



# Presentation of the Norsk Gjenvinning Group

Pareto Securities Corporate Bond Conference

January 21 2016



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The interim consolidated financial statements in this report, wherever shown, have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required for full annual financial statements and should be read in conjunction with the Annual Reports 2014. The condensed consolidated interim financial statements have not been audited or subject to a review by the auditors. Accounting principles applied in the preparation of these condensed consolidated interim financial statements for the period ended June 30, 2015, are consistent with those applied in the annual consolidated financial statements for 2014.

The presentation also includes adjusted EBITDA figures. Adjusted EBITDA figures, when shown, are clearly specified, and represent EBITDA as adjusted for certain non-recurring and/or non-cash costs. Adjusted EBITDA is presented because it may be a relevant measure for assessing underlying performance for a given period. This measure is not a defined financial indicator under IFRS. The adjustments reconciling EBITDA and adjusted EBITDA, shown in the appendix of this presentation, represent an illustration of how underlying operational EBITDA has been affected by, what the company perceives to be one-time items.

# The leading waste management company in Norway

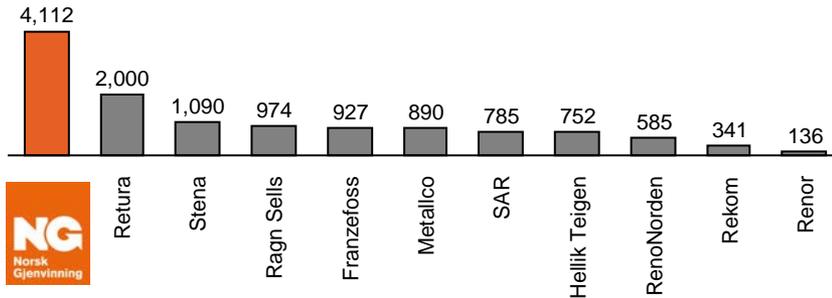


- Norway's largest waste management company with approximately 1,400 employees, 40,000 customers, 1.8 million tonnes of waste and NOK 4.1 billion in revenues
- A key part of society's infrastructure, handling approximately 25% of Norway's waste and recycling 85% of this into raw materials and energy to industries globally
- Relentless cost reduction and capex management program well underway to meet challenging market conditions
- High focus on compliance, sustainability and risk management

# The Norsk Gjenvinning Group – overview

## The largest waste management company in Norway

Revenues  
MNOK<sup>1</sup>

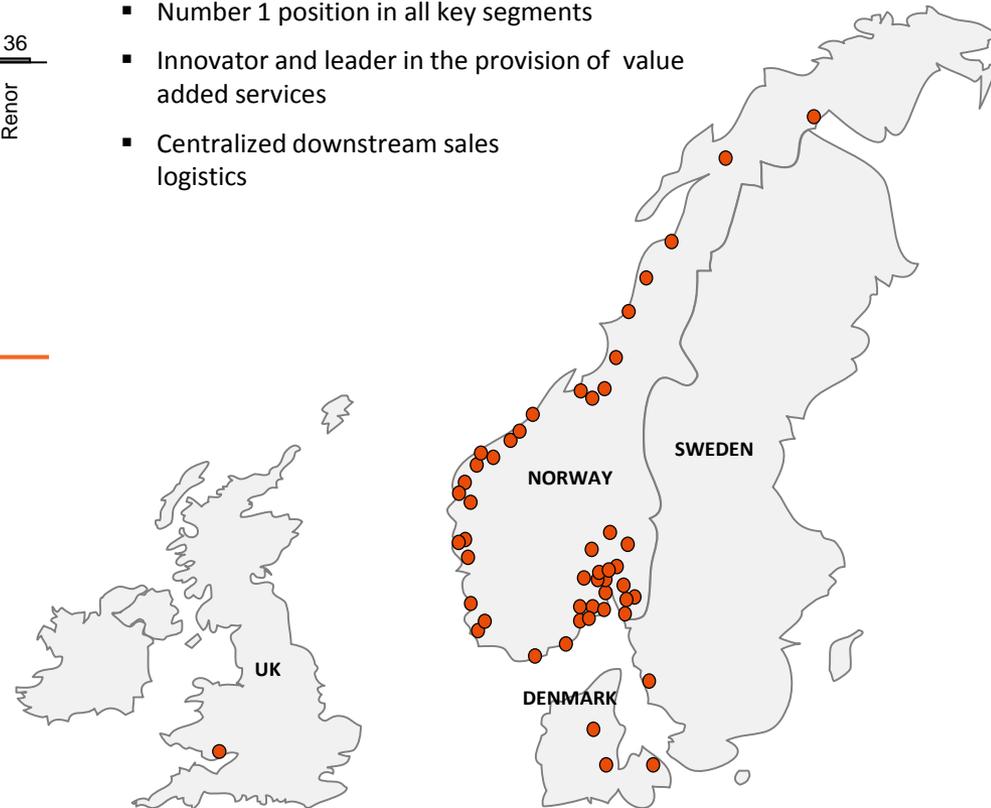


## Key facts

- Volumes: 1.8 million tons
- Market share: ~25%
- Recycling rate: 85%
- Number of customers: 40,000
- Number of employees: 1,400
- Number of vehicles: 610<sup>2</sup>
- Number of transports: 3.36 million per year
- ISO-certified operations

## 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



# A key part of society's infrastructure



*What would happen if we were not here?*

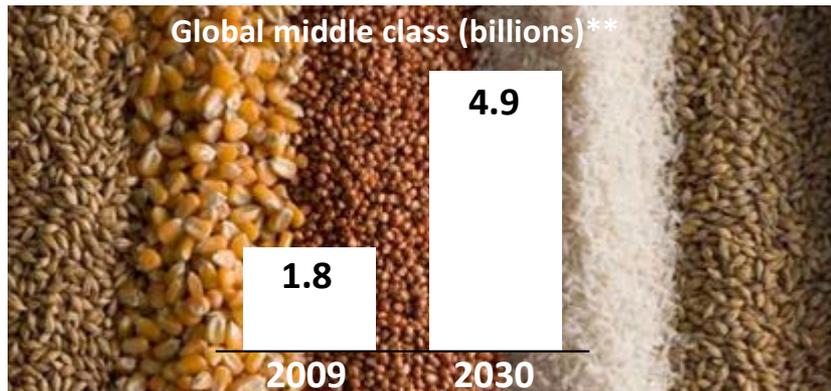


# A key part of society's infrastructure - addressing the global resource squeeze

## The squeeze on global resources



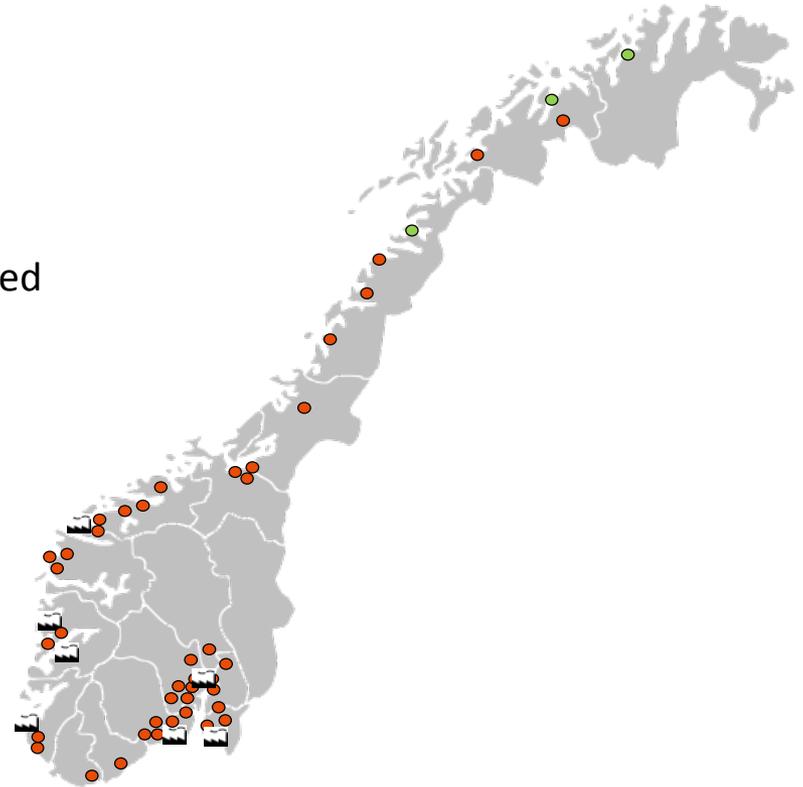
- Fundamental need for resource preservation
- Legislators placing increasing requirements on material recycling and resource efficiency
- The waste management industry has a critical role to play in ensuring efficient and high quality processing and downstream solutions



# A key part of society's infrastructure – processing plants and reloading facilities

## Unmatched hub-and-spoke plant infrastructure

- Strategic locations close to urban centers and industrial clusters
- ~NOK 6 billion mark-to-market in properties and fixed infrastructure
- Scale and cost-per-tonne at plant level increasingly important
- Upside potential from further plant consolidation and LEAN operations



**Groruddalen Miljøpark**



**Øra Miljøpark**



**Mongstad Miljøpark**



# A key part of society's infrastructure – one of Norway's largest logistics operators

## Vehicles

- ~300 own vehicles
  - ~220 waste collection vehicles
  - ~80 specialized vehicles for industrial cleaning services
- ~320 vehicles operated by subcontractors



## Containers and bins

- ~34 000 waste containers
- ~56 000 waste bins

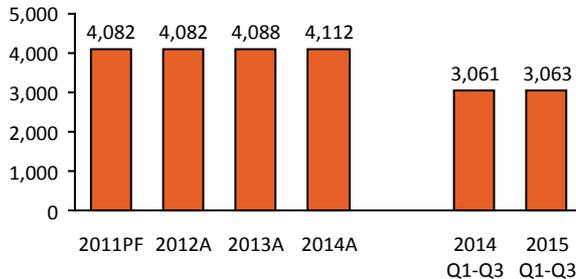


## Major logistics operation

- Large fleet of vehicles and containers
- Point-to-point logistics, route collection and specialized service vehicles
- Upside potential from implementing electronic fleet management and general improvement of operations

# Overview of financials – group total adjusted\*

## Adjusted revenue, MNOK



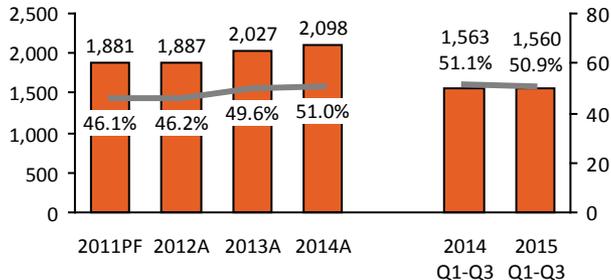
## Development 2012-2014

- Volumes grow with GDP - slow volume growth lately due to lower industrial activity
- Falling commodity prices for recyclables and price pressure on mixed waste
- Stable revenues due to focus on ancillary services acquisitions

## 2015 and the road ahead

- 2015 revenues expected to come in flat compared to 2014
- Focus on organic growth based on improved cost position and sales
- Continued focus on pricing and ancillary services

## Adjusted gross margin, MNOK / %



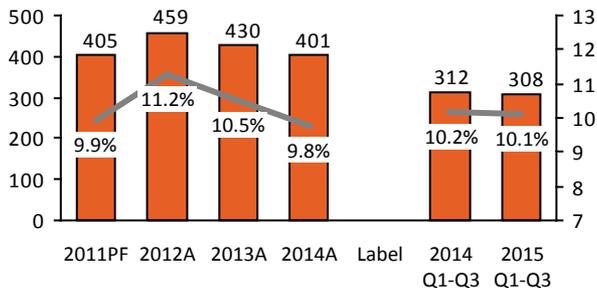
## Development 2012-2014

- Increase in gross margin based on:
  - Margin mgmt, including back-to-back pricing and ope and financial hedging
  - Better logistics mgmt
  - Increased ancillary services

## 2015 and the road ahead

- Overall, we expect downward pressure on gross margins
- Continued focus on margin management, logistics and ancillary services

## Adjusted EBITDA, MNOK / %



## Development 2012-2014

- Increased cost levels based on:
  - Cost creeps and acquisitions
  - Substantial compliance related costs
- NG 200 cost reductions initiated 2H2014

## 2015 and the road ahead

- Focus will be on cost reductions going forward
- Goal to establish NG as industry cost leader

# 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



## Metals



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

### Key competitors



## 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



## Household collection

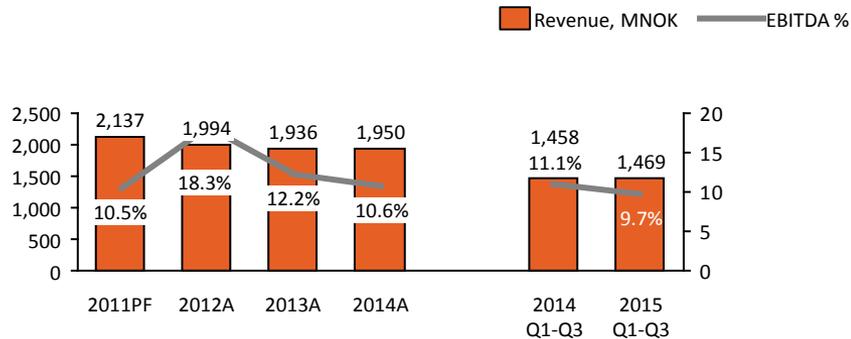


- Collection of household waste from Norwegian and Swedish municipalities
- Pure logistics service based on public tender contracts with 5-7 year duration

### Key competitors



## Key financials



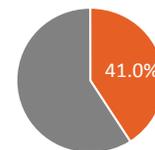
- Benefitted early from integration synergies plus gain from lawsuit in 2012
- Compliance and leadership issues - stable for more than 18 months now
- Margin squeeze lately due to waste mix and unfavorable commodity prices

## Growth and value drivers

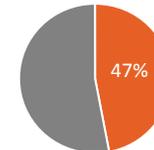
- Industry volume growth driven by GDP and net revenue growth driven by degree of processing
- Key value drivers:
  - Broadest geographical coverage and product range
  - Scale in production and downstream
  - Optimization of profitability trade-offs, e.g. degree of processing to increase value-add
  - Cost effectiveness: Route management, fleet maintenance, plant operations

## Overview

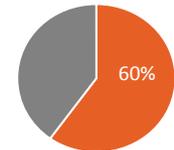
Share of employees



Share of sales



Share of EBITDA



Employees	555
Waste treated (tonnes)	1.18 million
Number of assignments	3.4 million
Number of facilities	5 main processing sites; ~70 reloading sites
Main site	Groruddalen Miljøpark in Oslo, treating 300,000 tonnes annually

# Waste management business model – simplified value chain and P&L



## Transportation + Mixed waste

Upstream	NOK/t
Mixed waste	+1,500
Inbound transport	+1,000
Equipment rental	+150

Processing
Sorting out metals (10% of weight)
Processing waste-to-energy product

Downstream	NOK/t
Shredded waste	-500
Metals	+1,000

## Simplified P&L

Inbound transport	+1,000
Equipment rent	+150
Mixed waste (upstream)	+1,500
Revenue (metals sale)	+100
Cost (waste-to-energy)	-450
<b>Gross margin</b>	<b>+2,300</b>

- Recycling generates revenue and gross margin from transportation, equipment rental and the waste
- NG handles all types of waste both negative waste types (NG gets paid for waste) and positive fractions (NG pays for waste)

# Recycling division - Customers and contracts

## Highlights

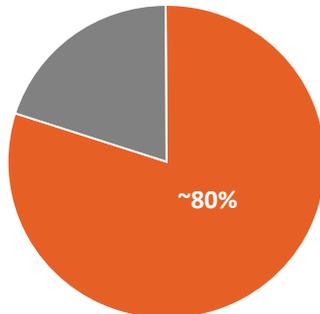
- Customer base contains main Norwegian industrial and service companies, municipalities and other public customers
- Customer base is highly fragmented
  - Top 10 customers account for 12% of total division revenue
  - Customer base is highly diversified from large to medium/small companies, public entities/municipalities and private households
- Large share of revenues is contracted (~80%)
- High level of returning customers/recurring revenues (~90%)<sup>3</sup>

## Top 10 upstream customers



## Contracted revenues

Share of division revenue from upstream contracts<sup>1</sup>



### Type:

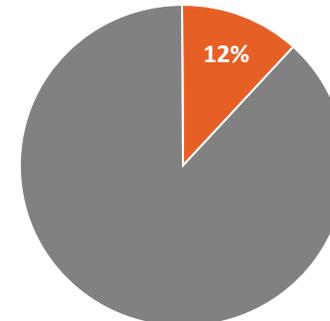
- Mainly exclusive binding contracts

### Duration:

- Usually 1 year (often with extension)

## Concentration of customers

Share of division revenue from top 10 upstream customers<sup>2</sup>



<sup>1</sup> Management estimates

<sup>2</sup> Based on Q2 2015 numbers

<sup>3</sup> Based on comparison of customer base H1 2014 and H1 2015

## Shredder



- ~70% Ferrous
- ~7% Non-Ferrous
- ~23% Waste

## Cable Granulation



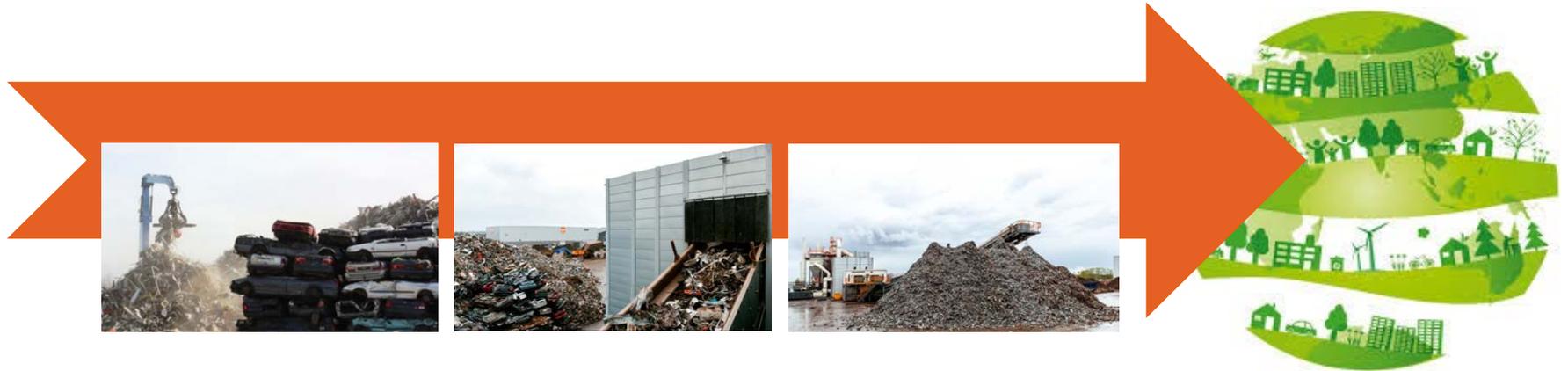
- ~15-95% Non-Ferrous
- ~5-85% Waste & Plastic

## Bottom Ash from incinerators



- ~9% Ferrous
- ~1% Non-Ferrous
- ~90% Landfill

# Simplified value chain and P&L example for the Metals division



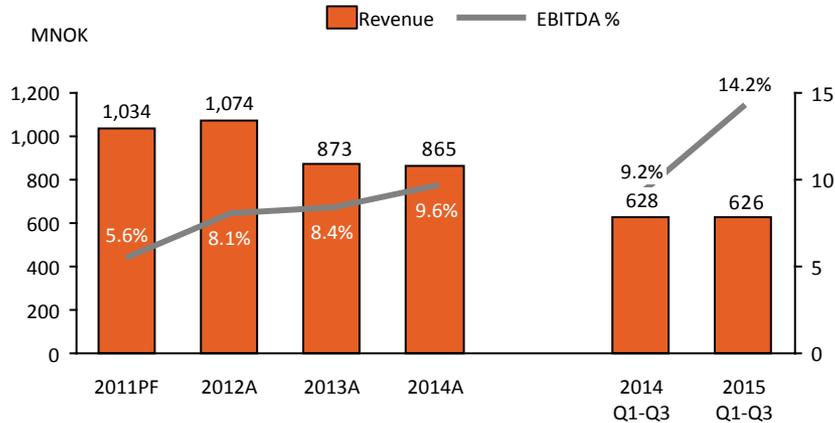
## Positive fraction (upstream customers get paid for waste) – shredder material example

Upstream	NOK/t	Processing	Downstream	NOK/t	Simplified P&L	
Mixed steel/metals	-825	Shredding into smaller parts Sorting into:	Steel	+1,375	<b>1 ton mixed steel/metals</b>	<b>NOK</b>
		— Steel 70% of weight	Metals mix	+10,500	Revenue (steel sale)	+962,5
		— Metals 7% of weight	Waste	-1,500	Revenue (metals sale)	+735
		— Waste 23% of weight			Cost (upstream purchase)	-825
					Cost (waste downstream)	-345
					<b>Gross margin</b>	<b>+527,5</b>

- Raw material prices are a key driver for top line revenues; revenues may fluctuate even as volumes remain stable – NG’s focus is on the gross margin management!
- EBITDA growth is driven by a) maximizing gross margin through optimal degree of sorting and ensuring index pricing of positive fractions, and b) efficient logistics and processing operations along the value chain

# The Metals division-Key financials and overview

## Key financials



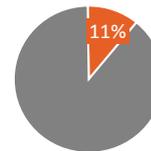
## Growth and value drivers

- Industry growth driven by international demand for steel and metals and increased sorting at source
- Key value drivers:
  - Hedging inventories based on LME
  - Operational efficiency and plant utilization
  - Ability to separate out high value fractions/materials
  - Geographical presence for scale

- Declining revenues due to int'l commodity prices
- Segment with most dramatic margin squeeze initially
- Focus on gross margin mgmt. – ope. and financial hedge
- Cost cutting through structural consolidation and process improvements

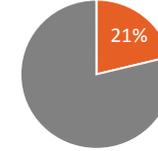
## General data

Share of Group's employees



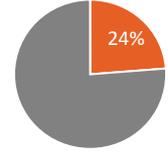
Employees

Share of Group's sales



Metals treated (tonnes)

Share of Group's EBITDA



Number of facilities

Main site

150

260,000 (+90,000 bottom ash)

2 main processing sites; 9 reloading sites

Shredder and metal separating facility at Øra; capacity 250,000 tonnes

# The Metals Division - Risk management

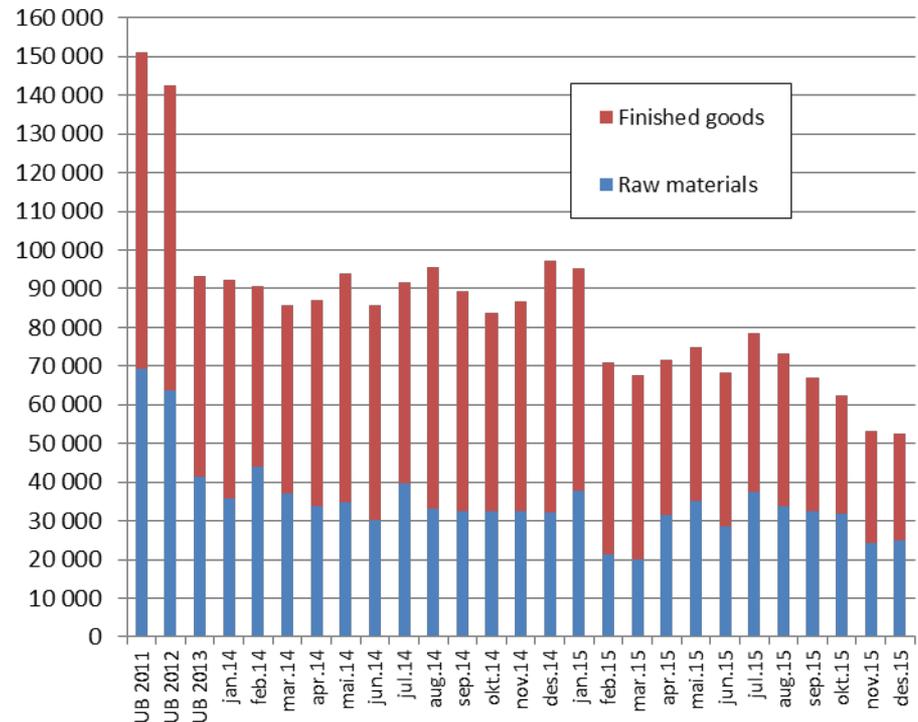
## Operational

- Stock reduction from 150 MNOK 2011 to <50 MNOK Aug 2015
  - Lean management production
  - Sales strategy
  - Stock control
- Both upstream and downstream volumes are price based on LME and Celsa Index
- Compliance

## Financial

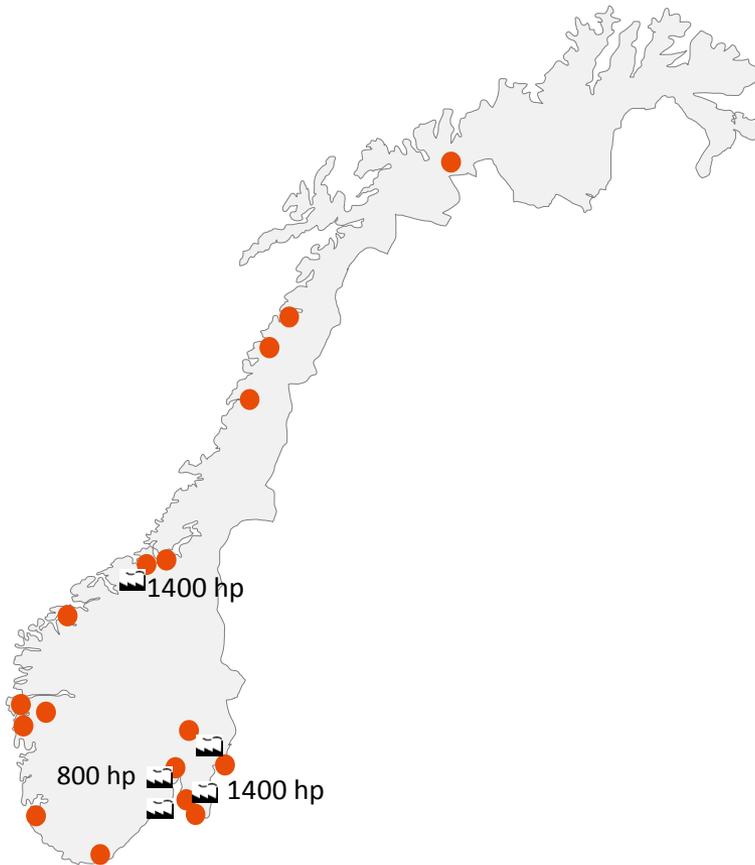
- Hedging towards LME based on stock levels
- Continuously review of market conditions and hedging strategy
- Up front payments on high risk customers
- Closely monitoring of payment and payment delays
- Monitoring solidity of downstream customers

## Stock reduction (NOK 000)

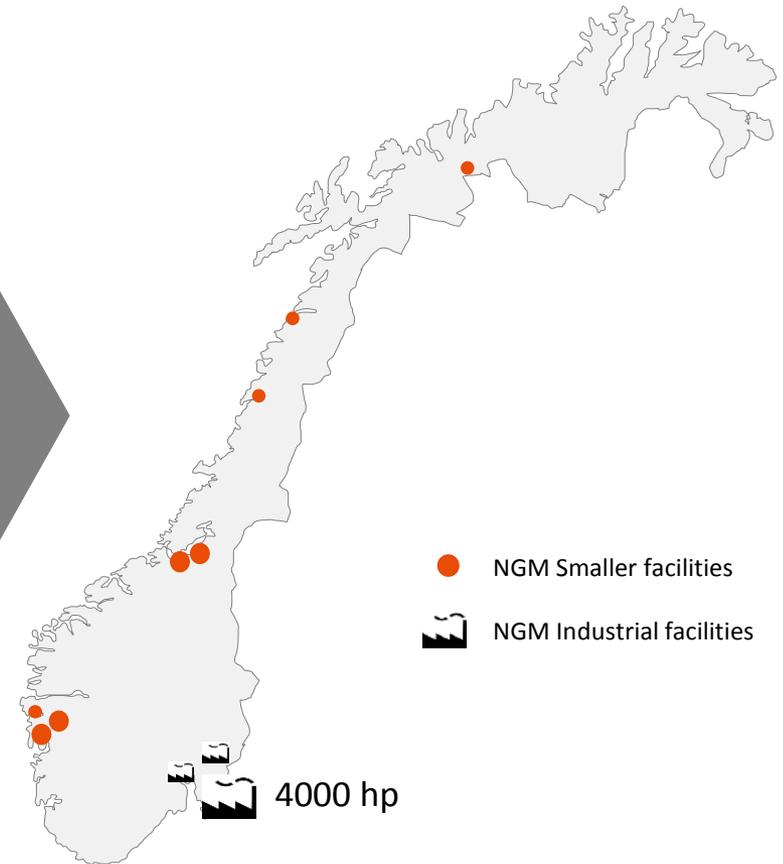


# The Metals division - Our journey

**From scrap dealer with many small facilities...**



**...to industrial player**



# Division Industry & Offshore -Business Areas

## Industrial Service

- Cleaning of industrial tanks, incl. removal of residue waste i.e. oil contaminated water etc.
- Providing high pressure jetting and vacuum suction
- Cleaning sand traps and oil separators



## Hazardous Waste

- Collection, sorting, and treatment of hazardous waste
- Safe treatment of NORM (Natural Organic Radioactive Material)
- Secure safe downstream solutions for hazardous waste



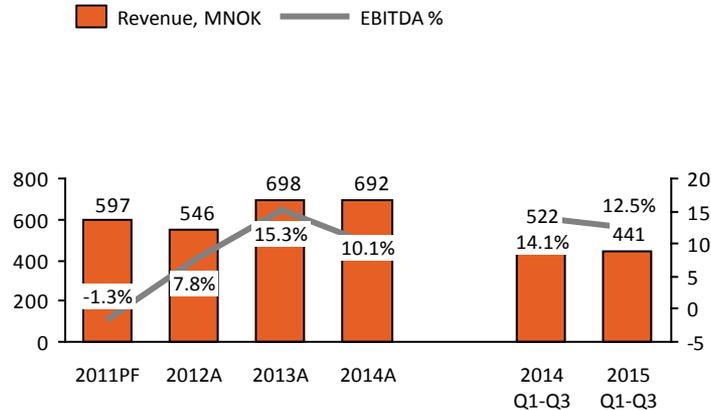
## Offshore

- Receiving and handling of all waste (hazardous and industrial) arriving at offshore bases at Mongstad and in Kristiansund
- Cleaning of tanks on supply vessels, incl. removal and handling of residue waste



# Division Industry & Offshore: Overview

## Key financials



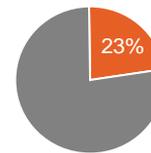
- Initial focus on refocusing to a healthy core
- Continuous improvement on the cost side
- Benefited from build up of offshore activities at Mongstad
- Compliance issue at Mongstad from Aug '14 to April '15
- Challenged by current offshore downturn

## Growth and value drivers

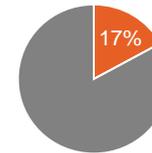
- Growth driven by wider regulatory definition of hazardous waste and increased offshore activities
- Key value drivers:
  - Project and project pipeline management
  - Specialized equipment and highly skilled personnel
  - Capacity utilization and project margins
  - Ability to offer “total waste management” solutions
  - Plant technology and operations
  - Capacity tailored to handling seasonal demand and larger “one-off” projects

## Overview

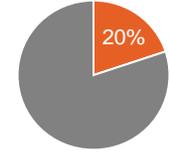
Share of employees



Share of sales



Share of EBITDA



Employees	▪ 320
Hazardous waste (tonnes) treated at facilities	▪ 74,000
Assignment hours	▪ 410,000
Number of facilities	▪ 11 receiving facilities, 2 base facilities
Main asset	▪ Base facility at Mongstad

## Highlights

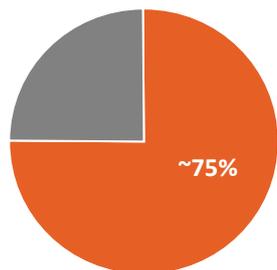
- Customer portfolio mainly contains large Norwegian industrial companies (oil & gas sector and other industries), and public entities
- Customer base is semi-fragmented with top 10 customers representing 37% of the Division's total revenue
- Large share of revenue is contracted (~75%), mainly with binding exclusive agreements, and a smaller fraction of frame agreements
- Majority of revenue is recurring/from same customer base (>85%)<sup>3</sup>

## Top 10 customers



## Contracted revenues

Share of division revenue from contracts<sup>1</sup>



**Type:**

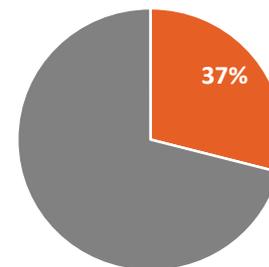
- Mainly exclusive binding contracts and a smaller fraction general agreements

**Duration:**

- Usually 1-2 years

## Concentration of customers

Share of division revenue from top 10 customers<sup>2</sup>

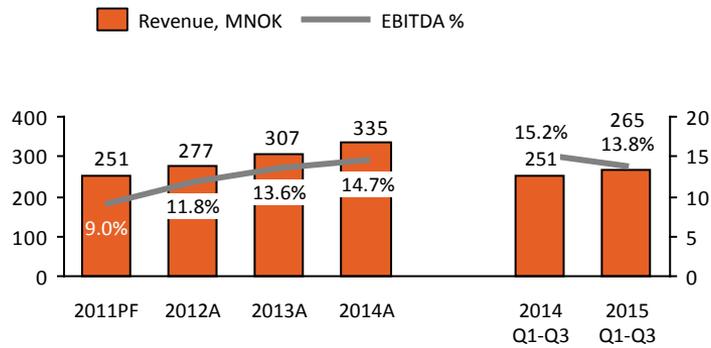


<sup>1</sup> Management estimate

<sup>2</sup> Based on 2013 numbers

<sup>3</sup> Based on comparison of customer base Q1 2013 and Q1 2014

## Key financials



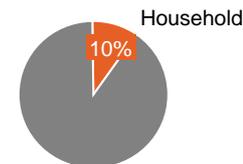
- Initial focus on closing the gap to focused competitor
- Managed for margin, not market share
- Continuous improvement on the cost side
- Start up of two new contracts pulls on 2015 EBITDA YTD

## Growth and value drivers

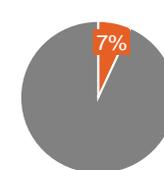
- Industry growth driven by number of households and degree of outsourcing by municipalities
- Key value drivers:
  - Number of municipal contracts
  - Margin on contracts determined by tendering competence and daily operations
  - Operational efficiency: Route planning, route manning, workforce motivation and equipment, etc.

## Overview

Share of employees



Share of sales



Employees ▪ 250 (of which 50% subcontractors)

Number of waste collection vehicles ▪ 130 (of which 50% subcontractors)

# Household Collection: Customers and contracts

## Highlights

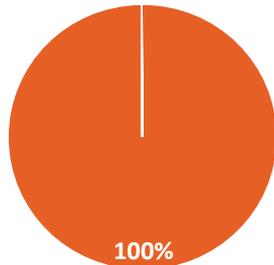
- Customer portfolio is based on municipalities in Norway and Sweden
  - 51 municipalities in Norway
  - 3 municipalities in Sweden
- All revenues/customers are contracted through 5-7 years exclusive and binding contracts

## Top 10 customers



## Contracted revenues

Share of division revenue from contracts



**Type:**

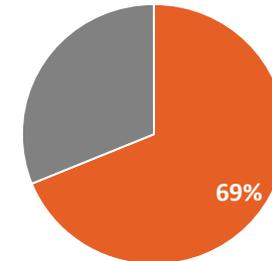
- Exclusive contracts (public tenders)

**Duration:**

- Usually 5-7 years

## Concentration of customers

Share of division revenue from top 10 customers



# An industrialized and professional value chain is a key success factor going forward

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The winners in the waste management industry will be companies that:

- **Have the lowest cost**
  - Scale in production to bring down unit costs and allow for state of the art automation
  - Scale in logistics from purchasing to route optimization
  - Scale in downstream sales
  - Scale to handle compliance costs
  
- **Are customer centric innovators**
  - Innovative technology to ensure efficient sorting, material recycling and logistics mgmt
  - Innovation in other technology, partnerships and business models
  - Advice and solutions for efficient resource usage and higher recycling levels
  
- **Manage risk and apply solid standards for compliance and control**
  - Margin management and industrialization vs. commodity price speculation
  - Traceability and control of waste streams
  - Environmental and financial compliance

- 1. No. 1 waste management company in Norway and a key part of society's infrastructure**
- 2. Attractive and diversified customer base, healthy financials and stable cash flow**
- 3. Attractive long term market fundamentals and outlook:**
  - a) Reduction of global carbon emissions**
  - b) Adressing society's waste problem**
  - c) Adressing the global resource squeeze**



