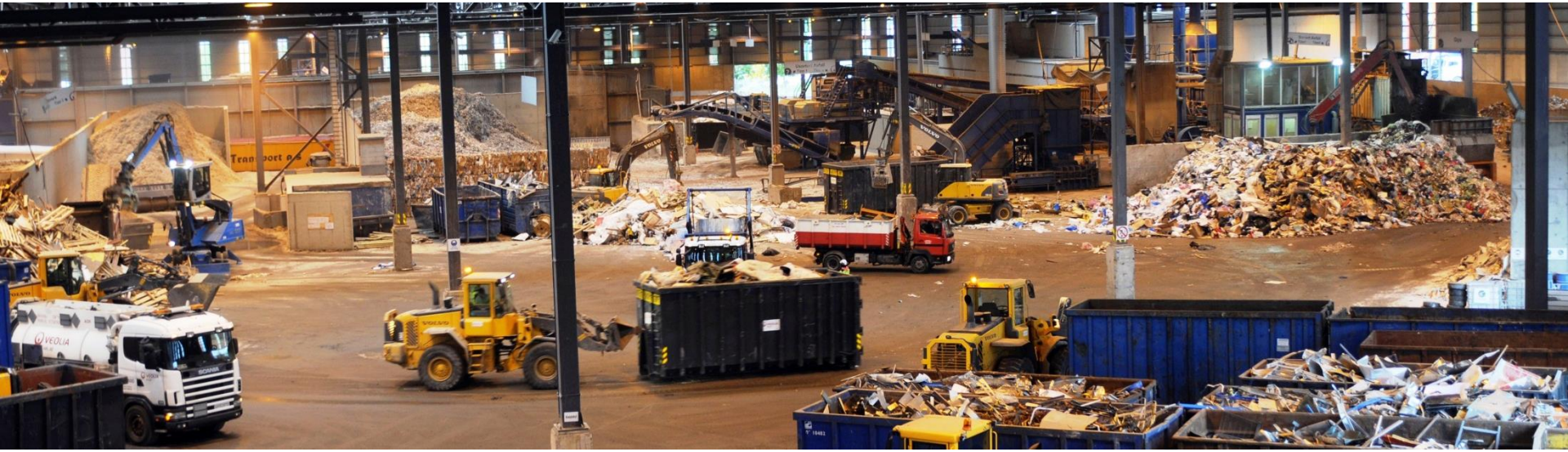
Norsk Gjenvinning

Presentation of the Norsk Gjenvinning Group

Pareto Securities Nordic Corporate Bond Conference 2017
Stockholm, March 7, 2017

Content

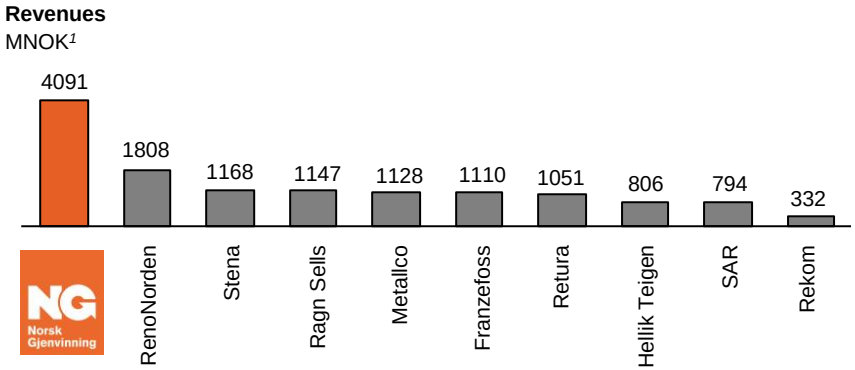
The leading waste management company in Norway



- Norway's largest waste management company with approximately 1,400 employees, 43,000 customers, 1.8 million tons of waste and NOK 4.1 billion in revenues
- A key part of society's infrastructure, handling approximately 25% of Norway's waste and recycling 85% of this into raw materials and energy to industries globally
- Relentless cost- and capex reduction program completed to meet challenging market conditions. 'NG Flow', a three year industrialization program underway
- Building the no.1 platform for a roll up of the Nordic waste management industry. High focus on compliance, risk management and sustainability/innovation

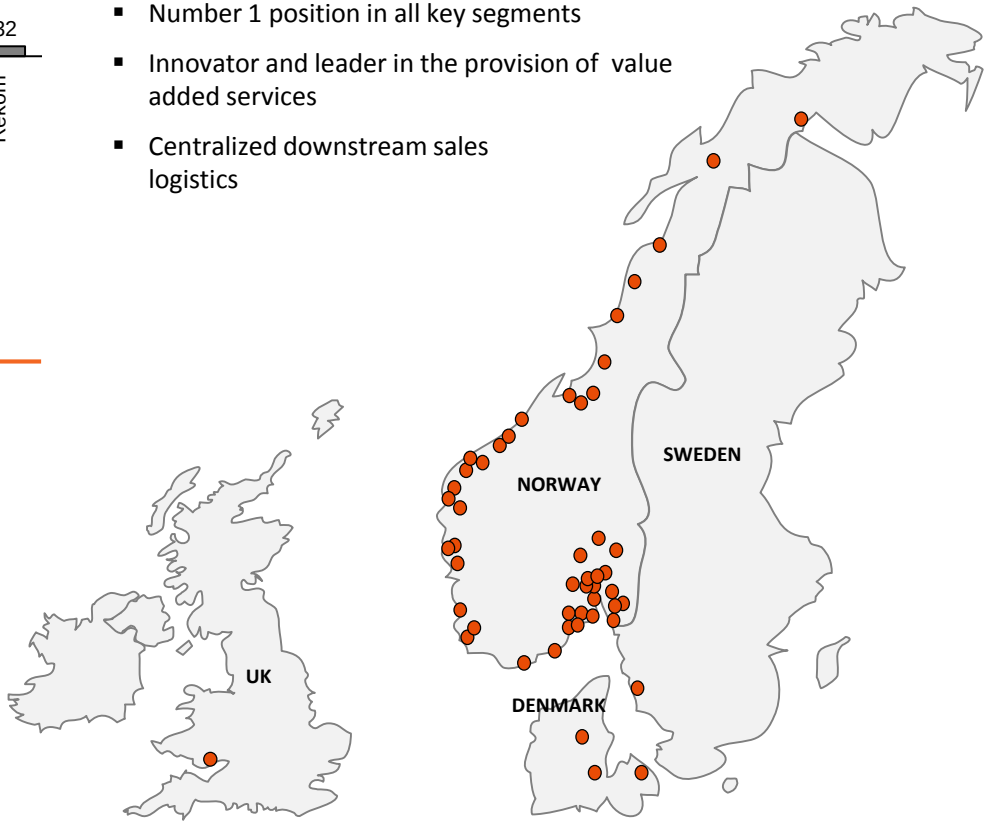
The Norsk Gjenvinning Group – overview

The largest waste management company in Norway



Broad geographic coverage and strong local presence

- Unparalleled, comprehensive geographic coverage from North to South with a large number of sites across Norway
- Broadest range of services in Norway; the only player with total waste management business model
- Number 1 position in all key segments
- Innovator and leader in the provision of value added services
- Centralized downstream sales logistics



Key facts

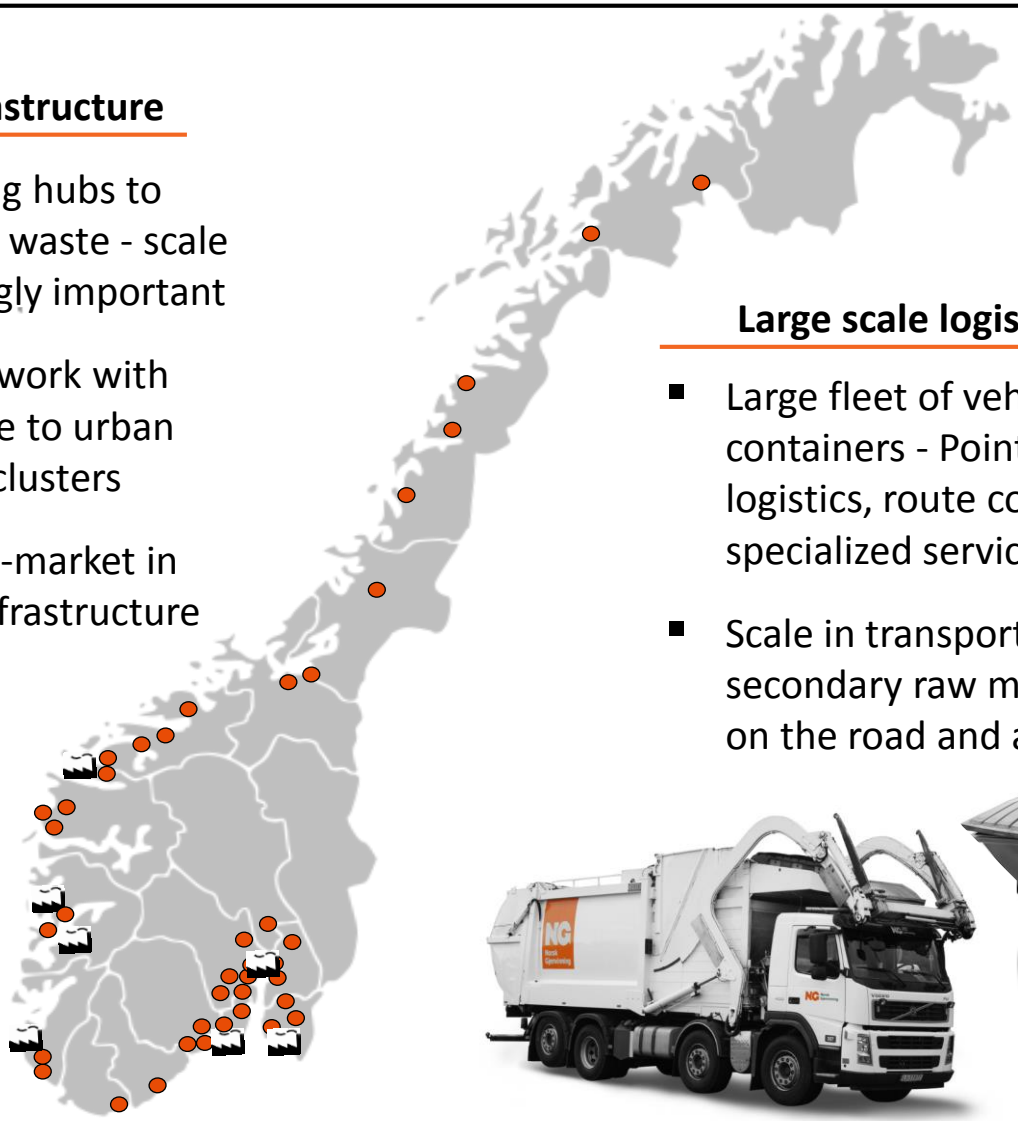
- Volumes: 1.8 million tons
- Market share: ~25%
- Recycling rate: 85%
- Number of customers: 43,000
- Number of employees: 1,400
- Number of vehicles: 610[2]
- Number of transports: 3.36 million per year
- ISO-certified operations

1 Source: Proff.no, based on latest available data (2015), Retura is a franchise company of which revenue is sourced from the company's website, and is not an exact figure
2 Including subcontractors

A key part of society's infrastructure – what's needed?

Hub-and-spoke plant infrastructure

- Large central processing hubs to recycle resources from waste - scale at plant level increasingly important
- Vast national plant network with strategic locations close to urban centers and industrial clusters
- ~NOK 6 billion mark-to-market in properties and fixed infrastructure



Large scale logistics operation

- Large fleet of vehicles and containers - Point-to-point logistics, route collection and specialized service vehicles
- Scale in transportation of secondary raw material globally – on the road and at sea

Key business areas

Recycling

- Collection, sorting and treatment/ recycling of mixed industrial waste, paper, plastics, wood chips and other non-hazardous waste fractions
- Operation of municipal recycling stations

Key competitors

RAGN SELLS, STENA, RETURA, Franzefoss

NG Norsk Gjenvinning **#1**

Metals

- Collection, sorting and treatment/ recycling of all kinds of ferrous and non ferrous materials, including vehicles and electrical waste

Key competitors

STENA, METALLCO, Hellik Teigen AS

NG Norsk Gjenvinning **#1**

Industry & Offshore

- Collection and treatment of hazardous waste
- Industrial services, including tank cleaning, maintenance stops, cleaning of oil separators, and high pressure suction
- Emergency services

Key competitors

RAGN SELLS, STENA, Franzefoss, SAR Treatment, Renor HEIDELBERGCEMENT Group

NG Norsk Gjenvinning **#1**

Household collection

- Collection of household waste from Norwegian and Swedish municipalities
- Pure logistics service based on public tender contracts with 5-7 year duration

Key competitors

RenoNorden

NG Norsk Gjenvinning **#2**

NGs value chain perspective

Customer focus | **Industrial optimization**

Upstream sales → **Collection logistics** → **Plant operations** → **Logistics between plants and downstream** → **Downstream sales**

Service delivery

- Defined by **customer needs**
- Focus on **quality** and **customer satisfaction**

Production

- Focus on high **effectiveness** and right **goods quality** to downstream customers

Long-haul logistics

- Focus on high **effectiveness** and **pick-up/delivery precision** to own plants and downstream customers

Raw material sales/trader

- Focus on **sales** of own and external goods at **optimal price**

Value chain flow tightly knit to create high gross margin at low cost

- Quality of goods to be produced
- Goods flow optimization
- Means of production
- Seasonal planning (storage)
- Production planning

Our basic role – the middle man

Waste = resources astray!

How do we help our customers create competitive advantage?

ILLUSTRATIVE EXAMPLE: How do we make our money?

WASTE

Delta upstream/downstream = GP

A — Material-recycling (metalls, paper, plastics)

Upstream	NOK/t
Paper	300

Production	NOK/t
• Sorting	50
• Processing	250

Downstream	NOK/t
• Logistics	270
• Sale of paper	1,350

GP – Production = OP

B — Energi-recycling (waste, woodchips, food waste)

Upstream	NOK/t
General waste	1,150

Production	NOK/t
• Sorting	75
• Processing	225

Downstream	NOK/t
• Logistics	230
• Sale of waste	450
• Sale of fractions	40

SERVICES/OTHER INCOME

C

Upstream	NOK
Transport services	1,300
Rent of equipment	100

Production	NOK
• Vehicle costs	800
• Cost of equipment	50

N/A

Regnskap

1 tonn OCC* 90/10		NOK/t
Downstream income	Rev.	1,350
Upstream costs	COGS	-300
Downstream costs	COGS	-270
Gross margin (GM)		*780*
Production costs		-300
Operating profit		*480*

+

1 tonn general waste		NOK/t
Upstream income	Rev.	1,150
Downstream income	Rev.	40
Downstream costs	COGS	-680
Gross margin (GM)		*510*
Production costs		-300
Operating profit		*210*

+

Services/other income		NOK
Upstream income	Rev.	1,400
Downstream costs	COGS	N/A
Gross margin (GM)		*N/A*
Production costs		-850
Operating profit		*550*

* Old corrugated containers

Content

NG under new management – phases

2011	2012	2013	2014	2015	2016	2017	2018
Acquisition/ merger	Clean up and growth		Cost cutting		Industrialization		

Context

- Failed merger in Oslo
- Resistance against the 100-day program
- Change of CEO/ KL

Context

- Emergence of large cases compliance, risk, leadership

Focus in this phase

- Internal clean up (leadership and risk)
- Reorganization to increase focus
- M&A opportunities

Context

- High fixed cost geared for growth
- Dark clouds in the horizon for Norway

Focus in this phase

- Cost cutting
- Continued leadership development
- Continued reorganization

Context

- The most «obvious» savings opportunities have been exhausted – time for more fundamental changes
- Starting to get better data per function, have identified great potential for increased effectiveness

Focus in this phase

- Industrialization and effectiveness throughout the value chain
- Organic growth

At the time of the acquisition: many known challenges, but also many unexpected events

Known challenges

- Inferior **profitability** vs competitors
- **Organizational structure** build around people and not the tasks
- Divergent **cultures** as a result of several acquisitions
- Limited **cooperation** and high degree of silo-thinking, high conflict level
- Limited understanding of **joint goals and strategies**. Decisions based on **gut feel** or for **political** reasons
- **Rumours** as the most important communication channel
- Lack of **consequence leadership**

Hidden challenges

Shocking findings

- Financial fraud; corruption; theft
- Illegal handling of hazardous goods
- Illegal waste exports
- Anti-competitive behavior
- Serious breeches of regulations

A very bad starting point

- Lots of **money to be made from illegal handling** of waste!
- Industry where employees easily can take advantage of illegal opportunities due to **lack of follow up and control**

Industry clean up: What have we done and what were the consequences?

What did we do?

- New direction – New Vision and Values
- "Line in the sand"– Codes of Conduct and Amnesty
- Clean up own back yard – 40 specific actions
- Culture building

What were the consequences?

- 100 MNOK compliance costs in 2013; 50 MNOK i 2014
- 44 % change of management in 18 months (including some major bread-winners)
- Short term loss of business to competitors with lower costs due to "different compliance philosophy"

What are the positive effects – so far…?

- Employee pride = dedication and productivity
- A strong voice for influencing industry development
- Starting to get industry, politicians and customers on board

Systematic efforts to reduce risks

Operational risk

- Inventory reduction and control
- Gross margin management - all fractions
- Increased insight into market drivers
- Compliance (tracking of international goods etc.)
- HSEQ
- …

Contract risk

- Scomi offshore contract
- M3 landfill obligations
- Portfolio balance
- Long term contracts with industrial companies
- …

Financial risk

- Interest rate swap
- FX
- Metal hedging

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Reorganizing for focus

Separate «focused companies» from core divisions

- Household Renovation (NGR)
- Demolition (NGE) → R3
- Landfills (NGMP) → M3
- Security shreddding (NGS) → NM

Establish Div. Downstream

- Downstream sales, trading and transport separated from core divisions into newly established div. Downstream

Focus Div. Metall and Div. Industri & Offshore

- Div. Metal from «local scrap handler» to industrial company
- Hazardous waste and SME suction moved to div. Recycling– Div. Industry focused on industrial cleaning for industrial clients

TWM in Div. Recycling

- Div. Recycling total supplier, incl. Metal and hazardous goods for SME companies

CORE DIVISIONS
(Div. Recycling, Metal and Downstream)

Upstream sales → Collection logistics → Production → Long haul logistics → Downstream sales

OTHER BUSINESS AREAS/ FOCUSED COMPANIES

- M3
- R3 (inkl. Industri)
- Renovasjon
- Norsk Makulering
- IBKA

M&A 2011-2016

Kjøp

2011
- Veidekke Gjenvinning
- Humlekjær Ødegaard Miljø
- Tomwil
- Retura
- Østlandet Gjenvinning AS
- Litra Containerservice AS
- Veolia Miljø

2012
- Metodika – Metodika Gjenvinning AS
- Løvås – Løvås Transportfirma AS
- Skjeberg Renholdsverk AS
- Bøstrand Transport
- Metall & Gjenvinning AS[2]
- Ryfylke Renovasjon
- Vakuumtek AS
- Hurum Energigjenvinning AS
- avfallshandel

2013
- Ødegaard Gjenvinning AS
- iSekk
- IBKA

2014
- 13 Gruppen
- ecochain

2015
- Tomwil Transport AS

2016
- Sortera

Salg

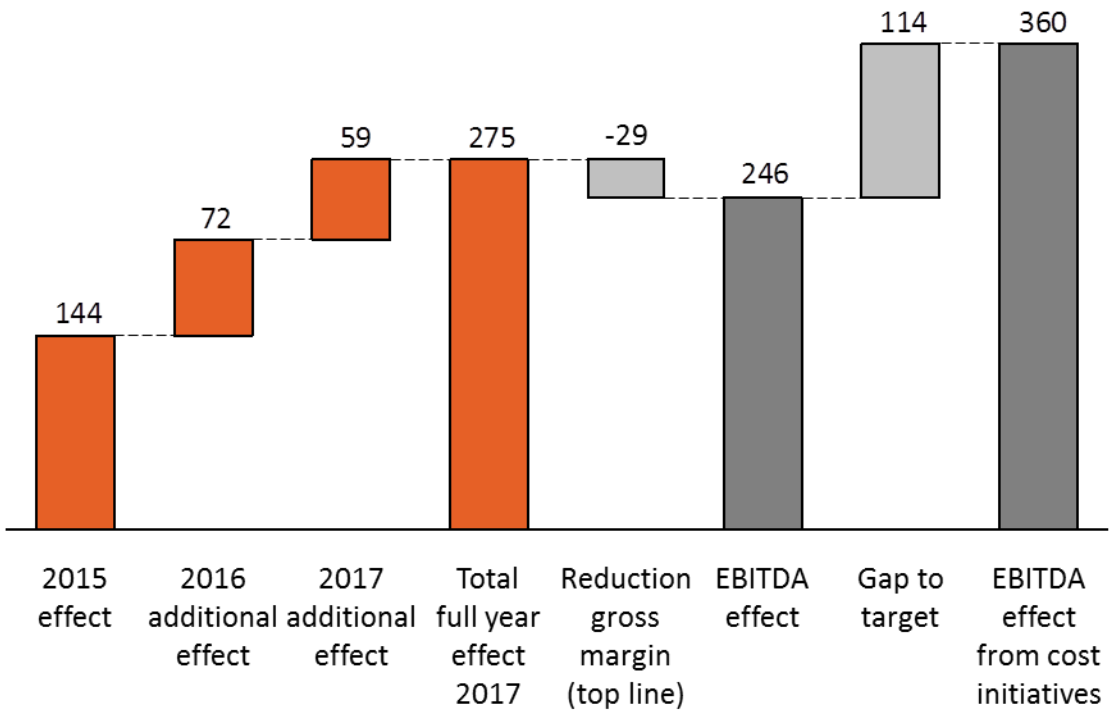
2011
- Veidekke Rogaland AS

2012
- Eurovironment
- Innmat Sandnessjøen
- Innmat Gjøvik og Elverum[1]

(1) Overdratt til Østlandet Gjenvinning AS som er 50 % deleid av NG; (2) NGs andel fra 50,6 til 100 %

Status full cost program – NG200 (autumn 2015)

NG200 cost reductions, full cost program[1]
NOK million



NG200 status to date

- Cost reducing initiatives of NOK ~275 million initiated or to be initiated
  - ~12 % of 2014A OPEX[2]
  - ~9 % of 2014A Transport Cost[3]
  - Reduction of ~150 FTEs
- Adjusted for estimated loss of gross profit, another NOK ~114 million of cost reductions needed to reach target of NOK 360 million
- MNOK 114 targeted in 2016 through decisive cost cuts

1 Includes OPEX and transport costs. Adjusted for internal cost transactions
2 OPEX 2014A: NOK ~1.7 billion
3 Transportation cost (gross margin effect) 2014A: NOK ~0.8 billion, includes NOK ~10 million from phase 1 and NOK ~65 million from phase 2

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Q4 2016

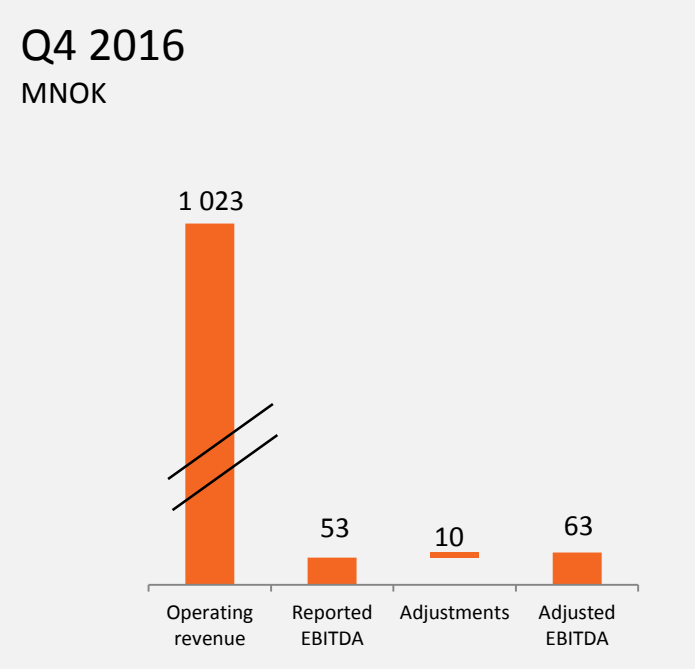
- Still pressure on profits from challenging markets, but positive signs emerging:
  - Core business decrease in operating revenue of 0.6 % compared to Q4 2015
  - 0.8% reduction in waste volumes compared to Q4 2015
  - 1.1% increase in gross margins
  - Adjusted EBITDA of NOK 63.1 million, up by NOK 6.0 million compared to Q4 2015
  - NG200 cost and productivity initiatives being implemented according to plan. Operating costs reduced by NOK 45.7 million YTD in NG core divisions.

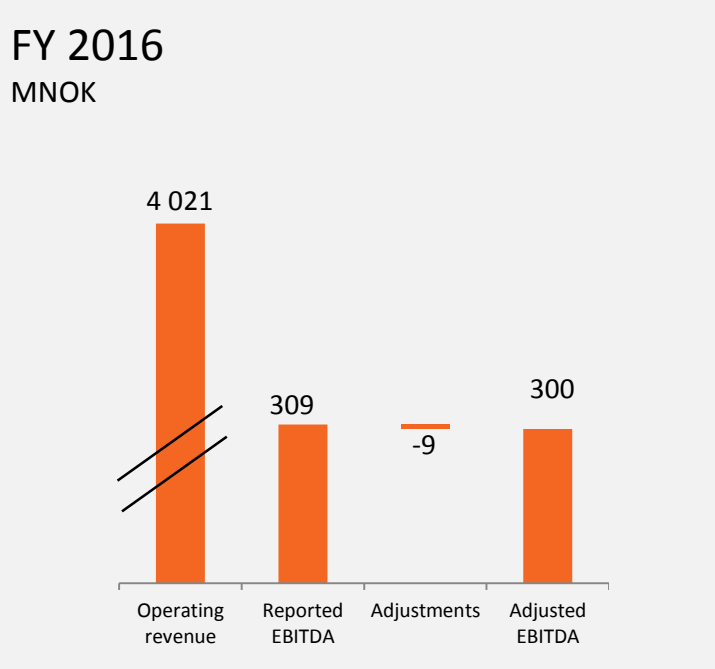
- Continued efforts to increase upstream prices to normalize margins. Price increase on woodchips and RDF that was implemented in September was successful as competitors act correspondingly to pass on increased downstream costs.

[1] Only core divisions included in NG200 program: Division Recycling, Division Metals, Division Industry & Offshore, Division Downstream

EBITDA snapshot for Q4 and FY 2016

- Special items in Q1:
  - No special items
  - Negative impact from Easter falling in Q1 in 2016 of 12-14 MNOK
- Special items in Q2:
  - No special items
  - Positive impact from Easter falling in Q1 in 2016 of 12-14 MNOK
- Special items in Q3:
  - 6,5 MNOK changes in accounting principles for payroll
  - 5 MNOK in NG200 implementation costs
- Special items in Q4:
  - Reversal of 6,5 MNOK changes in accounting principles for payroll
  - 11 MNOK in NG200 implementation costs





Q4 2015 MNOK	1 028	52	5	57

FY 2015 MNOK	4 091	362	3	365

Adjusted earnings by segment Q4

Division Recycling

- Reduced paper volumes; mitigated by new contracts
- Successful price increases upstream
- Improved downstream prices except woodchips
- Cost and productivity improvements

Division Metal

- Ferrous vol increase, but non-ferrous down
- Unfavorable prod mix
- High price volatility
- Cost and productivity improvements
- NOK 9 million in NG200 implementation costs

Division Industry and Offshore

- Drop in revenues from the oil and gas sector and sectors influenced by oil and gas
- Cost and productivity improvements
- Closure of Mongstad site

Division Household Collection

- Revenue impact of lost Oslo contract but stable and steady profits
- Contract signed in Blekinge; New tender in Gothenburg

MNOK	Revenues	Adj. EBITDA[1]	Revenues	Adj. EBITDA[1]	Revenues	Adj. EBITDA[1]	Revenues	Adj. EBITDA[1]
4Q 2016	585	71	209	-7	69	1	62	6
4Q 2015 (pf)	575	46	180	8	92	-7	88	7

[1] Before internal charges

Market conditions

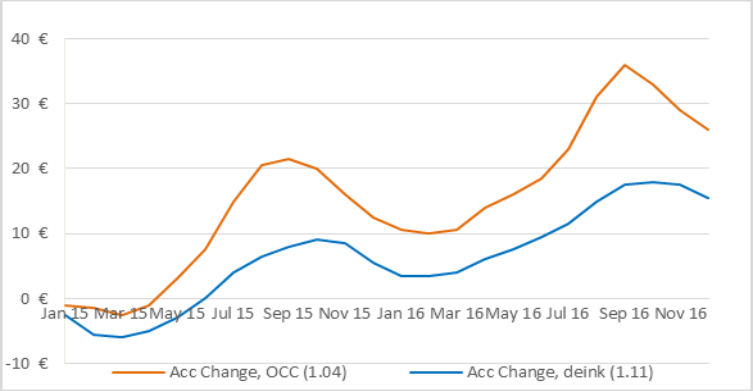
Metals

- Ferrous market prices (CELSA index) 49% above Q4 2015 on average; large price increase mid November – prices stable around 1 000 - 1 100 NOK/ton level in 2017
- Large increase in copper prices in October 2016 – prices stay high remainder of Q4, aluminium at approximately 20% above 2015 Q4 levels. Physical markets stable with improving fundamentals. Steady demand for aluminum, improving for copper
- Nickel prices have been volatile and fell sharply at the end of Q4 following supply disruptions. Demand is improving in China.

LME Copper 2015, 2016

Paper

- Prices for recovered paper were high in Q4 but fell towards the end of the quarter. Demand has been strong for all paper grades
- We expect stable demand and relatively high price levels to continue, albeit we do expect a slight price reduction in Europe
- Freight costs expected to increase in 2017



Accumulated change in Recovered paper prices, 2015,2016 Euwid index

Woodchips

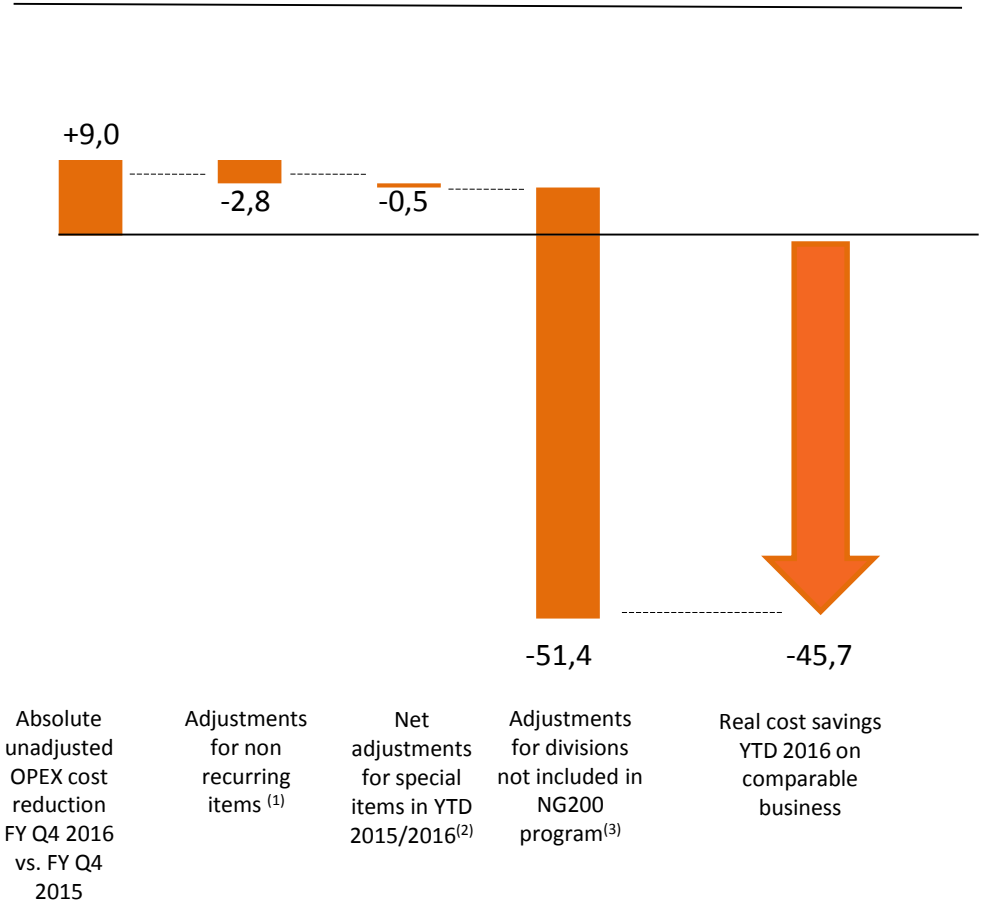
- Demand influenced by mild winters and low demand for heating - large inventories in the industry (competitors and incineration plants)
- Negative price pressure downstream continues in Q4; expected to remain challenging for the remainder of the heating season
- Our inventories are at satisfactory levels and we have secured contracts for the inventory and 30-40% of next heat seasons' production
- We are increasing upstream prices to maintain healthy margins

Refuse Derived Fuel

- During Q4 the market for RDF in Scandinavia was stable with flat gate fees, however supply was high
- Inventories remain high throughout the value chain going into the winter season, but we do expect stable prices in 2017 due to lower UK supply
- NG inventories low compared to last year
- We continue our efforts to increase upstream prices to offset increased gate fees; competitors following suit

Development in OPEX

OPEX cost comparison FY 2016 vs FY 2015
MNOK



Comment

- Real cost savings of NOK 45.7 million YTD 2016
- Adjustments for:
  - (1) Reversal of charges for onerous contract in Division Household collection; one-off legal fees; other costs
  - (2) Net adjustments for:
    - Mongstad clean-up and NG 200 implementation costs in Q1 and Q2 2015
    - NG 200 implementation costs in 2016
  - (3) Adjustments for non core divisions; Costs increased due to increased activity levels and insourcing (moves costs from COGS to OPEX); and M&A's (Sortera)

Norsk Gjenvinning

Financials P&L FY 2016 [1]

INTERIM CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(NOK'000)	Q4 2016	Q4 2015	YTD Q4 2016	YTD Q4 2015
Revenue	1 019 857	1 026 926	3 996 934	4 084 582
Other income	2 728	1 459	23 365	6 412
Total operating income	**1 022 585**	**1 028 385**	**4 020 299**	**4 090 994**
Cost of goods sold	510 235	524 308	1 995 383	2 026 665
Employee benefits expense	260 629	263 432	982 850	978 833
Depreciation and amortization expense	62 977	71 116	233 115	255 815
Other operating expenses	199 695	187 932	731 427	726 370
Other (gains)/losses - net	(1 083)	1 073	1 580	(3 242)
Operating profit	**(9 868)**	**(19 476)**	**75 944**	**106 552**
Finance income	(8 574)	484	15 770	2 190
Finance costs	52 601	53 743	207 250	221 302
Net income from associated companies	1 563	7 579	4 378	9 599
Profit / (loss) before income tax	**(69 480)**	**(65 156)**	**(111 158)**	**(102 962)**
Income tax expense	(8 845)	(17 515)	(25 003)	(36 081)
Profit / (loss) for the period from continuing operations	**(60 636)**	**(47 642)**	**(86 156)**	**(66 881)**
Profit / (loss) attributable to:				
Owners of the parent	(62 332)	(48 476)	(92 100)	(70 476)
Non-controlling interests	1 696	834	5 944	3 596

[1] The interim financial information has not been subject to audit

Norsk Gjenvinning

Balance sheet FY 2016[1]

ASSETS

(NOK'000)	**31.12.2016**	**31.12.2015**
Non-current assets		
Property, plant & equipment	1 015 748	1 031 968
Intangible assets	124 649	152 007
Goodwill	1 235 986	1 229 559
Deferred tax assets	96 262	76 226
Investments in associated companies	15 119	12 393
Other non-current receivables	39 487	28 338
Total non-current assets	**2 527 251**	**2 530 492**
Current assets		
Inventories	85 065	87 536
Trade and other receivables	607 663	596 309
Derivative financial instruments	3 581	-
Cash and cash equivalents	167 724	219 819
Total current assets	**864 034**	**903 664**
Total assets	**3 391 284**	**3 434 157**

[1] The interim financial information has not been subject to audit

Balance sheet FY 2016[1]

EQUITY AND LIABILITIES

(NOK'000)	31.12.2016	31.12.2015
Equity attributable to owners of the parent		
Ordinary shares	45 348	45 348
Share premium	330 011	330 011
Additional paid in capital	9 314	7 970
Retained earnings	(309 548)	(232 009)
Total equity attributable to owners of the parent	**75 125**	**151 321**
Non-controlling interest	17 952	14 765
Total equity	**93 077**	**166 086**
Non-current liabilities		
Loans and borrowings	2 431 168	2 380 419
Derivative financial instruments	24 885	59 635
Deferred income tax liabilities	31 794	41 174
Post-employment benefits	7 919	7 265
Provisions for other liabilities and charges	93 531	102 312
Total non-current liabilities	**2 589 298**	**2 590 804**
Current liabilities		
Trade and other payables	608 619	602 335
Current income tax	11 972	1 960
Loans and borrowings	65 432	60 519
Derivative financial instruments	-	3 999
Provisions for other liabilities and charges	22 886	8 454
Total current liabilities	**708 909**	**677 267**
Total liabilities	**3 298 207**	**3 268 071**
Total equity and liabilities	**3 391 284**	**3 434 157**

[1] The interim financial information has not been subject to audit

Consolidated cash flow statement FY 2016[1]

INTERIM CONSOLIDATED STATEMENT OF CASH FLOW

(NOK'000)	YTD Q4 2016	YTD Q4 2015
Profit / (Loss) before income tax	**(111 158)**	**(102 962)**
Adjustments for:		
Income tax paid	(1 579)	(10 101)
Depreciation and amortization charges	233 115	255 815
Items reclassified to investing and financing activities	181 003	171 475
Other P&L items without cash effect	(11 202)	16 360
Changes in other short term items	(6 629)	51 531
Net cash flow from operating activities	**283 550**	**382 118**
Payments for purchases of shares and businesses	(12 600)	-
Proceeds from sale of share in associates	2 002	10 008
Payments for purchases of non-current assets	(200 923)	(164 683)
Proceeds from sale of non-current assets	40 883	10 982
Proceeds from sale of subsidiaries	-	7 449
Net cash flow from investing activities	**(170 638)**	**(136 244)**
Repayment of borrowings	(1 111)	(3 250)
Net change in credit facility	23 705	(2 808)
Dividend paid to non-controlling interest	(2 757)	(1 575)
Net group contributions received/(paid)	(2 347)	2 458
Net interest paid	(180 563)	(182 896)
Net cash flow from financing activities	**(163 073)**	**(188 071)**
Net increase in cash and cash equivalents	**(50 161)**	**57 803**
Effect of exchange rate changes	(1 934)	948
Cash and cash equivalents at beginning of period	219 819	161 068
Cash and cash equivalents at end of period	**167 724**	**219 819**

[1] The interim financial information has not been subject to audit

Content

Outlook for 2017

- Outlook for 2017:
  - 0.5-1% increase in top line compared to 2016 (at fixed and flat commodity prices)
  - 0.4-0.6% higher gross margins than in 2016
  - Normal RDF and woodchips inventories, and metals volumes
  - Net opex reductions of 20-30 million compared to 2016 (after cost creep and NG200 implementation costs)
- FY 2017 Maintenance Capex expectations of 120-130 MNOK
- Growth capex, i.e. investment in vehicles for the Household Collection business of 60 MNOK; investment in environmental projects of 30 MNOK
- Comfortable liquidity position

The road ahead

Key development phases:

- 2012-13 NG foundation (risk mgmt and compliance)
- 2014-16 NG 200 (cost reductions)
- 2017- NG Flow (industrialization)

The road ahead - NG Flow

- Industrialize the core business
  - Standardize and automate processes along the value chain
  - Follow-up based on improved tools and KPIs
  - Continuously build and improve all processes through “best of breed” teams that support, track and push operations
  - Foundation in place: 3-year plan in execution mode, and already reorganized into regional or centralized units with critical mass to build skills
- Continue to develop specialized niches into valuable “Other businesses”:
  - NGR, R3, M3 and NM remain as strong growth platforms
  - NGI and IBKA recently carved out as niche business areas - forming a flexible, mobile and competitive Nordic industrial cleaning player

Norsk Gjenvinning

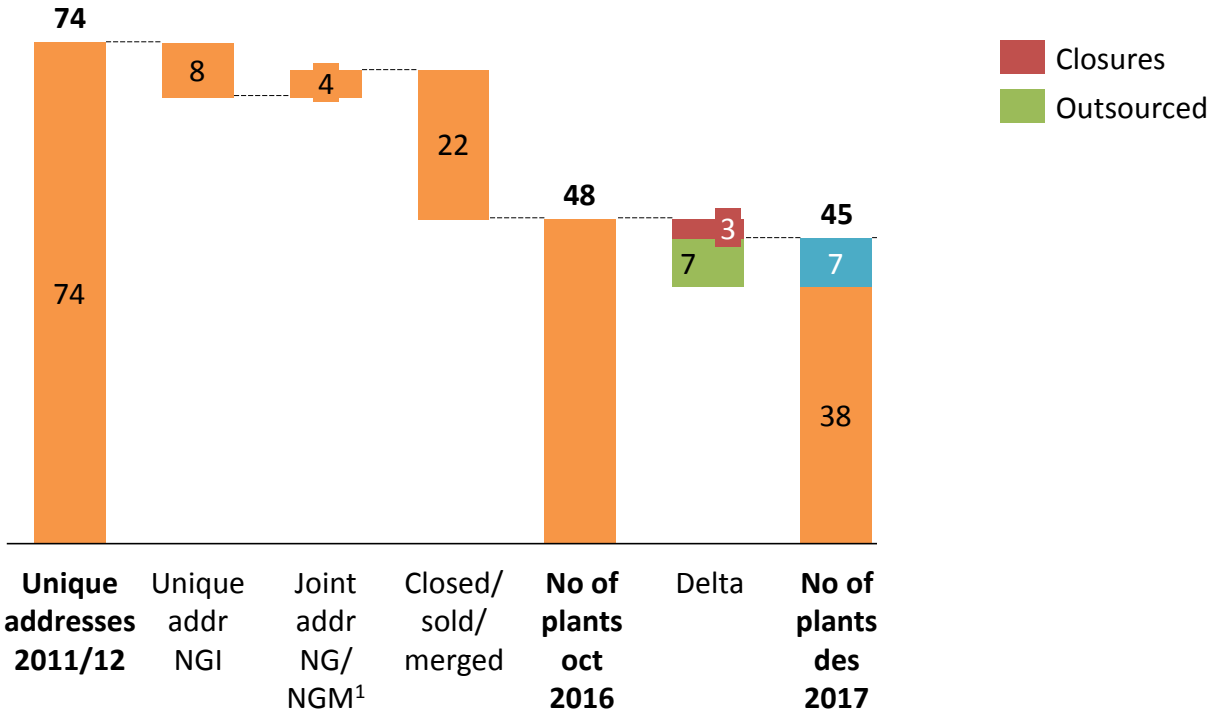
Summary of 3-year plan

	1 Upstream sales	2 Upstream logistics	3 Processing	4 Downstream/mid-stream logistics	5 Downstream sales
Implementation risk	High	Medium	Medium	Medium	Medium
2019E EBITDA effect					
Organization / footprint	• Centralize back office function • Strengthen central sales, customer service and "hunter"-sales • Tailored salesforce and deployment	• Regionalize all dispatch and co-locate regional sales frontline close to customer • Build central competence center/ group to perform route optimization and support, track and push regions	• Reduce number of self-managed plants from 48 to 31 • Convert sorting plants to reloaders • Wind down or outsource operations of redundant/ marginal plants	• Centralize all long haul logistics (between plants and downstream) in one unit and build competence	• Change business model so division Downstream takes over all price and market risk from the upstream divisions • Continuously develop organization and increase market focus
Operations	• Standardize and increase follow-up of salesforce based on improved tools/KPIs • Implement standardized and improved pricing model reflecting "value-added" services • Perform segmentation to prioritize customers and optimize channel strategy • Customize product offering to meet each segment's unique needs	• Standardize and automate processes at dispatch offices • Implement new tools for route optimization • Optimize and standardize operating model (use of load carriers, hired vs. own cars)	• Implement lean production processes at main plants • Start systematic lean initiatives on regional transport terminals and plants, to ensure standardized production methods and performance measurement	• Take complete control of downstream and internal logistics (today provided by 3rd parties) to take advantages of scale • Maximize weight/car from load optimization	• Continuously build/ improve portfolio (pricing and balance) through re-negotiations, optimization of contracts and sales to new geographies • Take physical positions in immature markets based on improved market insights • Increase 3rd party trading volumes

Note: 3-year plan assumes 75% success rate of identified initiatives and EBITDA effect presented here
Source: Company

Development plant footprint

No of unique addresses/ plants




metso
SL2
TB02