

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



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INTERIM RESULTS
1ST HALF
2019

Highlights 1st Half 2019 (vs. H1 2018)

- Turnover grows to € 854 million (up 4.6%), as volume rises for pulp and tissue
- EBITDA stood at € 207 million, down 2.8% on adjusted EBITDA for H1 2018 (excluding gains from disposal of pellets business); EBITDA / Sales margin of 24.2% under pressure from lower pulp prices and rising production costs (namely energy, wood and chemicals).
- Capex totalled € 68.2 million, as compared to € 77.2 million in 2018, with investment in maintenance and environmental performance
- Free cash flow generation strong at € 100 million, as compared to an adjusted figure of € 85 million (excluding receipts from disposal of pellets business)
- The Group remains focused on its M2 operating cost reduction program, achieving around € 8.1 million of positive impact on EBITDA in the semester. This effort partially offset the cost increase associated with exogenous factors, which affected the overall pulp and paper industry (in particular energy, wood and chemicals).
- Net interest-bearing borrowing of € 796.4 million, keeping the Net Debt / EBITDA ratio at a comfortable level of 1.83 X, after payment of € 200 million in dividends in April and investment in treasury shares of € 14.2 million during the semester.

Highlights 2nd Quarter 2019 (vs. Q2 2019)

- Turnover grows to € 433 million (up +2.5%).
- Rising volume of paper increased paper sales value by 4%, more than compensating reduction in pulp sales
- EBITDA of € 102 million (down 2.7%), reflecting lower volumes and prices in pulp and energy business
- Group launches Zero Base Budget, a new cost optimization programme with focused on fixed costs (running costs, overheads and personnel costs in non-industrial areas), which is expected to create an impact in 2020.

Summary of Leading Indicators (unaudited figures)

in million euros	H1 2019	H1 2018	% Change ⁽⁹⁾ H1 19/H1 18
Total sales	854.1	816.9	4.6%
EBITDA ⁽¹⁾	207.0	226.0	-8.4%
EBITDA Without pellets ⁽²⁾	207.0	213.0	-2.8%
Operating profits	134.0	160.8	-16.7%
Financial results	- 9.7	- 11.4	-14.8%
Net earnings	94.9	119.4	-20.5%
Cash flow	167.8	184.6	-16.7
Free Cash Flow ⁽³⁾	100.8	152.6	-51.9
Free Cash Flow Without pellets ⁽⁴⁾	100.8	85.1	15.7
Capex	68.2	77.2	-9.0
Net debt ⁽⁵⁾	796.4	740.1	56.3
EBITDA/Sales (%)	24.2%	27.7%	-3.4 pp
EBITDA without pellets/Sales	24.2%	26.1%	-1.8 pp
ROS	11.1%	14.6%	-3.5 pp
ROE ⁽⁶⁾	16.9%	21.0%	-4.1 pp
ROCE ⁽⁷⁾	14.4%	17.4%	-3.0 pp
Equity ratio	40.7%	44.8%	-4.2 pp
Net Debt/EBITDA ⁽⁸⁾	1.83	1.73	0.10

in million euros	Q2 2019	Q1 2019	% Change ⁽⁹⁾ Q2 19/Q1 19	Q2 2018	% Change ⁽⁹⁾ Q2 19/Q2 18
Total sales	432.3	421.8	2.5%	432.0	0.1%
EBITDA ⁽¹⁾	102.1	104.9	-2.7%	115.0	-11.3%
EBITDA Without pellets ⁽²⁾	102.1	104.9	-2.7%	112.0	-8.9%
Operating profits	67.8	66.2	2.5%	82.9	-18.1%
Financial results	- 5.8	- 3.9	46.3%	- 5.9	-1.7%
Net earnings	45.6	49.3	-7.4%	66.2	-31.1%
Cash flow	79.9	88.0	-8.1	98.4	-18.5
Free Cash Flow ⁽³⁾	90.8	9.4	81.4	18.6	72.2
Capex	35.7	32.5	3.2	48.6	-12.9
Net debt ⁽⁵⁾	796.4	676.9	119.5	740.1	56.3
EBITDA/Sales (%)	23.6%	24.9%	-1.2 pp	26.6%	-3.0 pp
EBITDA without pellets/ sales	23.6%	24.9%	-1.2 pp	25.9%	-2.3 pp
ROS	10.6%	11.7%	-1.1 pp	15.3%	-4.8 pp
ROE ⁽⁶⁾	16.2%	16.4%	-0.1 pp	23.3%	-7.1 pp
ROCE ⁽⁷⁾	14.6%	14.0%	0.5 pp	17.9%	-3.3 pp
Equity ratio	40.7%	44.4%	-3.7 pp	44.8%	-4.1 pp
Net Debt/EBITDA ⁽⁸⁾	1.83	1.51	0.32	1.73	0.10

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. Adjusted FCF excl. receipts from disposal of pellets business
5. Interest-bearing liabilities - liquid assets
6. ROE = Annualised net profit / Average Shareholders' Funds last 12 months
7. Annualised operating profit / Average Capital Employed last 12 months
8. (Interest-bearing liabilities - liquid assets) / EBITDA corresponding to last 12 months
9. Variation in figures not rounded up/down

1. ANALYSIS OF RESULTS

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The Navigator Company recorded turnover in the first half of 2019 of € 854.1 million, up by 4.6% on the same period in 2018. With sales of € 611 million, the paper segment accounted for 72% of turnover, energy for 10% (€ 82.8 million), pulp for approximately 9% (€ 77.6 million), and tissue business for around 8% (€ 65.4 million). Market conditions in the pulp and paper sector were challenging, especially due to falling pulp prices. Navigator Group recorded higher paper prices and rising sales of pulp and tissue over the first half of 2019, which more than offset the decline in paper.

Pulp sales increase in a context of price pressure.

Pulp output in the first half of 2019 stood at 698 thousand tons, up by 2.4% on the previous year, benefiting from the additional capacity installed at the Figueira da Foz mill in 2018. Output was nonetheless constrained by significant maintenance shutdowns in Setúbal and Cacia, in April and May. Even so, the quantity of pulp available for sale was greater than in the previous year, making it possible to record an increase in pulp sales of 8.4% to 124 thousand tons.

Over the course of the first half, the benchmark sale price for pulp - BHKP PIX - in USD tended to fall, dropping at the end of June to 896 USD/ton, down around 12.5% in relation to the year-end price of 1,024 USD/ton. The average figure for the index in the first half was 962 USD/ton, as compared to 1,029 USD in the first half of 2018, representing a reduction of 6.6%. However, evolution in the EUR/USD exchange helped to support the pulp price in euros, which held steady at an average of 851 €/ton. The Group's average price for European sales rose in line with the index, and the value of pulp sales stood at approximately € 78 million.

Paper prices performed well over the period, with a slight reduction in volume.

Rising sale prices for paper permitted the Group to record turnover of € 611 million, up by 1.2% on the first half of 2018. In fact, the average benchmark price for UWF paper (A4 B-copy), was 7% higher in the first quarter than in the same period in 2018. The Group's average price outperformed the index, driven by implementation of price rises over the course of 2018 and also in early 2019 in Europe and in the USA, and also by the favourable evolution of the EUR/USD exchange rate.

UWF sales totalled 720 thousand tons, down by 37 thousand tons on the same period in 2018, due essentially to production deviations caused by planned and unplanned production stoppages over the course of the first half, including the strikes in January and April, which caused a shutdown of PM4 in Setúbal for a total of eight days. Continuing adjustments to the production of heavy weight products on paper machine 3 in Setúbal also held down the volume of paper available for sale.

Tissue sales grow 62% in value with start-up of new mill

In tissue business, there was a significant increase of 66% in the volume of sales to 47.2 thousand tons, as a result of the start-up of the new tissue plant in Aveiro. The value of sales stood at € 65.7 million, up 62% in relation to the first half of 2018. This growth in volume brought two distinct changes to the business. On the one hand, sales of finished product grew by around 29% to 35.8 thousand tons, and on the other hand the Groups' sales of reels, which had been negligible in the same period of 2018, grew sixteenfold to 11.4 thousand tons.

Both finished products and reels benefited from price rises in relation to the first half 2018, clearly necessary to offset the increase in costs - especially in terms of fibre/pulp, chemicals and energy. However, the faster growth in reels business, typical of the early stages of production in a new tissue mill, altered the mix of products sold, which had an impact on the Group's average sales price.

Energy Business impacted by benchmark price

In the first half of 2019, the group's electricity sales totalled around € 83 million, representing a reduction of 1.8% in relation to the figures for the same period in the previous year.

This was due to a decrease in the sales volume over the period and a reduction in the Brent price, the benchmark to which sale prices are indexed. Power output totalled approximately 834 GWh and fell short of the figures recorded in the first half of 2018 due to the various stoppages over the period.

In this context, EBITDA stood at € 207 million, as compared with recurrent EBITDA of € 213 million in the first half of 2018, excluding the positive impact of approximately € 13 million relating to sale of the pellets business in the US. The EBITDA / Sales margin in 2019 was 24.2% (as compared with a recurrent margin of 26.1% in 2018).

In terms of production costs, reference should be made to a YoY increase of around € 13.7 million in energy costs, due to rising purchase prices for electricity and natural gas. Attention should also be drawn to an increase in the cost of chemicals, with an impact of approximately € 4.8 million.

Unit costs for wood purchases were also higher when comparing with 2018. This was due to an increase in the proportion of certified wood in purchases of wood from Portuguese suppliers, rising from 37% to 51%, and also by rising woodchip prices on the international market and the variation in the EUR/USD exchange rate for wood purchased outside the Iberian peninsula (unfavourable evolution from the standpoint of wood supplies). The rise in unit prices combined with growth in the volume of wood purchases had a significant increase of € 6.1 million on production costs in the period.

In fixed costs, personnel costs performed favourably, although there was negative performance in operating and maintenance costs.

Systematic efforts continued to implement the M2 programme, geared to promoting operational excellence and cost optimisation in the Company, involving units across the entire Group. A total of 83 projects are currently being implemented, of which 63 have already had a positive effect by reducing the cost of operations. In the first half of 2019, these resulted in YoY gains of € 8.1million. The most significant of these projects include initiatives to optimise logistics (e.g. using rail freight to supply wood to the Aveiro Industrial Centre), integrated negotiation of chemicals purchases through an economic interest grouping and, in industrial operations, the initiative to increase speed on PM1 at the Figueira da Foz Industrial Centre.

Robust cash flow generation

Operating cash flow generated in the first half totalled € 167.8 million, as compared with € 184.6 million in the first half of the previous year. Free cash flow generation stood at € 100.8 million, as compared with € 85.1 million in 2018, adjusted to exclude receipts relating to sale of the pellets business, which represented a cash inflow of € 67.6 million.

In relation to operating cash flow generated in 2019, free cash flow was brought down by capital expenditure of € 68.2 million (vs. € 77.2 million in 2018), and also by a significant increase in inventories, up by € 31.2 million, especially in wood, due to replenishment of stocks to levels regarded as adequate, as well as substantial growth in pulp stocks over the period. Despite this, the Group's operational performance enabled it once again to record the robust capacity to generate funds that it has displayed consistently over recent years.

As a result, at the end of June, Navigator's interest-bearing debt totalled € 796.4 million, up by € 113.4 million in relation to year-end 2018, period when the Group paid € 200 million in dividends and acquired € 14.2 million in its own shares. The Net Debt / Ebitda ratio remains at a conservative value of 1.8x.

Financial results improve by € 1.7 million

Financial results improved by € 1.7 million, standing at € 9.7 million (vs. a loss of € 11.4 million), thanks to a positive impact of € 2.2 million from the result of investments of surplus liquidity and € 3.5 from the FX and interest effects of the sum of \$ 45 million still receivable for the sale of the pellets business. In the previous year, the same effect had been negative, due to calculation of the current value of the amount receivable, smaller than its nominal value.

Negative factors in the first half of 2019 included the foreign exchange results from hedging programmes undertaken by the company, which worsened by € 2.7 million and implementation of IFRS 16, which had a negative impact of € 0.9 million.

Pre-tax profits totalled € 124.3 million (vs. € 149.5 million), with an effective higher rate of 23.7%, that benefited from a series of tax credit which did not occur in this period.

As a result, the Group recorded net income in the first half of 2019 of € 94.9 million, as compared with € 119.4 million in 2018.

2ND QUARTER VS. 1ST QUARTER 2019

Second quarter turnover totalled € 432 million, up 2.5% in relation to the 1st quarter, with growth in the value of paper sales (up 4%), which more than offset the reduction in pulp sales.

The volume of paper sales grew by approximately 4% over the quarter whilst prices held steady. This resulted in sales of 367 million euros in value, representing an increase of 4% in the value of sales in the 2nd quarter in relation to the 1st quarter.

Conditions in the pulp market worsened in the second quarter, pushing down the BHKP benchmark index in euros by almost 5%. Group sales were accordingly hit by a reduction of almost 4% in the average sales price and a slight reduction in volumes, totalling € 38 million in value.

Tissue sales were largely unchanged from the 1st quarter in both volume and prices.

During the second quarter, Navigator was notified by the United States Department of Commerce, that the temporary anti-dumping rate to be applied retrospectively in paper sales in the United States regarding the period between March 2017 and February 2018 (the "second period of review") was of 5.96%. This provisional rate does not have any material impact since it has already been fully registered in the 2018 accounts.

IFRS 16

Navigator adopted IFRS 16 as from 1 January 2019. The 2018 results have not been restated in accordance with this accounting standard. The main impacts of applying this standard to the Income Statement have been: reduction in the value of rentals in Third Party Supplies and Services by around € 3.6million, increase in value of depreciation of approximately € 2.9 million and an increase in the value of interest of € 0.9 million. On the Balance Sheet, a sum of € 46.2 million has been stated under Lease Assets, with the corresponding contra-entry in Non-current Lease Liabilities.

OPERATING INDICATORS

Pulp and paper

(in 000 tons)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
BEKP Output	346.1	335.4	392.7	377.4	369.8	328.3
BEKP Sales	53.1	60.9	63.1	76.3	62.1	61.5
UWF Output	385.8	392.9	393.9	362.7	363.9	362.9
UWF Sales	361.2	395.1	380.7	376.0	353.0	366.5
FOEX – BHKP Euros/ton	824	878	903	914	872	830
FOEX – BHKP USD/ton	1013	1046	1050	1043	991	933
FOEX – A4- BCopy Euros/ton	845	864	882	900	914	912

Tissue

(in 000 tons)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Reels Output	14.1	14.4	17.8	25.3	26.4	25.3
Output of finished products	13.6	14.7	18.6	19.1	18.0	16.7
Sales of reels and goods	0.6	0.1	0.0	1.1	6.1	5.3
Sales of finished products	12.8	14.9	16.7	16.8	17.6	18.2
Total sales of tissue	13.4	15.0	16.7	17.9	23.7	23.6

Energy

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Production (GWh)	553.5	536.1	536.2	565.1	550.8	498.4
Sales (GWh)	444.7	435.8	428.5	452.7	442.0	392.0

2. INVESTMENT

Navigator recorded total capex of € 68.2 million in the quarter. This amount includes investment in maintenance and current investments of approximately € 50.3 million, as well as € 6.2 million relating to completion of the new tissue mill in Aveiro and the remaining investment in heavy weights production, as well as € 8.6 million in environment.

These last investments are directed essentially at improving environmental and sustainability performance at Group plants. The main investment made this period was the construction work on a new biomass boiler at the Figueira da Foz mill, replacing the existing boiler and the natural gas Combined Cycle Power Station. This biomass boiler is part of the Group's wider Carbon Neutrality Programme and will make it possible to replace use of a fossil fuel by a renewable fuel (biomass), leading to a reduction in fossil CO₂ emissions at that site. Investments in this area also included sleeve filters on the biomass boilers in Setúbal and Aveiro, as well as the revamping and redesign of effluent treatment in Vila Velha de Ródão.

3. OUTLOOK

The financial year of 2019 has been dominated by severe geopolitical and significant trade tensions globally, with the Euro zone affected by fears of a possible hard Brexit. As a result, the first half of 2019 saw an economic slowdown, especially from the 1st to the 2nd quarters, as GDP growth in the Euro zone dropped by 1.1% to 0.9%, in the US from 3.1% to 1.3% and in China from 6.4% to 6.2%. Expectations for 2019 therefore reflect a more moderate economic growth, albeit more moderate, with a clearer recovery expected in 2020.

In our sector, the expected upturn in market demand for pulp has been slow in materialising, held back by the performance of the global economy, especially in China. After a sharp reduction in demand from local purchasers and a significant increase in stocks at manufacturers, which then pushed pulp prices down, prices in China are currently at very low levels, which may indicate that we are close to a turning point. Reductions in supply in the months ahead, as a result of conversion of pulp grades and maintenance shutdowns, and increases in Tissue capacity over 2019 and 2020 will be the two main factors restoring balance in the pulp market, especially for short fibre. With a certain upturn in demand and the absence of any significant increases in supply until the second half of 2021, pulp prices can be expected to perform moderately well, for both fibres, in the latter part of 2019.

On the paper side, the second quarter also reflected worsening conditions in the global economy, and also a degree of reduction in stocks along the supply chain. Nonetheless, demand for uncoated woodfree paper, and cut-size in particular, remains extremely resilient in comparison to other types of paper and prices have been highly stable. Announcements by several manufacturers of UWF capacity closures and/or conversions planned for the second half of the year will help balance out the market and compensate further investment scheduled in uncoated production.

In tissue business, demand continues to present interesting growth rates: 3.3% in Portugal and 3.7% in Spain, even in a context of new production starting in the Iberian Peninsula to come to the markets. For Navigator, 2019 will be a year of consolidating recent investments, with a view to increasing total sales. The main aim will be to achieve sizeable gains in sales of finished products, as the industrial operation matures and our share of the target markets grows. Additionally, the Group has also the goal to improve the business margin thanks to the price increase implemented and by the economies of scale associated to the business growth.

The group's activity during the first half of 2019 has been impacted by several exogenous events, which affected global economic growth and the cost of some production factors.

Navigator has been paying special attention to its production and running costs in 2019. In particular, the Company has continued with its M2 programme for cost reduction and operational excellence, which was joined in April by the Zero Based Budget project, which sets out to design and implement a series of initiatives to capture cost savings in fixed costs (running costs, overheads and personnel costs in non-industrial areas), to be implemented in 2020.

Lisbon, 25 July 2019

Conference call and Webcast

Date: Thursday, 25 July, 2019

Service times: 09:00 (Western European Time – UTC)

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4. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Amounts in Euros	6 meses 30-06-2019	6 meses 30-06-2018
Revenues		
Sales	852,142,719	814,323,768
Services Rendered	1,949,984	2,578,883
Other Operating Income		
Gains on the Sale of Non-current Assets	261,959	17,722,330
Other Operating Income	17,755,337	7,373,427
Change in the Fair Value of Biological Assets	(2,783,846)	1,119,656
Costs		
Cost of Inventories Sold and Consumed	(366,326,531)	(344,674,553)
Variation in Production	20,553,930	20,103,964
Cost of Materials and Services Consumed	(224,914,512)	(195,369,103)
Payroll Costs	(76,713,419)	(84,696,484)
Other Costs and Losses	(14,974,010)	(12,519,277)
Provisions	(1,915,368)	1,300,221
Depreciation, Amortization and Impairment Losses	(71,032,295)	(66,444,913)
Operational Results	134,003,949	160,817,918
Financial gains	2,923,243	3,018,570
Financial losses	(12,611,032)	(14,389,310)
Net Financial Results	(9,687,789)	(11,370,740)
Profit Before Tax	124,316,160	149,447,178
Income Tax	(29,425,842)	(30,004,153)
Net Income	94,890,318	119,443,026
Non-Controlling Interests	9,848	979
Net Profit for the Period	94,900,165	119,444,005

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in Euros	30-06-2019	31-12-2018
ASSETS		
Non-Current Assets		
Goodwill	377,339,466	377,339,466
Other Intangible Assets	1,140,260	2,886,251
Fixed Tangible Assets	1,230,272,809	1,239,008,735
Lease Assets (IFRS 16)	45,739,063	-
Investment in Property	96,704	97,527
Biological Assets	116,538,339	119,614,567
Other Financial Assets	103,959,647	63,168,912
Financial Assets Available for Sale	2,522,026	-
Deferred Tax Assets	39,637,760	71,006,775
	1,917,246,074	1,873,122,233
Current Assets		
Inventories	253,614,112	222,376,871
Receivable and Other Current Assets	258,214,284	307,750,689
State and Other Public Entities	59,756,394	79,751,430
Cash and Cash Equivalents	115,920,606	80,859,784
	687,505,396	690,738,774
Total Assets	2,604,751,471	2,563,861,007
EQUITY AND LIABILITIES		
Capital e Reservas		
Share Capital	500,000,000	500,000,000
Treasury Shares	(15,977,444)	(2,317,915)
Fair Value Reserves	(8,790,923)	(5,633,483)
Legal Reserves	100,000,000	100,000,000
Other Reserves	197,292,250	197,292,250
Translation Reserves	(20,023,412)	(20,575,294)
Advancement on Profits	212,531,852	192,512,197
Net Profit for the Period	94,900,166	225,135,403
	1,059,932,489	1,186,413,158
Non-Controlling Interests	206,983	204,263
Total Equity	1,060,139,472	1,186,617,421
Liabilities		
Non-Current Liabilities		
Deferred Taxes Liabilities	68,736,042	66,123,135
Pensions and Other Post-Employment Benefits	18,438,009	7,324,279
Provisions	39,541,160	43,065,470
Interest-bearing Liabilities	869,105,313	652,025,122
Lease Liabilities (IFRS 16)	46,165,272	-
Other Non-Current Liabilities	75,828,514	82,324,405
	1,117,814,310	850,862,411
Current Liabilities		
Interest-Bearing Liabilities	43,194,444	111,805,556
Lease Liabilities (IFRS 16)	6,706,034	-
Payables and Other Current Liabilities	327,090,173	323,800,570
State and Other Public Entities	59,373,003	90,775,049
	436,363,655	526,381,175
Total Liabilities	1,554,177,965	1,377,243,586
Total Equity and Liabilities	2,614,317,437	2,563,861,007