



# **The Navigator Company**

## **Q1 2017 Results Presentation**

4 May 2017

# Speakers

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**Diogo da Silveira – CEO**

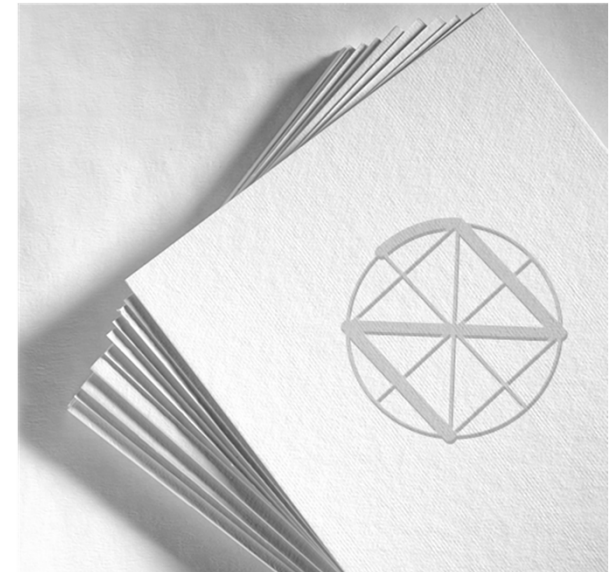
**Fernando Araújo– CFO**

**Joana Appleton - IR**

# Q1 2017 – Strong volumes and cost reduction

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- **Negative impact of pulp and paper prices mitigated by cost reduction and increased sales volume**
- Sales improved 2.1% sustained by good operating performance; very strong volumes QoQ:
  - + BEKP+ 40%
  - + Tissue + 24%
  - + Energy + 15%
- High level of UWF volumes, but slightly down QoQ
- Energy activity normalised
- € 90.2 million in EBITDA (vs.€ 93.5 million in Q1 2016), impacted by lower pulp and paper prices
- Improving market conditions during the quarter with significant order book and higher prices intra quarter
- Cost reduction program with positive impact of € 6 million in Q12017

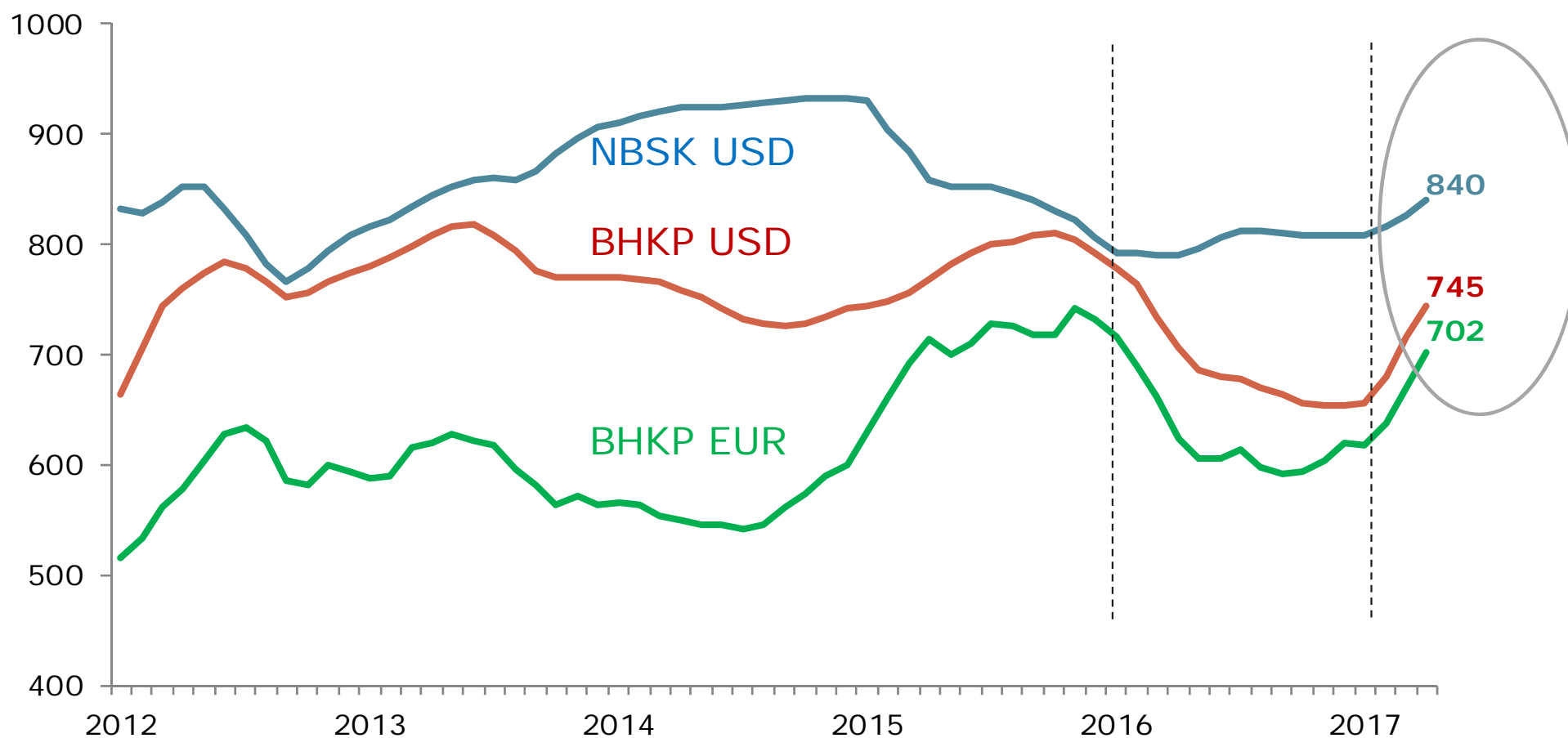


# Cash flow remains strong during Q1 2017

(million euros)	Q1 2017	Q1 2016	%
Total Sales	392.7	384.5	+2.1%
EBITDA	90.2	93.5	-3.6%
EBITDA/Sales (%)	23.0%	24.3%	-1.3 pp
Net Income	35.6	44.7	-20.5%
Free Cash Flow	24.2	18	+33.9%
Net Debt	616.6	636.4	-3.1%
Net Debt / EBITDA	1.6	1.6	-
ROCE	11.1%	12.0%	-0.9 pp

# Pulp prices: upward trend in spite of lower pulp prices in Q1

Average prices for BHKP in Euros during Q1 2017 were 6% below Q1 2016, (9% below in USD), but 6% above Q4 2016 (5% in USD)



# BEKP - Market conditions improvement continues

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- BHKP market continues to improve and upward pulp price momentum remains
  - + Very strong demand in both Europe and China – high level confidence that prices continue to rise in May
  - + Some major suppliers are shifting sales volume from European customers to more profitable markets (Asia and Middle East)
  - + Reduction in supply due to several maintenance and unplanned downtime during Feb-May - ~1,1 Mt supply of SW and HW (6% of world capacity); ~600 K t BHKP
  - + Cost increase for pulp mills (oil, energy, chemical products etc. )



# Paper Market impacted by several events (I)

## World

### USA

ADD attracted European volumes

European producers placing more volumes in USA

### ASIA

Capacity Changes

e.g. Bilt -600 kt (India/Malaysia)

Polution Controlling capacity shut in China (unknown volume)

Growing Demand (China)

Pipeline stocks depleted (China) trying to building up

# Paper Market impacted by several events (II)

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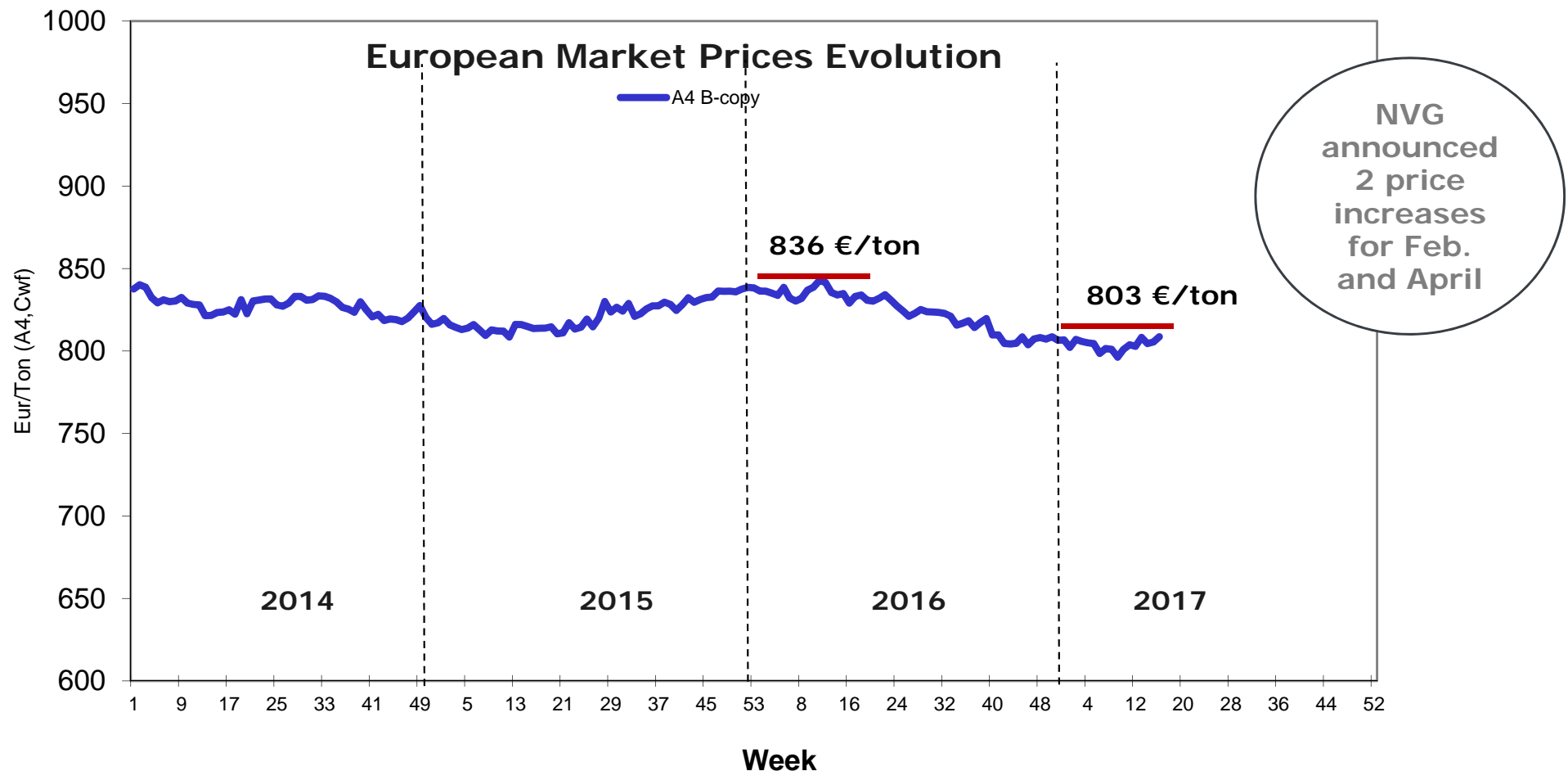
## Europe

- The valuation of USD against the Euro have made prices in Asia and Latin America more interesting than in Europe
- Operating rates during Q1 2017 improved significantly to 97%, with shipments increasing throughout the quarter
  - + European deliveries substituting exports
  - + Imports have declined 30% QoQ: since H2 2016, all world regions have been redirected volumes from Europe and are placing them either domestically or in other better paying regions
  - + Producers destocking and using full capacity



# Benchmark price evolution for paper

The average price for paper lost 4.0% QoQ (803 vs. 836 €/ton), but shows signs of improvement, with last price for March at 808 €/ton



Source: FOEX

# NVG Paper sales - Main Highlights

**371 K ton**  
**YTD Mar Sales**

27 Kt  
USA  
8%

51 Kt  
Intern.  
14%

255 Kt  
Europe  
69%

33 Kt  
Africa  
9%

Premium 50%

Standard  
37%

Eco  
13%

Mill Brands  
60%  
173 Kt



153 Kt  
Certified  
Sales

# Paper performance in Q1 2017

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- Sales of 371 thousand tons of UWF – second best first quarter registered
- Decrease in average sales price YoY (-3.2%), but improvement from December 2016 until March 2017 (+2.6%)
- NVG announced price increase in overseas markets (Jan.) and Europe (Feb.)
- Recovery in product mix: premium products share up to 50% and mill brands up to 60%
- Increase of UWF market share in Europe to 20% (+0.3pp) and to 24% in cut-size (+0.8pp)

# Pulp and tissue business performance

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## Pulp

- Pulp sales increased 40% in volume to 90 thousand tons (record volume sold since 2009), sustained by capacity increase in Cacia mill
- 13% Growth YoY in Décor and Special papers segments, high contribution segments
- Average sales price decreased 11% Q1 2017 vs. Q1 2016, but improved almost 8% vs Q4 2016
- End of march inventories lower then at year end 2016

## Tissue

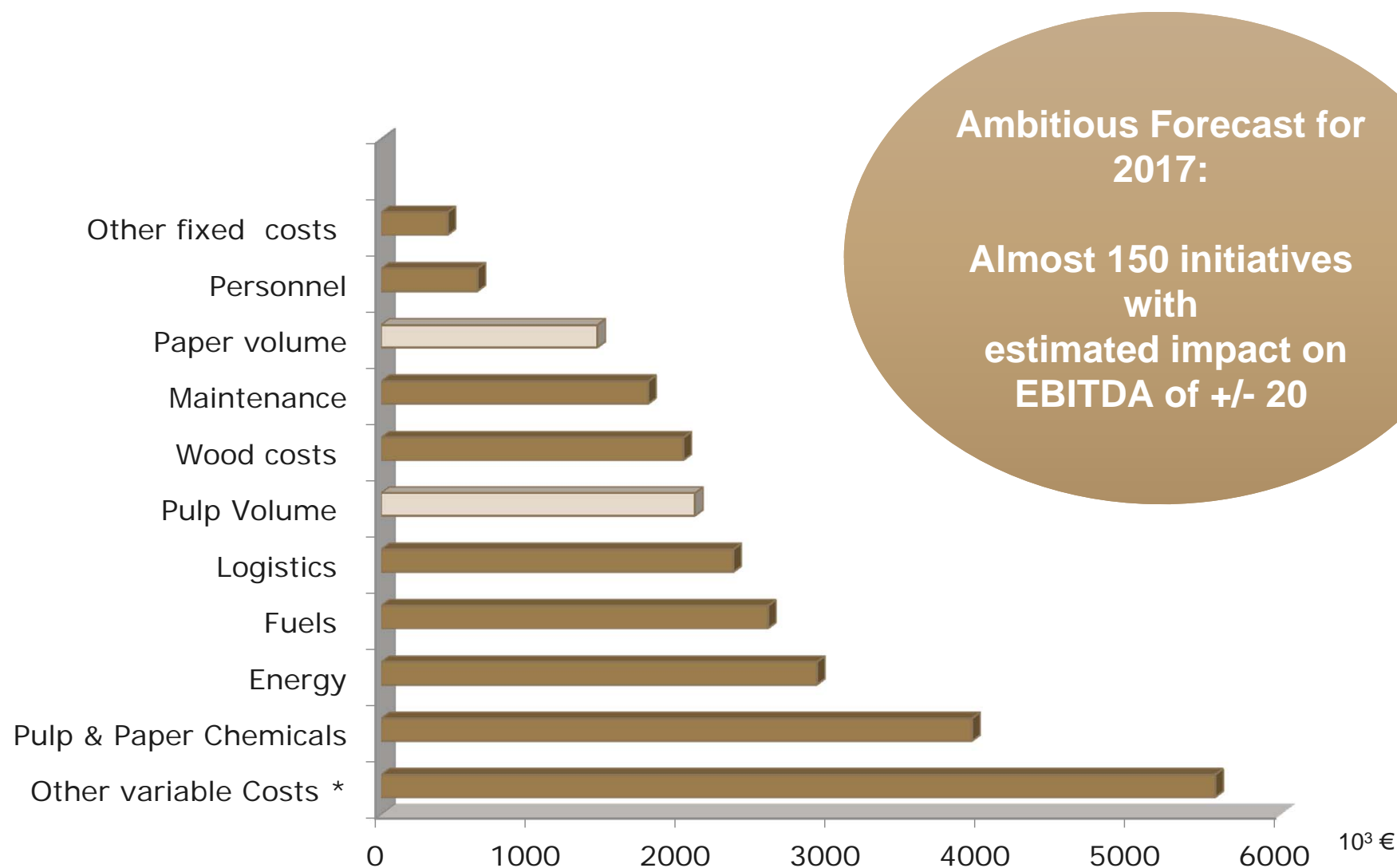
- Volume of Tissue sold improved 24% YoY sustained by the 2015 capacity increase; sales increased to € 18 million (vs €15.8 million);
- Average sales price decreased 7% due to change in mix (increase percentage of reels sales);
- Estimated apparent consumption growth in Europe forecasted to grow in line with GDP

# Focus on cost reducing measures continues

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- M2 cost reduction programme continues with estimated impact on EBITDA in Q1 2017 of €6 million
- Main areas contributing to this impact:
  - + Chemicals and packaging: €1.9 million
  - + Extra volumes: €0.9 million
  - + Purchase of natural gas: €0.7 million
  - + Wood acquisition: €0.7 million
- Programme for 2017 foresees significantly more initiatives than in 2016
- Estimated impact on EBITDA in 2017 is accordingly greater than in 2016

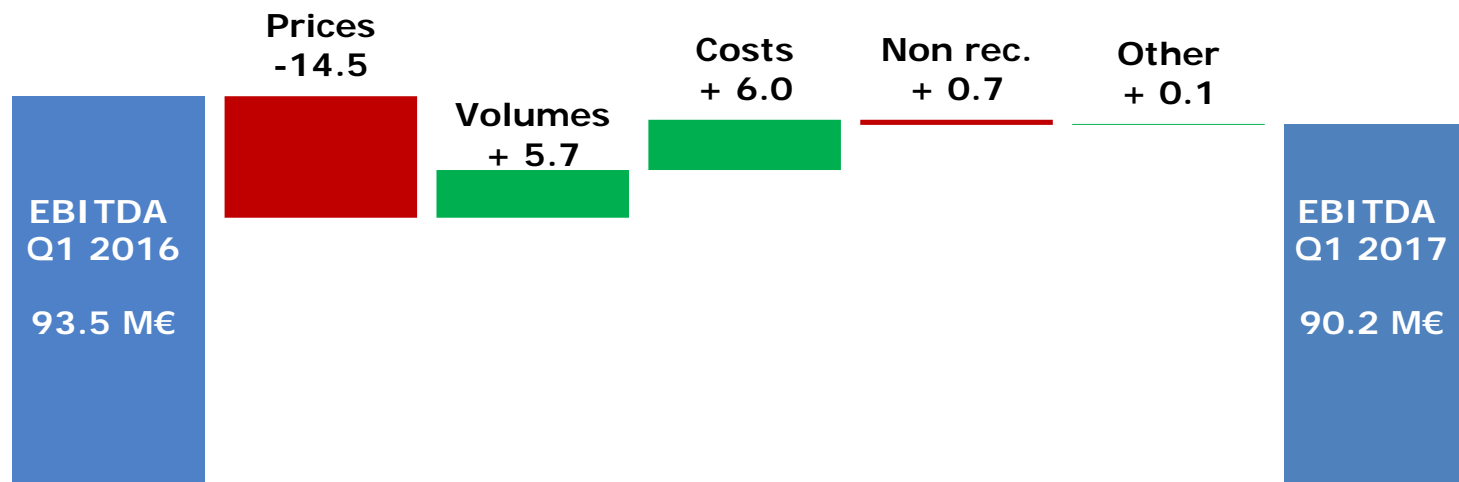
# Main cost reducing measures in 2017



Other variable costs include procurement gains with packaging materials, pallets & others; includes gains with forest activities, reduction in water consumption, etc

# EBITDA - Negative impact of prices offset by cost reduction and volumes

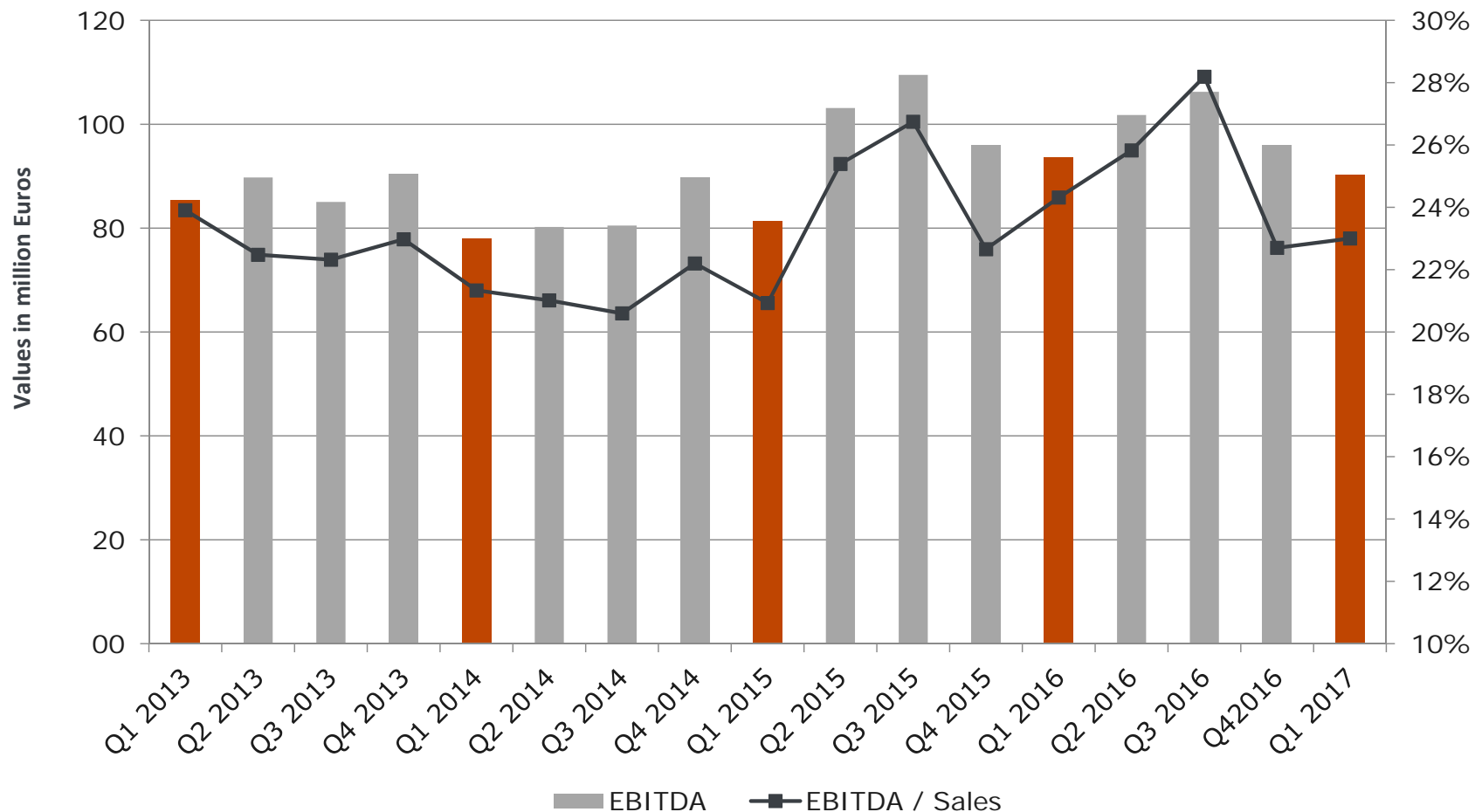
The negative impact of pulp and paper prices was reduced by higher volumes and cost reductions



\* Non recurring items include reversal of anti-dumping and start-up costs for pellets business

# Q1 EBITDA and EBITDA/Sales slightly lower than Q1 2016

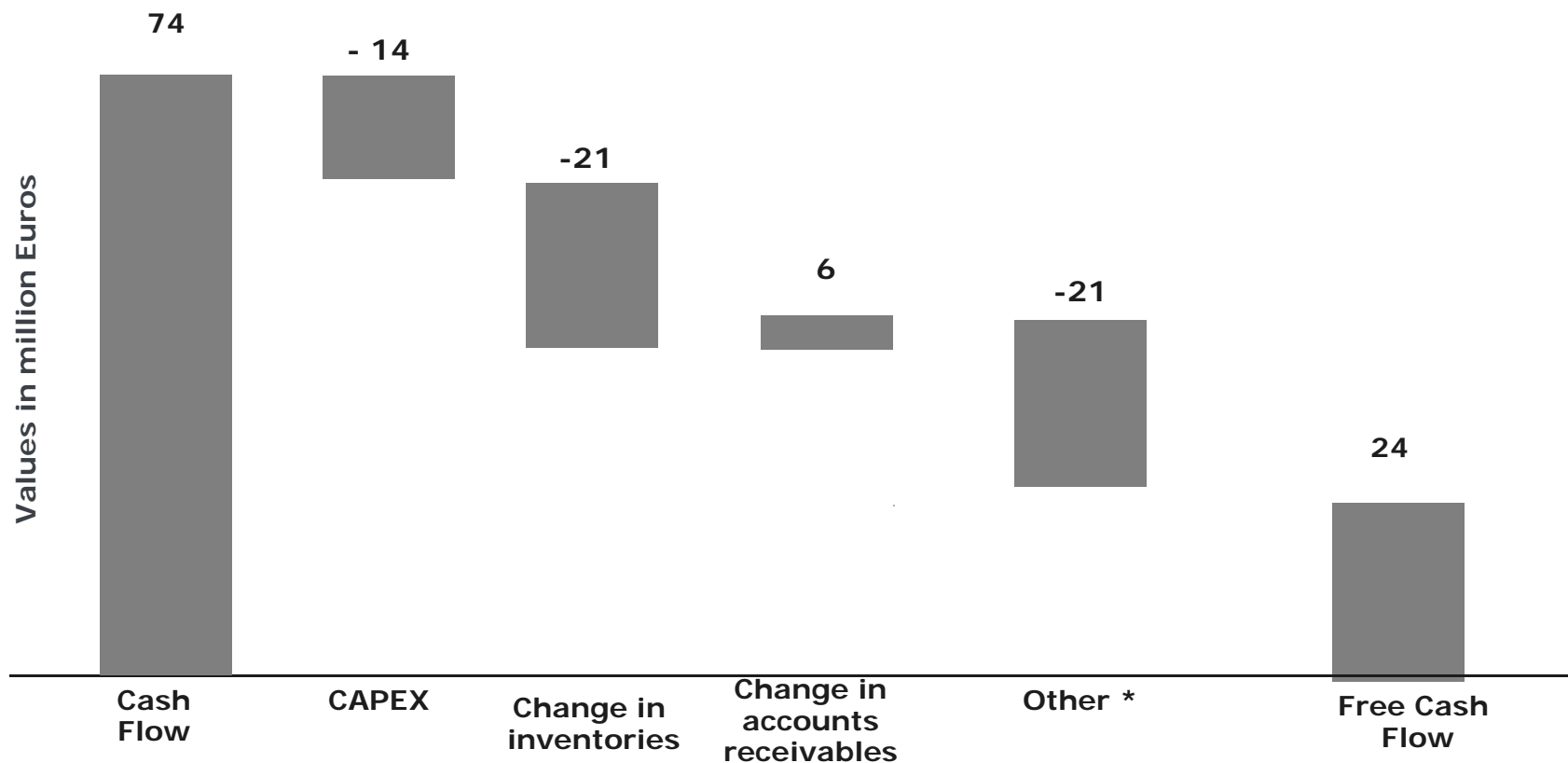
EBITDA in Q1 2017 decreased 3.67% versus Q1 2016, but compares favorably with other Q1





# Free Cash Flow at € 24 mln

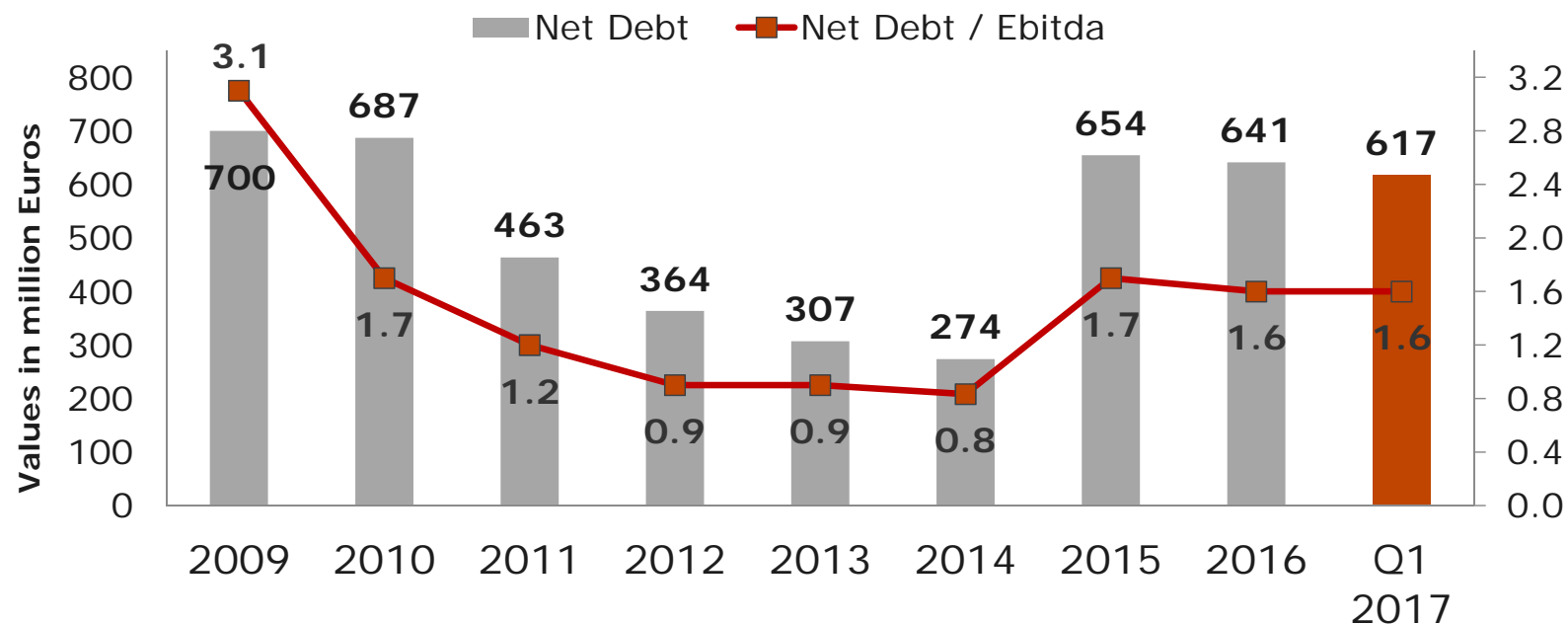
FCF was negatively impacted by working capital evolution, namely increase in inventories, a normal trend in first quarter, after the sales effort at year-end; working capital also affected by increase in wood inventories



\* Other includes antidumping, taxes and insurance

# YoY Net debt reduced by € 24 million

- Net debt decreased € 24 million from year-end (€ 20 million QoQ) and Net Debt / Ebitda stood at 1.6

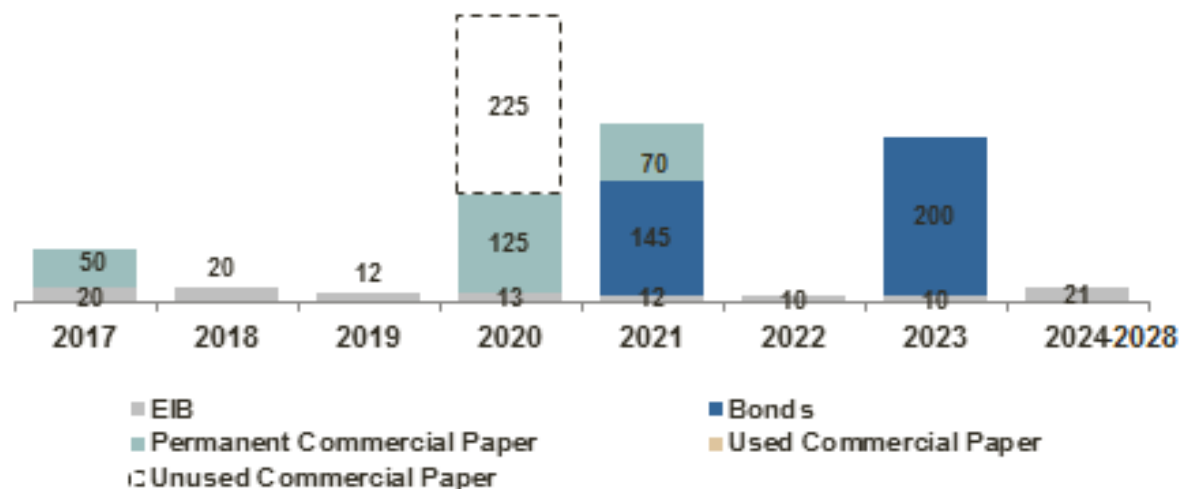


Dividend Payment	2012	2013	2014	2015	2016
Total amount paid (€ million)	164.4	201.4	200.8	440.5	170.0

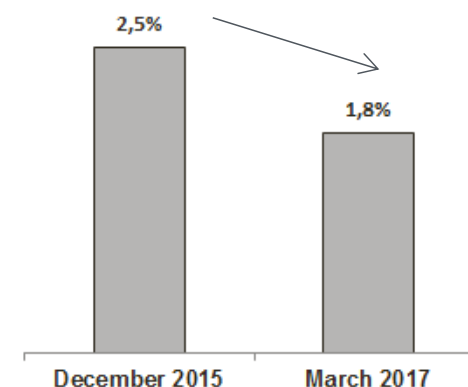
# Continuous improvement in debt profile

- + The successful restructuring of the Group's debt in 2016 resulted in a longer maturity and lower cost of debt, as well as an increased diversification of counterparties.
- + In February, a new credit facility of USD 10 million was contracted in the US
- + At the end of March the total amount of unused committed commercial paper programmes was € 225.0 million; these lines reach their maturity in 2020.

Total Debt– €705 mln  
Maturity - 4,4 years

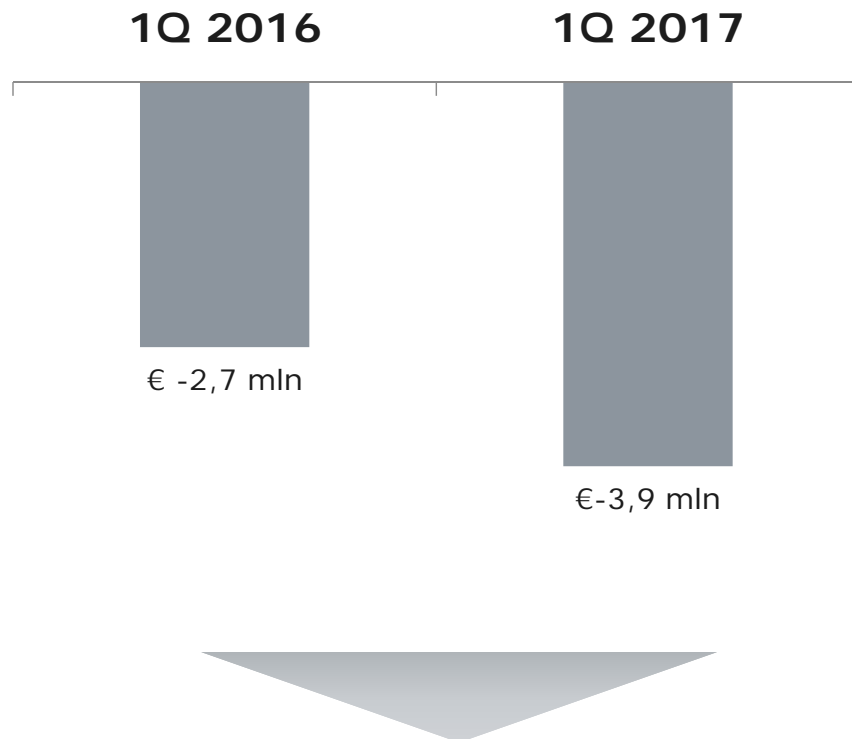


Cost of Debt



\* Cost of debt as of March 31st, derivative hedging instruments and annual fees included.

# Q1 2017 - Financial results



**Significant reduction in borrowing costs**  
**Negative impact of forex**

Significant reduction in interest costs following 2016 debt restructuring:

- repayment of the € 350 mln Portucel Senior Notes 5.375%
- new debt issued with better conditions and longer maturity;

€ 777 thousand interest costs improvement YoY

Forex: negative impact of € 1,5 mln comparing with the Q1 2016 positive impact of € 1 mln

# Capex of € 14.3 million (vs.€ 49 million)

## Current business

Pulp, paper  
and tissue:  
3.7 M€

- Includes recurrent capex (2.2)

Figueira Foz  
Pulp capacity  
8.9 M€

## Future business

Tissue  
1.8 M€

- Includes Capex in new converting lines at V.V. Rodao

Pellets  
0.2M€

# Tough start of operations at Colombo Energy

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- First pellets sold from Colombo Energy Inc project in Greenwood, South Carolina during the quarter: 15.4 thousand tons
- Mill in its start-up phase, still working on production and cost issues
- Initial tests point to a premium product with high calorific value
- Difficult market environment, but sales efforts proceed for 2018 onwards for both in the industrial market (Europe and Japan/Korea) and residential market (Europe and US)



# Update on Mozambique project

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- Scale down rhythm of investment and operations due to political and economic situation, which remains unstable
- Completion of experimental operation to export 2,000 tons woodchips from Zambézia via the port of Nacala, with unexpected port/export tariffs issue
- Capex for 2017 reduced to 10 M€ - Company remains engaged but needs to clarify situation
- Announcement by the Government of Mozambique (?) of plans to build the Moatize-Macuse railway line and the port of Macuse, due for completion in 2021-22.



# Update on New Projects

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## Cacia tissue mill

- Project to build an integrated tissue production line and converting facilities developing as planned:
  - + main equipment suppliers have already been selected
  - + preliminary site preparation work is under way
  - + paper machine is planned to start up in August 2018.
  - + estimated capex of 120 million



# Update on New Projects

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## Pulp Capacity in Figueira da Foz

- Target to increase production efficiency and pulp capacity at Figueira da Foz, by 70 thousand tons, progressing:
  - + Initial pile work started
  - + Civil construction contract adjudicated
  - + Main equipment to be fitted in September
  - + New capacity is planned to come online in March 2018.
  - + Estimated capex of € 85 million – 76% of capex already commissioned

# Outlook for 2017

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- Positive momentum in the pulp market continues as new price increases are announced for Q2; but concerns still persist over the new capacity to come on stream in the second half of 2017
- Tissue will be constrained by more aggressive competition and increased pressure on margins due to rise in pulp price
- Paper business has been experiencing improved market conditions and will likely continue in Q2:
  - + Group has currently a very strong order book - 54 days
  - + New price increase implemented in April

# Subsequent Events

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- AGM to be held on May 24<sup>th</sup> 2017
- Dividend proposal:
  - + Navigator Board of Directors proposes dividend of € 170 million to be paid in June
  - + Main shareholder proposes distribution of reserves: € 80 million to be paid in July
  - + Implicit dividend yield of 9%

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