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

INTERIM RESULTS 1ST HALF 2018

2/4

THE NAVIGATOR COMPANY

Highlights 1st Half 2018 (vs. 1st Half 2017)

- Turnover totalled € 817 million, up 0.5% YoY
- Growth in prices helped to offset the drop in volume available for sale due to prolonged downtime at mills
- EBITDA up by 14% to € 226 million (vs. € 198 million); EBITDA/Sales margin up 4 pp to 28%; disposal of the pellets business (in the 1st quarter) had a final positive net impact on EBITDA of € 13 million
- Net income grew by 24% to € 119 million
- M2 cost cutting programme continues, with estimated positive impact on EBITDA of € 9.2 million
- Net debt rises to € 740 million after payment of € 200 million in dividends in June; Net Debt/EBITDA ratio of 1.73
- Capital expenditure rose to € 77 million with progress on new projects in Cacia (Tissue) and Figueira da Foz (Pulp)

Highlights 2nd Quarter 2018 (vs. 1st Quarter 2018)

- Pulp, paper and tissue prices evolve favourably over quarter
- Recurrent EBITDA rises to € 115 million, the all-time highest quarterly figure
- Lengthy stoppage at the Figueira da Foz pulp mill in April for maintenance and completion of capacity expansion project, with consequent reduction in volume of pulp available for market
- Start-up of pulp capacity expansion project entails significant environmental improvements, in terms of odour reduction, and reduction of waste, atmospheric emissions and liquid emissions
- Production of finished products starts up on first tissue converting line in Cacia in May

Leading Indicators

in million euros	H1 2018	H1 2017	% Change (5) H1 18 / H1 17
Total sales	816.9	812.6	0.5%
EBITDA (1)	**226.0**	**198.4**	**13.9%**
Operating profits	160.8	123.4	30.3%
Financial results	- 11.4	- 8.3	36.9%
Net earnings	**119.4**	**96.0**	**24.4%**
Cash flow	184.6	171.0	13.6
Free Cash Flow (2)	152.6	72.8	79.8
Capex	77.2	35.2	42.0
Net debt (3)	740.1	737.9	2.2
EBITDA / Sales (%)	**27.7%**	**24.4%**	**3.2 pp**
ROS	14.6%	11.8%	2.8 pp
ROE	21.0%	16.6%	4.5 pp
ROCE	17.4%	13.4%	4.0 pp
Equity ratio	44.8%	44.9%	-0.1 pp
Net Debt / EBITDA (4)	1.73	1.84	-0.12

in million euros	Q2 2018	Q1 2018	% Change (5) Q2 18 / Q1 18
Total sales	432.0	384.9	12.2%
EBITDA (1)	**115.0**	**110.9**	**3.7%**
Operating profits	82.9	78.0	6.3%
Financial results	- 5.9	- 5.5	6.1%
Net earnings	**66.2**	**53.2**	**24.3%**
Cash flow	98.4	86.2	12.2
Free Cash Flow (2)	18.6	134.0	-115.4
Capex	48.6	28.6	20.0
Net debt (3)	740.1	558.7	181.4
EBITDA / Sales (%)	**26.6%**	**28.8%**	**-2.2 pp**
ROS	15.3%	26.4%	-11.1 pp
ROE	23.3%	17.7%	5.6 pp
ROCE	17.9%	17.0%	0.9 pp
Equity ratio	44.8%	49.7%	-4.9 pp
Net Debt / EBITDA (4)	1.73	1.32	0.41

(1) Operating profits + depreciation + provisions
(2) Variation 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

1st Half 2018 vs. 1st Half 2017

In the first half of 2018, The Navigator Company recorded turnover of € 817 million, representing a slight increase in relation to the first half of 2017. With sales of € 604 million, the paper sector accounted for 74% of turnover, energy for 10% (€ 84 million), pulp 9% (€ 73 million), and tissue business 5% (€ 40 million). Prices evolved positively over the period for UWF paper, BEKP pulp and Tissue, at the same time as the volumes available for sale were down, due essentially to production stoppages which had not taken place in the same period in 2017.

In pulp business, in addition to the maintenance downtime at the Setúbal mill in the first quarter, a further maintenance stoppage was needed at the Figueira da Foz mill in April, and this was prolonged to complete work on the capacity expansion project under way. The length of these stoppages and the need to build up stocks in the previous months had a severe limiting effect on the quantities of pulp available for sale by the Group during the first half. As a result, Navigator's sales totalled 114 thousand tons, down by 37.5% on the figure recorded in the first half of 2017. This reduction in volume was partially offset by the increase in sales prices, and sales in value showed a reduction of 21%, standing at approximately € 73 million.

Global conditions in the pulp market remained positive over the period, with prices still on an upwards trajectory that has been observed since late 2016. The benchmark index – FOEX BHKP – rose by 25% over the period (851 €/ton vs. 682 €/ton). According to figures from PPPC, global demand for BEKP grew by 4.5% YTD May, in particular in China (up 8.9%), whilst a number of constraints were experienced on the supply side (maintenance shutdowns and other unexpected developments), causing an estimated reduction in the volume of hardwood pulp on the market of more than 1 million tons.

In paper business, UWF sales totalled 756 thousand tons, down by 2% on the same period in 2017, due essentially to production deviations caused by a number of stoppages, as well as the need to replenish stocks so as to guarantee a high standard of customer service. The reduction in sales volume was offset by the upward evolution in prices and sales in value were up by 3.3% to € 604 million. Navigator implemented a series of price rises over the first half, in Europe and other geographical regions, resulting in an increase of approximately 6% in its average sales price when compared with the same period in 2017. This increase is in line with the European benchmark index, FOEX A4 B-copy, and was positively influenced by a significant improvement in the product mix in terms of quality (53% premium sales, up from 46%) and in the proportion of mill brand products (68%, up from 60%). On the negative side, this was countered by evolution of the EURUSD exchange rate (the average exchange rate for the period was 1.2104, as compared to 1.0830 in the same period in 2017).

In tissue business, the average sales price was adjusted upwards (up 7.6%), thanks to an improved product mix, with the reduced weight of reels and increased percentage of finished products, as well the price rise implemented. The sales volume stood at 28.5 thousand tons, representing growth of almost 2% year on year. Higher average tissues prices were not however enough to absorb the increase in production costs, in particular the price of pulp (hardwood and softwood) and of chemicals. May saw the start-up of the new converting line at the Cacia plant, and the reels production line is due to go into production in late August.

In the energy sector, the second quarter brought a recovery in the value of power sales, resulting in a modest increase of 0.2% for the first half as a whole, in relation to the first half of the previous year (€ 84.3 million). This figure includes sale of energy from pulp and paper units (€ 73.2 million) as well as the stand-alone sale from Biomass Power Stations, worth € 11.1 million. Gross total power output at the end of the first half of 2018 was down by 2.5% year on year, due above all to the planned stoppages at the pulp mills; even so, output stood at 1.09 TWh.

In this context, EBITDA totalled € 226 million, as compared with the figure of € 198 million recorded in the first half of 2017. The final impact of sale of the pellets operation in the USA, net of costs and adjustments, totalled € 13 million (representing a positive adjustment in relation to the figure of € 9.4 million reported at the end of the first quarter; that figure over assessed costs, some of which failed to materialise); first half EBITDA without this effect would have been € 213 million. The EBITDA/Sales margin stood at 27.7% (26% net of the impact of sale of the pellets business), as compared to 24% in 2017.

On the cost side, chemicals, and caustic soda in particular, have continued to perform unfavourably, with an impact on variable unit production costs. Logistics also increased, due essentially to higher Brent prices. In fixed costs, payroll continued to show the upward trend observed in the first quarter, as a result of workforce expansion due to the new Tissue project in Cacia, the rejuvenation programme under way and the increase in performance bonuses due to the improved results registered by the Group.

At the same time, Navigator has pressed ahead with its M2, programme for operating excellence; this achieved a positive impact of approximately € 9.2 million YoY on EBITDA. Roughly 118 new initiatives have been launched since the start of the year to cut costs, with around 85 of these achieving a positive impact. One of the most significant initiatives is centred on cutting specific consumption of long fibre at the Figueira da Foz Industrial Complex, with an impact of € 1.14 million, involving a system that has improved control of fibre consumption per type of product. Another initiative with a significant impact (€ 1.04 million) has to do with optimisation of logistics in sea transport to Europe and international markets. Attention is also drawn to a project for greater efficiency in the paper machine production and planning, improving the technical specifications of end products and reducing unit production costs. In addition to these initiatives, the renegotiation of power and natural gas contracts has resulted in avoided costs in relation to market prices of around € 14.1 million.

Navigator recorded a financial loss of € 11.4 million, up from a loss of € 8.3 million; this increase was due essentially to a non-recurrent factor associated with the disposal of the pellets business. As previously reported, at the end of the first quarter the Group recorded a loss of approximately € 3.3 million resulting from the difference between the nominal and current value of the amount receivable for the sale of the pellets business (USD 45 million). The nominal value receivable is subject to interest at a rate of 2.5%.

At the end of June, the Group's net debt stood at € 740.1 million, up by € 47.4 million from year-end 2017 (€ 692.7 million), reflecting essentially payment of dividends of € 200 million in June.

Free cash flow stood at € 152.6 million, and was positively affected by an inflow from sale of the pellets business in the first half (totalling € 67.6 million) and negatively affected by capital expenditure over the period of € 77.2 million, in construction of the new tissue unit in Cacia, expansion of capacity in Figueira da Foz and other investments in regular pulp, paper and tissue operations.

With regard to working capital, the Group recorded a moderate reduction in the amount invested during the first half; crucial to this was the very favourable performance in balances receivable/payable to the state, as a result of substantial VAT rebates obtained during the period. This evolution had a very favourable impact (approximately € 53 million in the period), which more than offset the combined effect of increased inventories (replenishment of stocks of finished products, above all) and of client and supplier accounts.

Pre-tax profits totalled € 149.4 million (up from € 115.1 million), and the effective tax rate for the period was negatively affected by the constitution of a number of tax provisions and an increase in the state surtax rate.

As a result, the Group achieved net income for the period of € 119.4 million, up by 24% on the first half of 2017.

2nd Quarter 2018 vs 1st Quarter 2018

The defining feature of the second quarter was the upward tendency in pulp, paper and tissue prices. As in previous years, the sales volume recovered from the first to the second quarter (with pulp sales rising by 15% and paper sales by around 9%). Even so, sales were lower than the volumes recorded in the second quarter of 2017, due to the production stoppages reported above.

The price effect nonetheless more than offset the volume effect, and in terms of value sales grew by 12% in the quarter to € 432 million. EBITDA totalled € 115 million, a quarterly record for the Group, while the EBITDA/Sales margin stood at 26.6%. If adjusted to eliminate the impact of sale of the pellets business, EBITDA would have stood at around € 112 million (margin of 26%), which would still be an all-time quarterly high.

Operating Indicators

Pulp and paper

(in 000 tons)	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
BEKP Output	377.4	357.3	371.9	346.1	335.4
BEKP Sales	92.0	68.8	59.7	53.1	60.9
UWF Output	383.4	406.1	406.7	385.8	392.9
UWF Sales	400.6	386.4	419.9	361.2	395.1
FOEX – BHKP Euros/ton	719	747	805	824	878
FOEX – BHKP USD/ton	792	877	948	1013	1046
FOEX – A4- BCopy Euros/ton	808	819	831	845	864

Tissue

(in 000 tons)	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Reels Output	13.6	13.0	14.8	14.1	14.4
Output of finished products	12.6	12.2	12.4	13.6	13.9
Sales of reels and goods	1.7	1.1	1.8	0.6	0.1
Sales of finished products	12.3	12.3	12.2	12.8	14.9
Total sales of tissue	14.0	13.3	14.0	13.4	15.0

Energy

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Production (GWh)	556.4	535.9	573.7	553.5	536.1
Sales (GWh)	446.8	426.0	462.8	444.7	435.8

2. STRATEGIC DEVELOPMENT

Navigator recorded capital expenditure of € 77.2 million in the first half, with € 48.6 million in the second quarter (vs. €28.6 in the first quarter). The tissue project in Cacia represented investment of € 36.5 million and capacity expansion in Figueira da Foz a figure of around 9.3 million. Capital expenditure into regular pulp and paper business totalled around € 30.8 million.

The period saw the completion and start-up of PO3 (Optimisation Project 3), increasing pulp production capacity in Figueira da Foz, where nominal capacity was expanded from 580 thousand tons/year to 650 thousand tons/year. This project also entailed a series of important environmental improvements with a significant overall impact at the Figueira da Foz Industrial Complex. One of the aims was to improve efficiency in the pulp production process, cutting specific consumption of wood and chemicals, and also implementing best environmental practices, in particular incorporating oxygen delignification, with a consequent decrease in effluents, and also investment in an integrated burner for non-condensable gases in the Recovery Boiler, with a consequent reduction in odours to extremely low and almost imperceptible levels.

In order to finance this project, the Group contracted a loan of € 40 million from the European Investment Bank, repayable in ten years from the date of issue (which had not occurred at the end of the first half); the project's aim of increased efficiency and a significant improvement in environmental factors is clearly in line with the institution's objective of fighting climate change.

3. OUTLOOK

The outlook for the pulp sector remained positive over the course of the first half of 2018, with upwards pressure on prices throughout the period. Improved discipline from producers, combined with planned production stoppages and a number of unexpected events, again limited the quantity of pulp available on the market, whilst demand remained high, managing to absorb the new capacity that came on line last year. At this moment, no factors are expected which might significantly alter this positive trend in the market.

In the UWF paper business, the order book is full and the Group took the lead during the first half with a series of price increases in Europe, in the US market and in international markets. Non-integrated paper producers remain under strong pressure from the sharp increase in pulp costs, as well as from rising costs for chemical and logistics; this has translated into negative margins, something never seen before in the sector. Other producers announced further price rises in the United States and other international markets, and Navigator announced to its clients (in May) a price rise in Europe taking effect on 1 July. A further hike of an equivalent size is foreseen for October.

In the tissue market, producers also remain under strong pressure from high pulp prices, and despite the upward trend in tissue prices over the period, manufacturers as a whole have not yet managed to reflect the entire increase of this cost factor in the end price of their products. Navigator will implement further price rises. In parallel, production of reels is planned to start up in Cacia during the third quarter, allowing Navigator to double its production capacity. Strong commercial performance in recent months allows us to look forward to the new output being successfully placed with clients.

It is important to note that, despite the continuing positive expectations for growth in the world's main economies, especially in North America and Europe, market volatility is also increasing with fears regarding the potential consequences of increased trading tensions. Navigator - which sells its products to around 130 geographical regions and whose sales are exposed to variations in different international currencies, in particular USD - inevitably sees these recent developments with some concern.

Subsequent Event

Mozambique

As reported to market on 9 July 2018, Portucel Moçambique and the Government of Mozambique have signed a memorandum of understanding concerning the company's revised investment plans, due to be implemented over two phases. In the first instance, Portucel Moçambique will create a forestry base occupying 40 000 hectares, to supply a (future) unit producing eucalyptus wood chips for export; total investment is estimated at USD 140 million, for annual exports of around 1 million tons.

Portucel Moçambique and the Government have set up a joint team to work over an estimated period of six months to ensure that the pre-conditions for advancing with the investment plan are met. This will involve establishing the logistical infrastructures needed for exporting wood chips. The first phase of the project is accordingly conditional on satisfactory resolution of the pre-conditions identified in the Memorandum of Understanding signed this month with the Government of Mozambique.

Setúbal, 25 July 2018

Conference Call and Webcast

Date: Wednesday, 25 July 2018
Schedule: 17:00 - Western European Time – UTC

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4. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Amounts in Euros	6 Months Ending 30-06-2018	6 Months Ending 30-06-2017
Revenues		
Sales	814,323,768	810,175,169
Services Rendered	2,578,883	2,467,376
Other Operating Income		
Gains on the Sale of Non-current Assets	17,722,330	342,006
Other Operating Income	7,373,427	6,138,999
Change in the Fair Value of Biological Assets	1,119,656	3,210,175
Costs		
Cost of Inventories Sold and Consumed	(344,674,553)	(330,348,337)
Variation in Production	20,103,964	(5,188,158)
Cost of Materials and Services Consumed	(195,369,103)	(201,300,731)
Payroll Costs	(84,696,485)	(75,634,979)
Other Costs and Losses	(12,519,277)	(11,484,551)
Provisions	1,300,221	(189,617)
Depreciation, Amortization and Impairment Losses	(66,444,913)	(74,766,617)
Operational Results	**160,817,918**	**123,420,733**
Net Financial Results	(11,370,740)	(8,305,941)
Profit Before Tax	**149,447,178**	**115,114,793**
Income Tax	(30,004,152)	(19,068,699)
Net Income	**119,443,026**	**96,046,094**
Non-Controlling Interests	979	(2,630)
Net Profit for the Period	**119,444,005**	**96,043,464**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in Euros	30-06-2018	31-12-2017
ASSETS		
Non-Current Assets		
Goodwill	377.339.466	377.339.466
Other Intangible Assets	2.886.753	3.878.245
Fixed Tangible Assets	1.188.586.838	1.171.125.052
Investment in Property	98.351	99.174
Biological Assets	130.516.592	129.396.936
Other Financial Assets	478.032	424.428
Financial Assets Available for Sale	-	-
Other Assets	32.262.359	-
Deferred Tax Assets	46.343.082	44.727.571
	1.778.511.472	**1.726.990.872**
Current Assets		
Inventories	216.600.562	187.795.595
Receivable and Other Current Assets	284.417.508	237.704.322
State and Other Public Entities	39.323.646	75.076.422
Cash and Cash Equivalents	105.059.086	125.331.036
	645.400.802	**625.907.375**
Non-Current Assets Available for Sale		
Non-Current Assets Available for Sale	-	86.237.049
	-	**86.237.049**
Total Assets	**2.423.912.274**	**2.439.135.296**
EQUITY AND LIABILITIES		
Capital e Reservas		
Share Capital	500.000.000	500.000.000
Treasury Shares	(1.002.084)	(1.002.084)
Fair Value Reserves	(6.962.881)	(3.020.990)
Legal Reserves	100.000.000	109.790.475
Other Reserves	197.292.250	217.500.000
Translation Reserves	(22.818.802)	(13.966.898)
Advancement on Profits	200.632.803	167.388.264
Net Profit for the Period	119.444.005	207.770.604
	1.086.585.291	**1.184.459.371**
Non-Controlling Interests	207.669	420.277
Total Equity	**1.086.792.961**	**1.184.879.648**
Liabilities		
Non-Current Liabilities		
Deferred Taxes Liabilities	61.797.517	83.023.517
Pensions and Other Post-Employment Benefits	9.171.507	5.090.242
Provisions	42.156.167	19.536.645
Interest-bearing Liabilities	765.080.404	667.851.880
Other Non-Current Liabilities	26.559.873	25.466.139
	904.765.468	**800.968.424**
Current Liabilities		
Interest-Bearing Liabilities	80.059.524	150.205.591
Payables and Other Current Liabilities	291.240.469	259.509.848
State and Other Public Entities	61.053.853	43.571.785
	432.353.846	**453.287.224**
Total Liabilities	**1.337.119.314**	**1.254.255.647**
Total Equity and Liabilities	**2.423.912.274**	**2.439.135.296**