, corresponding to distribution of reserves, approved at the General Meeting of 24 May 2017. This involved an overall sum of approximately € 80 million, equivalent to a gross dividend per share of € 0.1116. Therefore, total amount paid in dividends relating to 2016 was € 250 million.

### Proposed legislation altering the legal rules on forestation and reforestation

Navigator views with great concern the new draft legislation approved by the Portuguese Parliament on 19 July 2017, prohibiting new eucalyptus plantations and introducing arrangements that will result in constraints on renewal of existing plantations of this species. This legislative package only allows new plantations which replace existing plantations and requires in that case a gradual reduction so that, after five years, the ratio of new eucalyptus areas will correspond to half of each hectare of reduced eucalyptus.

These discriminatory measures are devoid of any scientific, economic or environmental grounds, and will have the immediate and long-term consequence of further increasing the abandonment of rural properties in Portugal. These measures will not resolve the problem of wildfires in our country, as the main cause of these fires is the accumulation of combustible matter in rural areas. Unmanaged or abandoned woodlands, with a high wooded density, reacts to fire in a similar way, irrespective of which species is dominant. Indeed, eucalyptus is one of the species for which the burned areas has been lowest in the past 15 years (2000-2015), according to ICNF figures (National Authority for Forest Conservation), lower than for maritime pine and far lower than for brushland and uncultivated land which accounts for more than half the entire burned area in Portugal.

The Company has been making the case for prevention as the key tool in mitigating fire risks, creating opportunities for combating fires through construction and maintenance of infrastructures which penetrate forest areas and reduce the



combustible matter in these areas. These measures need to be pursued within a policy framework that rewards certified forestry management. In Navigator's managed and certified forests, the areas burned are less than 1% of the total area under management, making it even clearer that an organised and well-managed forest is less vulnerable to fire risk.

Implementation of this legislation will of course add to the already heavy burden of paying for expensive imports of raw material for the eucalyptus pulp industry. The losers are the pulp manufacturers, who are less able to compete internationally, and the country as a whole, which loses foreign revenues and sees jobs disappear.

### **Conference call and Webcast**

**Date:**

27 July 2017

**Time:**

17:00 - Western European Time – UTC

**Dial-in:**

Portugal: +351 308801485 + PIN CODE 21959507#

Spain: +34 917900877

United Kingdom: +44 (0) 2077509908

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 STATEMENTS

Amounts in Euro	6 Months Ending 30-06-2017	6 Months Ending 30-06-2016
Revenues		
Sales	810,175,169	776,642,255
Services rendered	2,467,376	1,927,941
Other operating income		
Gains on the sale of non-current assets	342,006	424,963
Other operating income	6,139,000	16,083,486
Change in the fair value of biological assets	3,210,175	6,938,246
Costs		
Cost of inventories sold and consumed	(330,348,337)	(341,691,742)
Variation in production	(5,188,158)	2,269,842
Cost of materials and services consumed	(201,300,731)	(184,862,994)
Payroll costs	(75,634,979)	(74,412,043)
Other costs and losses	(11,484,552)	(8,045,392)
Provisions	(189,617)	(1,398,423)
Depreciation, amortization and impairment losses	(74,766,617)	(85,955,527)
<b>Operational results</b>	<b>123,420,733</b>	<b>107,920,613</b>
Net financial results	(8,305,941)	(13,462,204)
<b>Profit before tax</b>	<b>115,114,793</b>	<b>94,458,409</b>
Income tax	(19,068,699)	(9,209,390)
<b>Net Income</b>	<b>96,046,094</b>	<b>85,249,019</b>



# INTERIM RESULTS 1<sup>ST</sup> HALF 2017

## **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

Amounts in Euro	30-06-2017	31-12-2016
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Goodwill	377,339,466	377,339,466
Other intangible assets	3,876,612	4,300,642
Fixed tangible assets	1,254,227,317	1,294,978,932
Investment in property	424,369	426,838
Biological assets	128,823,123	125,612,948
Other financial assets	260,486	260,486
Financial assets available for sale	117,958	81,636
Deferred tax assets	40,644,762	44,198,753
	<b>1,805,714,093</b>	<b>1,847,199,702</b>
<b>Current Assets</b>		
Inventories	228,838,367	208,888,472
Receivable and other current assets	226,336,057	215,877,823
State and other public entities	66,589,568	69,619,349
Cash and cash equivalents	85,900,284	67,541,588
	<b>607,664,276</b>	<b>561,927,232</b>
<b>Total Assets</b>	<b>2,413,378,369</b>	<b>2,409,126,934</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and Reserves</b>		
Share capital	717,500,000	717,500,000
Treasury shares	(1,002,084)	(1,002,084)
Fair value reserves	(1,856,023)	(7,571,781)
Legal reserves	109,790,475	99,709,036
Translation reserves	(1,705,814)	(779,369)
Other Reserves	163,033,431	205,639,863
Net profit for the period	96,043,464	217,501,437
	<b>1,081,803,449</b>	<b>1,230,997,102</b>
Non-controlling interests	2,334,218	2,272,606
	<b>1,084,137,667</b>	<b>1,233,269,708</b>
<b>Non-current liabilities</b>		
Deferred taxes liabilities	66,031,451	59,859,532
Pensions and other post-employment benefits	7,199,646	6,457,116
Provisions	26,923,794	31,048,808
Interest-bearing liabilities	747,883,381	638,558,905
Other non-current liabilities	28,397,507	33,301,140
	<b>876,435,779</b>	<b>769,225,503</b>
<b>Current liabilities</b>		
Interest-bearing liabilities	75,911,224	69,702,381
Payables and other current liabilities	310,093,802	255,831,284
State and other public entities	66,799,896	81,098,059
	<b>452,804,923</b>	<b>406,631,724</b>
<b>Total liabilities</b>	<b>1,329,240,702</b>	<b>1,175,857,227</b>
<b>Total equity and liabilities</b>	<b>2,413,378,369</b>	<b>2,409,126,934</b>

