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

RESULTS FOR THE FIRST 9 MONTHS 2018

3/4

THE NAVIGATOR COMPANY

Highlights first 9 months 2018 (vs. first 9 months 2017):

- Turnover up 3.5% to € 1,252 million
- Growth in prices helped to offset the drop in volume available for sale due to planned and unplanned production stoppages at the mills
- EBITDA up 14% to € 341 million (vs. € 300 million); EBITDA/Sales margin rises 2.4 pp to 27%
- Net income grows by 18% to € 172 million
- Cost reduction programme M2 continues, with estimated positive impact on EBITDA of € 17.2 million
- Net debt of € 732 million after payment of € 200 million in dividends in June; Net Debt / EBITDA ratio improves to 1.65
- Capital expenditure rose to € 148 million as disbursements speed up to conclude development projects in Cacia (Tissue) and Figueira da Foz (Pulp)

Highlights 3rd Quarter 2018 (vs. 2nd Quarter 2018)

- U.S. authorities revise anti-dumping duty on paper sales in United States for the first period of review to 1.75%
- Continued positive trend in pulp, paper and tissue prices over quarter
- EBITDA of € 115 million, in line with 2nd quarter; EBITDA includes negative impact of anti-dumping duty; if that impact was excluded, recurrent EBITDA would stand at € 123 million (up 10%)
- Production of tissue reels in Cacia started up in September

Leading Indicators

in million euros	9 months 2018	9 months 2017	% Change [8] 9M 2018 / 9M 2017
Total sales	1 252.3	1 209.8	3.5%
EBITDA [1]	**340.6**	**300.1**	**13.5%**
Recurring EBITDA[2]	**338.1**	**300.1**	**12.7%**
Operating profits	244.6	185.5	31.9%
Financial results	- 16.5	- 6.5	154.9%
Net earnings	**171.8**	**145.8**	**17.8%**
Cash flow	267.8	260.4	7.4
Free Cash Flow [3]	161.1	148.7	12.4
Capex	148.4	75.7	72.7
Net debt [4]	731.6	742.0	-10.4
EBITDA/Sales (%)	**27.2%**	**24.8%**	**2.4 pp**
ROS	13.7%	12.1%	1.7 pp
ROE [5]	19.6%	16.4%	3.2 pp
ROCE [6]	17.3%	13.2%	4.2 pp
Equity ratio	47.0%	46.7%	0.4 pp
Net Debt/EBITDA [7]	1.65	1.87	-0.23

in million euros	Q3 2018	Q2 2018	% Change [8] Q3 18/Q2 18	Q3 2017	% Change [8] Q3 18/Q3 17
Total sales	435.4	432.0	0.8%	397.2	9.6%
EBITDA [1]	**114.6**	**115.0**	**-0.3%**	**101.7**	**12.8%**
Recurring EBITDA[2]					
Operating profits	83.8	82.9	1.1%	62.0	35.0%
Financial results	- 5.2	- 5.9	-11.8%	1.8	-384.3%
Net earnings	**52.3**	**66.2**	**-21.0%**	**49.8**	**5.2%**
Cash flow	83.2	98.4	-15.2	89.4	-6.2
Free Cash Flow [3]	8.5	18.6	-10.1	75.9	-67.4
Capex	71.2	48.6	22.5	40.5	30.7
Net debt [4]	731.6	740.1	-8.5	742.0	-10.4
EBITDA/Sales (%)	**26.3%**	**26.6%**	**-0.3 pp**	**25.6%**	**0.7 pp**
ROS	12.0%	15.3%	-3.3 pp	14.4%	-2.4 pp
ROE [5]	17.9%	23.3%	-5.4 pp	20.5%	-2.6 pp
ROCE [6]	18.5%	17.9%	0.6 pp	15.4%	3.1 pp
Equity ratio	47.0%	46.8%	0.2 pp	44.9%	2.1 pp
Net Debt/EBITDA [7]	1.65	1.62	0.03	1.84	-0.20

(1) Operating profits + depreciation + provisions;
(2) Recurrent EBITDA excludes effect of sale of pellets business + anti-dumping duty
(3) Variation net debt + dividends + purchase of own shares
(4) Interest-bearing net debt – liquid assets
(5) ROE = Annualised net profit / Average Shareholders' Funds last 12 months
(6) ROCE = Annualised operating profit / Average Capital Employed last 12 months
(7) EBITDA corresponding to last 12 months
(8) Variation in figures not rounded up/down

1. ANALYSIS OF RESULTS

9 Months 2018 vs. 9 Months 2017

In the first nine months of 2018, The Navigator Company recorded a turnover of € 1 252 million, representing an increase of 3.5% in relation to the first half of 2017. With sales of € 926 million, the paper sector accounted for 74% of turnover, energy for 10% (€ 127 million), pulp 9% (€ 115 million), and tissue business 5% (€ 65 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 occurring during this period.

Pulp business was affected by two major shutdowns over the year, the first for maintenance at the Setúbal mill during the first quarter and another, during the second quarter, at the Figueira da Foz mill, also for maintenance, which was extended to allow for the project of increasing production capacity to be completed. The length of these stoppages and the need to build up stocks in the previous months had a strong limiting effect on the quantities of pulp available for sale by the Group during the first nine months of 2018. As a result, Navigator's sales totalled 177 thousand tons, down by 30% on the figure recorded in the first nine months of 2017 (a period that benefitted from some destocking, which was not possible in 2018 due to very low inventories at the beginning of the year). This reduction in volume was partially offset by the increase in sales prices, and sales in value showed a reduction of 11%, standing at approximately € 115 million.

Global conditions in the pulp market remained positive over the first nine months, with the benchmark index – FOEX BHKP – up by an average of 24% (868 €/ton vs. 703 €/ton). According to figures from PPPC, global demand for BEKP grew by 4.7% YTD August, in particular in China (up 10.2%), whilst a number of constraints were experienced on the supply side (planned and unplanned shutdowns), causing an estimated reduction in the volume of hardwood pulp on the market of more than 1.4 million tons.

In paper business, UWF sales totalled 1 137 thousand tons, down by 2% on the same period in 2017, due essentially to production deviations caused by a number of unplanned stoppages, as well as the need to replenish stocks to guarantee an adequate customer service level. The upward evolution in prices partially offset the reduction in sales volume, resulting in an increase of sales in value by 5.8% to € 926 million. Navigator implemented several price rises over the year, in Europe and other geographical regions, resulting in an increase of approximately 7.8% in its average sales price when compared with the same period in 2017. This increase outperformed the European benchmark index, FOEX A4 B-copy, and was positively influenced by a significant improvement in the product mix in terms of quality (55% premium sales, up from 49%) and in the proportion of mill brand products (69%, up from 62%). On the negative side, this was countered by the evolution of the EUR/USD exchange rate (the average exchange rate for the period was 1.1942, as compared to 1.113 in the same period in 2017).

In tissue business, there was an upwards adjustment in the average sales price in relation to the same period in 2017 (up 7%), as a result of an improved product mix, with reels representing a smaller proportion of sales, and finished products a larger proportion; and also due to price rises implemented. The sales volume stood at 45 thousand tons, growing by 9.2% comparing to the same period last year, and includes the sale of finished products from the new Cacia plant. Higher average tissues prices were not however enough to absorb an increase of around 30% in production costs, in particular the price of pulp (hardwood and softwood) and of chemicals.

In the energy sector, power sales recovered in the 3rd quarter, leading to an increase of approximately 2.9%, in relation to the first nine months of the previous year (€ 127 million), benefiting from the rise in the indexes to which sales prices are linked, in particular Brent prices on the international market. The reference Brent price rose by 26.7% in relation to the same period in the previous year, influencing essentially the sale price for power from the combined cycle natural gas power stations. The value of power sales includes sales to the grid of surplus electricity from cogeneration at the pulp and paper units (€ 110.8 million) and the stand-alone sales from BPSs (Biomass Power Stations), worth € 16.6 million.

Despite the increase in the value of sales, total gross power generation was down by 1.7% comparing with the same period in 2017, especially due to the stoppages in the pulp mills. Even so, total output stood at 1.63 TWh.

In this context, EBITDA stood at € 341 million, as compared with € 300 million recorded in the first nine months of 2017, representing an increase of 13.5% and an EBITDA / Sales margin of 27.2% (vs. 24.8%). EBITDA for this period includes the positive impact of the sale of the pellets business in the USA (which net of costs and adjustments stood at approximately € 12.4 million) and was brought down by anti-dumping duties (approximately € 10 million). Without these impacts, EBITDA for the first nine months would have been € 338 million up 12.7%) and the EBITDA/sales margin would have been 27%.

The impact on the accounts of the anti-dumping duty brought EBITDA down by € 10 million. This amount includes recognition of € 3.6 million relating to retroactive application of the rate of 1.75% on sales for the first period of review, from August 2015 to February 2017, as well as an additional amount of around € 6 million relating to registration of the duty for the second and third periods of review.

In terms of financial impact, proceedings have been initiated to obtain a refund of approximately € 22 million, corresponding to the difference between the amounts deposited up to February 2017 and the amount now determined.

In August, Navigator was notified by the U.S. Department of Commerce that the final rate to be applied on sales made during the first period of review would be 37.34%, although in March 2018 the Company had been notified by the same authority that, in accordance with its preliminary assessment, the anti-dumping duty to be applied would be 0%. The 37.34% duty has been applied to sales to the U.S. since August 13, 2018, replacing the duty of 7.8% applicable up to that date. The Company reacted immediately against the decision, pointing to administrative errors in the ruling, and has taken all the legal measures at its disposal to demonstrate that the new rate for the period in question was wholly unfounded. The Department of Commerce has consequently re-examined the calculations, in strict compliance with applicable laws and regulations, and decided on the new final rate of 1.75%, which will apply to all exports made by the Company to the USA after the date of publication of the corresponding decision.

Production costs have again been pushed up by negative trends in chemicals, impacting on variable unit production costs of pulp, paper and tissue (in a global estimated amount of € 8.3 million). Also, fibre costs increased approximately € 9.1 million, essentially due to the acquisition of hardwood fibre for the tissue operations at Vila Velha de Ródão, as well as the purchase of softwood pulp. Logistic costs also increased by € 2.1 million, largely due to higher Brent prices. In fixed costs, payroll costs registered the most significant increase (+€14.4 million) as a result of workforce expansion due to the new Tissue project in Cacia, the rejuvenation programme under way and an increase in the estimate of performance bonuses reflecting the Group's healthy results.

Navigator has actively pressed ahead with its M2 cost-reduction and operational excellence programme, resulting in a positive YoY impact of € 17.2 million in EBITDA. Roughly 143 new initiatives have been launched since the beginning of the year to cut costs, with around 85 of these achieving a positive impact. These have included projects such as improving efficiency at PM4 in Setúbal, representing the outcome of an array of continuous improvement initiatives, with a YTD saving of €1 million, optimisation of chemicals consumption in chlorine dioxide production in Cacia, by upgrading sulphates filtering, with a YTD impact of € 995 thousand, and reduction in consumption of bleaching agents at the Figueira da Foz industrial complex, with a YTD impact of € 716 thousand. In addition to these initiatives, the renegotiation of power and natural gas contracts resulted in estimated avoided costs of around € 27.8 million in relation to market prices.

Financial results showed a loss of € 16.5 million, as compared to a loss of € 6.5 million in 2017. Despite a positive evolution in the cost of funding operations, a combination of other factors had a negative effect on financial results. The most important of these were (i) a drop of € 5 million in gains on currency hedges taken out by the company, in a rising dollar scenario with a positive impact on operating results, (ii) recognition at the end of the 1st quarter of a negative amount of approximately € 3.3 million resulting from the difference between the nominal value and the current value of the amount to be received for the sale of the pellets business (USD 45 million) and (iii) a reduction of € 1.5 million in yields from applications of surplus liquidity, in relation to extremely positive performance in 2017.

At the end of September, the Group's net debt stood at € 731.6 million, up by € 38.9 million from year-end 2017 (€ 692.7 million), reflecting payment of dividends of € 200 million in June and capital expenditure of €148 million during the period.

A generated free cash flow of € 161.1 million (vs. € 148.7 million) was supported by sound operational performance, but also by the inflow from the sale of the pellets business in the first quarter (€ 67.6 million). On the negative side, it was limited by the high level of Capex, which totalled € 148.4 million (vs. € 75.7 million), largely associated with the construction of the new Tissue mill in Cacia and expansion of capacity at the Figueira pulp mill. In the 3rd quarter, generation of free cash flow (€ 8.5 million) was significantly constrained by the concentration of Capex disbursals in the period (€ 71.2 million), combined with sizeable corporation tax (IRC) prepayments (€ 23.7 million) in the period.

Pre-tax profits totalled € 228 million (up from € 179 million), and the tax amount for the period was negatively affected by the constitution of a number of tax provisions, an increase in the state surtax rate and, obviously, by the increase in pre-tax profits.

As a result, the Group achieved a net income for the first nine months of 2018 of € 172 million, up by 18% on the first nine months of 2017 (€145.8 million).

3rd Quarter 2018 vs. 2nd Quarter 2018 and vs. 3rd Quarter 2017

The third quarter was marked by a positive evolution in prices in relation to the previous quarter (+4.3% for paper, + 3.4% for pulp and 0.4% in tissue), and especially when compared with the 3rd quarter of 2017 (+12.4% in paper, +23.7% in pulp and +6.2% in tissue).

The sales volume for pulp was up on the preceding quarter by around 3.5%, due to greater market pulp availability, although still falling short of the figure recorded in the same quarter in 2017. In paper, sales in volume were also slightly lower than in previous periods. Tissue sales grew very positively over the quarter, up by around 29% in relation to the previous quarter and 25% YoY, with the inclusion of sales of finished products from the new lines in Cacia.

However, the price effect offset the volume effect, and turnover grew by 1% in the quarter to € 435 million. EBITDA stood at € 115 million, in line with the preceding quarter and approximately 13% up on the 3rd quarter of 2017.

It should be noted that this quarter's EBITDA includes the negative impact of the anti-dumping duty for the first period of review, as well as adjustments relating to previous periods. Excluding the negative impact of anti-dumping duty, EBITDA for the quarter would have been € 123 million and EBITDA /Sales of 28.3%.

Operating Indicators

Pulp and Paper

(in 000 tons)	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
BEKP Output	357.3	371.9	346.1	335.4	392.7
BEKP Sales	68.8	59.7	53.1	60.9	63.1
UWF Output	406.1	406.7	385.8	392.9	393.9
UWF Sales	386.4	419.9	361.2	395.1	380.7
FOEX – BHKP Euros/ton	747	805	824	878	903
FOEX – BHKP USD/ton	877	948	1013	1046	1050
FOEX – A4- BCopy Euros/ton	819	831	845	864	882

Tissue

(in 000 tons)	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Reels Output	13.0	14.8	14.1	14.4	17.8
Output of finished products	12.2	12.4	13.6	14.7	18.6
Sales of reels and goods	1.1	1.8	0.6	0.1	0.0
Sales of finished products	12.3	12.2	12.8	14.9	16.7
Total sales of tissue	13.3	14.0	13.4	15.0	16.7

Energy

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Production (GWh)	535.9	573.7	553.5	536.1	536.2
Sales (GWh)	426.0	462.8	444.7	435.8	428.5

2. STRATEGIC DEVELOPMENT

Navigator recorded capex of € 148.4 million, significantly accelerating disbursements this quarter to € 71.2 million (vs. €48.6 in the 2nd Quarter). With a value of € 74.8 million, the Cacia tissue project represented around half of total investment, the capacity expansion in Figueira da Foz around 19% (€ 27.6 million) and investment in regular pulp and paper business totalled approximately € 46 million.

Completion of the project for the Group's new tissue mill in Cacia represents an important milestone for the Group and attainment of its strategic goal, mapped out in 2015. The Navigator Company is now the third largest tissue manufacturer in Iberia, with total production capacity of 130 thousand tons (reels) and converting capacity (finished products) of 120 thousand. The new mill, equipped with large scale, sophisticated industrial assets, is integrated upstream with pulp production, giving it competitive advantages in terms of production costs, use of the high quality eucalyptus pulp manufactured in Cacia, and an excellent location near the port of Aveiro, which will allow it to sell its products to more distant markets. The various converting lines started up over the second and third quarters, with the at-home line starting production in May followed by the paper napkin and industrial tissue lines in July. Reels production started up in September and is still at a ramp-up phase.

3. OUTLOOK

Without any significant new increases in production capacity for market pulp being announced for the next three years, capacity utilization rates can be expected to increase and allow hardwood pulp prices to stay above 1000 USD/ton. In the short term, demand continues solid and supply disruptions, due to planned and unplanned stoppages, are cushioning the impact of the new capacity that started up last year.

In UWF paper, order books remain at a high level. After leading a series of price rises in Europe, and also increasing prices in the US and international markets during the first nine months of the year, The Navigator Company implemented a further price increase as from October in European markets.

In the tissue market, manufacturers have been under heavy pressure from increases in pulp prices and in the cost of chemicals and energy. Navigator announced new price increases of between 8 and 12% for its products in November. At the same time, the Company's new tissue mill in Cacia started producing reels in September. A strong commercial performance in recent months allows to anticipate a successful placement of the new output with clients.

This positive context may however be affected by increases in certain costs, especially for energy, and there are continued concerns about the evolution of exchange rates, in particular the EUR/USD. Operations in the fourth quarter will be constrained by production stoppages programmed for November and December at the Setúbal Mill site, the most significant one related to the heavyweights project, which will imply a 10 day production stoppage at paper machine 3.

The Navigator Company continues to develop its business model successfully, acting proactively in relation to factors under its control, seeking to achieve continuous improvement in its performance and in reducing its cost structure. Furthermore, it has proven to be able to successfully overcome several adversities with which it has been confronted.

Setúbal, 30th October 2018

Subsequent Event – Production Stoppage at the Figueira da Foz production centre due to damage by Hurricane Leslie

On October 13, after the end of the period, Portugal was affected by Hurricane Leslie landfall, which caused damage at the Figueira da Foz production centre, left without power, water and telecommunications, and forced to suspend operations. With the efforts and remarkable performance of local teams, combined with support and engagement from various multidisciplinary teams in the Group, the work on repairing the damage started immediately and allowed to minimise production stoppage, with the pulp line and paper machines 1 and 2 quickly going back into operation. Nonetheless, this stoppage will cause an estimated production loss of approximately 9 thousand tons of pulp and 10 thousand tons of paper.

Conference call and Webcast

Date: Tuesday, 30 October 2018

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

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4. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Amounts in Euros	9 Months 30-09-2018	9 Months 30-09-2017
Revenues		
Sales	1,248,540,736	1,206,126,730
Services Rendered	3,762,876	3,669,409
Other Operating Income		
Gains on the Sale of Non-current Assets	17,894,562	614,787
Other Operating Income	13,055,758	12,340,191
Change in the Fair Value of Biological Assets	1,557,146	3,186,006
Costs		
Cost of Inventories Sold and Consumed	(522,223,248)	(494,858,603)
Variation in Production	31,144,857	(1,409,554)
Cost of Materials and Services Consumed	(304,731,817)	(300,891,039)
Payroll Costs	(125,566,241)	(111,180,117)
Other Costs and Losses	(22,831,644)	(17,547,662)
Provisions	1,741,217	(3,055,219)
Depreciation, Amortization and Impairment Losses	(97,764,203)	(111,529,226)
Operational Results	**244,579,999**	**185,465,703**
Net Financial Results	(16,537,208)	(6,488,744)
Profit Before Tax	**228,042,791**	**178,976,959**
Income Tax	(56,277,787)	(33,175,866)
Net Income	**171,765,004**	**145,801,093**
Non-Controlling Interests	1,973	(6,446)
Net Profit for the Period	**171,766,977**	**145,794,646**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in Euros	30-09-2018	30-09-2017
ASSETS		
Non-Current Assets		
Goodwill	377.339.466	377.339.466
Other Intangible Assets	2.886.603	3.876.509
Fixed Tangible Assets	1.221.610.920	1.259.951.601
Investment in Property	97.939	
Biological Assets	130.954.082	128.798.954
Other Financial Assets	507.024	260.546
Financial Assets Available for Sale		139.869
Other Assets	32.498.663	
Deferred Tax Assets	43.741.222	45.331.690
	1.809.635.920	**1.815.698.635**
Current Assets		
Inventories	226.291.337	223.775.143
Receivable and Other Current Assets	268.582.099	213.688.882
State and Other Public Entities	50.357.631	60.979.210
Cash and Cash Equivalents	92.868.746	111.548.132
	638.099.814	**609.991.367**
Non-Current Assets Available for Sale	**-**	**-**
Non-Current Assets Available for Sale	-	-
	-	**-**
Total Assets	**2.447.735.733**	**2.425.690.002**
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	(5.420.066)	(1.146.543)
Legal Reserves	100.000.000	327.290.475
Other Reserves	197.292.250	-
Translation Reserves	(16.704.344)	(1.274.373)
Advancement on Profits	204.887.863	168.893.215
Net Profit for the Period	171.766.977	145.794.646
	1.150.820.596	**1.138.555.336**
Non-Controlling Interests	207.159	2.400.801
Total Equity	**1.151.027.755**	**1.140.956.137**
Liabilities	**-**	**-**
Non-Current Liabilities		
Deferred Taxes Liabilities	65.017.473	70.414.901
Pensions and Other Post-Employment Benefi	9.314.665	6.910.375
Provisions	38.165.139	22.246.853
Interest-bearing Liabilities	747.457.062	777.628.841
Other Non-Current Liabilities	22.118.375	27.618.158
	882.072.714	**904.819.129**
Current Liabilities		
Interest-Bearing Liabilities	76.997.741	75.911.224
Payables and Other Current Liabilities	264.962.200	246.355.671
State and Other Public Entities	72.675.323	57.647.841
	414.635.264	**379.914.735**
Total Liabilities	**1.296.707.978**	**1.284.733.865**
Total Equity and Liabilities	**2.447.735.733**	**2.425.690.002**