

# Norsk Gjenvinning Group

## 2nd Quarter 2018

Erik Osmundsen, CEO and Dean Zuzic, CFO



**VV Holding AS is providing the following interim financial statements for Q1 2018 to holders of its NOK 2,126,000,000 Senior Secured Floating Rate Notes due 2019.**

This report is for information purposes only and does not constitute an offer to sell or the solicitation of an offer to buy the notes or any other security.

This report includes forward-looking statements that are based on our current expectations and projections about future events. All statements other than statements of historical facts included in this notice, including statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditures, projected costs and our plans and objectives for future operations, including our plans for future costs savings and synergies may be deemed to be forward-looking statements.

Words such as “believe,” “expect,” “anticipate,” “may,” “assume,” “plan,” “intend,” “will,” “should,” “estimate,” “risk” and similar expressions or the negatives of these expressions are intended to identify forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance.

You should not place undue reliance on these forward-looking statements. In addition, any forward-looking statements are made only as of the date of this notice, and we do not intend and do not assume any obligation to update any statements set forth in this notice.

Q2 was a step on the way towards normalized results. Strengthened performance in Division Recycling and the Project Based Businesses was offset by continued pressure on gross margins in Division Metal and low profitability of Household Collection contracts that were taken over following the bankruptcy of Reno Norden.

We are working continuously to further strengthen our results through volume growth, gross margin management and increased operational efficiency. We expect a continued recovery and positive results development for the group in the second half of 2018.

## Highlights Q2 and YTD 2018

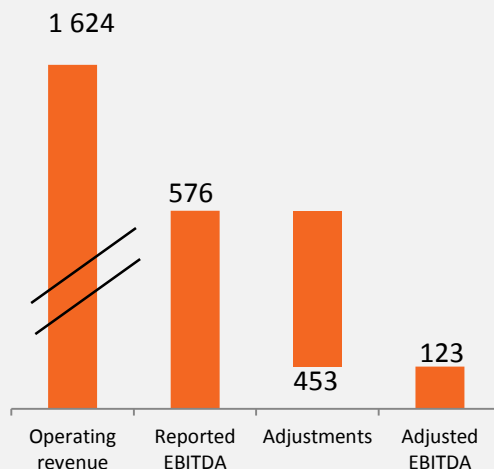
- **Volumes:** Increase in waste volumes compared to Q2 2017 by 7.8%; YTD increase by 1.2%
- **Revenues:** Total operating revenue, adjusted for sales of real estate, is up 13.0% compared to Q2 2017; YTD adjusted operating revenue is up 8.5%
- **Gross profit/margin:** Gross profit, adjusted for sale of real estate, is up by NOK 66.0 million compared to Q2 2017; up 46.2 MNOK YTD. Adjusted gross margin came in at 50.6% compared to 50.8% in Q2 2017 (YTD 49.8% compared to 50.6)
- **EBITDA:** Adjusted EBITDA was NOK 123.0 million, up by NOK 2.3 million compared to 120.7 in Q2 2017 (YTD adjusted EBITDA was NOK 152.4 million, down by NOK 55.0 million compared to 207.4 in 2017)
- **Sale of real estate** generated a gain of NOK 452.2 million in Q2, which come as an addition to adjusted EBITDA; YTD gains of NOK 501.1 million

# EBITDA snapshot for Q2 and YTD 2018

- Special items in Q1:
  - Negative impact from Easter falling in Q1 in 2018 vs. Q2 in 2017 of NOK 12-14 million
  - Fire at GMP plant influencing EBITDA negatively by NOK 6 million
- Special items in Q2:
  - Positive impact from Easter falling in Q1 in 2018 vs. Q2 in 2017 of NOK 12-14 million

## Q2 2018

MNOK



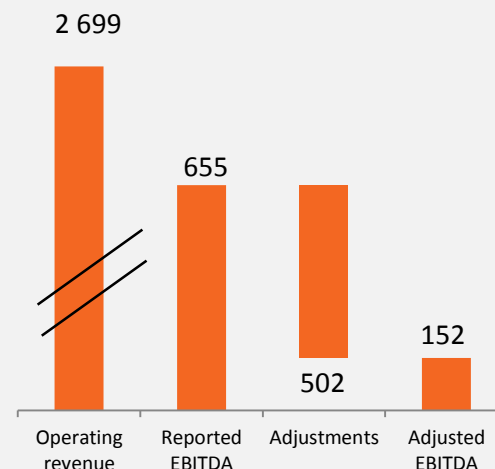
## Q2 2017

MNOK

1 037	122	1	121
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## YTD 2018

MNOK



## YTD 2017

MNOK

2 027	208	1	207
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# Adjusted earnings by segment Q2

## Division Recycling

- Reduction in collection assignments (-5.0%); but volumes up by 2.2%; Easter effect
- Paper prices bottomed out in May, started to increase again in June
- Harsh winter increasing peak collection costs in April



	Revenues	Adj. EBITDA <sup>(1)</sup>
2Q 2018	626	81
2Q 2017	598	79

## Division Metal

- Still high commodity prices; increased ferrous volumes (+14.5%); reductions in non ferrous volumes -14.4%)



	Revenues	Adj. EBITDA <sup>(1)</sup>
2Q 2018	243	-6
2Q 2017	213	9

## Project based businesses

- Increase in revenue and EBITDA from increased activity at landfills and industrial cleaning services in Norway and UK
- High volumes in landfills
- Lower activity in demolition



	Revenues	Adj. EBITDA <sup>(1)</sup>
2Q 2018	165	23
2Q 2017	125	14

## Division Household Collection

- Increase in revenue due to start up of new contracts
- Reduced EBITDA due to start up costs, severe weather conditions that continued in April; challenges related to Reno Norden contracts that were taken over
- No new contracts awarded



	Revenues	Adj. EBITDA <sup>(1)</sup>
2Q 2018	100	1
2Q 2017	71	17

MNOK

2Q 2018

2Q 2017

<sup>(1)</sup> Before internal charges

# NG response to market dev'l – fuels

## Market development

### Refuse Derived Fuel (RDF)

- RDF markets remained stable and was in supply/demand equilibrium.

### Woodchips

- The woodchips prices rose in Q2 due to increased demand in Scandinavia, primarily in Sweden
- The cold and long winter has led to low inventory levels

## NG response

### Refuse Derived Fuel (RDF)

- Focus on increased quality of finished products and more efficient freight solutions to downstream customers
- Focus on Increasing sales of ancillary services
- NG continued to increase upstream prices to normalize gross margins

### Woodchips

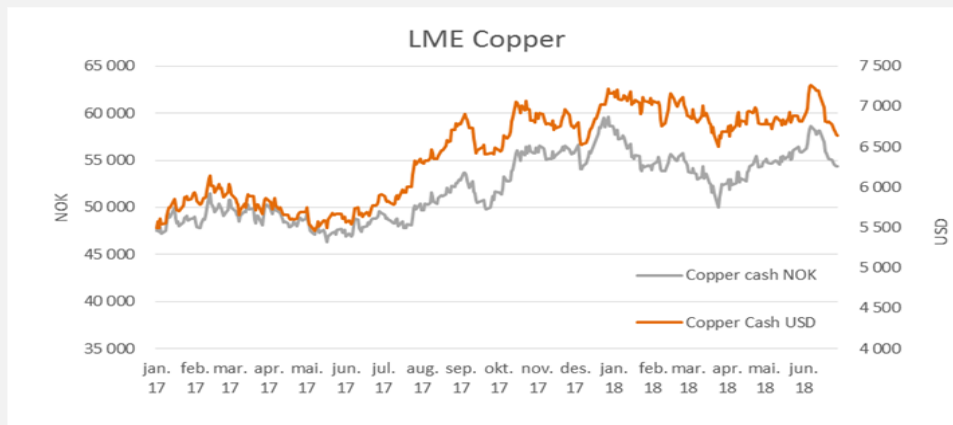
- NG have benefited from low inventories compared to last year
- Focus on increased quality of finished products and more efficient freight solutions to downstream customers
- Optimization of customer portfolio downstream to further strengthen gross margin
- Our inventories are at satisfactory levels and we have secured contracts for all inventory and next heat seasons' production

# NG response to market dev'l– recyclables

## Market development

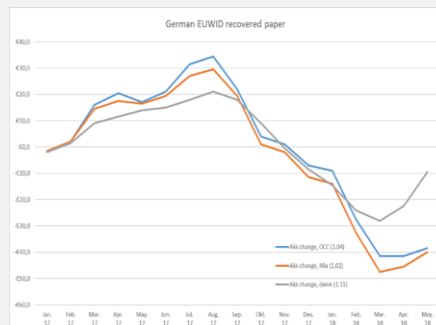
### Metals

- Ferrous market prices (CELSA index) 29% above Q2 2017 on average – prices fluctuate from 1 505 - 1 625 NOK/tonne level in Q2. We expect CELSA to fall slightly in Q3
- Metal prices higher in 2018 compared to 2017 for all fractions



### Paper

- Prices for recovered paper stopped declining in Q2 and we saw a slight increase at the end of the quarter
- We expect prices to continue increasing in Q3, but not to levels experienced in 2017
- Uncertainties around import quotas to China remain unsettled



## NG response

### Metals

- Keeping inventories low, back-to-back pricing, financial hedging
- Improved collection logistics efficiency
- Improved long haul logistics efficiency
- We will continue our attempts to optimize sourcing and adjust upstream prices to mitigate the lower quality of ferrous volumes.

### Paper

- Focus on keeping inventories low
- Focus on improving quality of finished products to meet current challenging market situation
- Optimization of customer portfolio downstream to strengthen gross margin further
- Actively seeking alternatives to China

# Outlook for 2018

Adjusting previous EBITDA outlook for real estate transaction, increasing GM expectations and increasing costs due to harsh winter conditions and fire at GMP:

- 7-9% increase in top line for the year as a whole compared to 2017
  - Expect gross margins to be 1-2% lower than in 2017
  - We expect normal RDF and woodchips inventories, and metals volumes
  - Costs in core operations (Recycling and Metals) expected to increase due to cost creep, harsh winter and fire at GMP;  
Costs in other parts of the business expected to increase following increased activity
  - EBITDA in 2018 expected to come in at NOK 370-380 million; proforma NOK 402-412 million adjusted for increased rental costs following real estate transactions (NOK 32 million)
- FY 2018 Maintenance Capex expectations of 120-130 MNOK
  - Growth capex expectations of NOK 110 million due to investment needs in the Household Collection business
  - Investment to be made in a new paper machine to replace the two paper machines that were destroyed in the GMP fire. Total investment expected to be NOK 70 million of which approximately 75% falls in 2018, 25% in 2019
  - Comfortable liquidity position

# Financials P&L Q2 2018 <sup>(1)</sup>

## INTERIM CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(NOK'000)	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
Revenue	4, 5	1 144 844	1 026 723	2 159 704	2 011 213
Other income	6	478 857	10 435	539 620	15 705
<b>Total operating income</b>		<b>1 623 701</b>	<b>1 037 159</b>	<b>2 699 324</b>	<b>2 026 919</b>
Cost of goods sold		578 286	509 915	1 125 841	1 000 744
Employee benefits expense		267 884	231 086	518 357	465 865
Depreciation/amortization/impairment		52 328	54 522	109 895	109 980
Other operating expenses		200 658	175 096	402 191	350 575
Other (gains)/losses - net		1 061	(659)	(1 726)	1 395
<b>Operating profit</b>		<b>523 486</b>	<b>67 200</b>	<b>544 766</b>	<b>98 360</b>
Finance income	2	2 667	976	11 181	1 787
Finance costs	2	52 022	68 386	97 364	129 825
Share of profit in associated companies		221	468	510	468
<b>Profit / (loss) before income tax</b>		<b>474 352</b>	<b>257</b>	<b>459 093</b>	<b>(29 211)</b>
Income tax expense		5 182	1 239	(13 220)	(4 648)
<b>Profit / (loss) for the period from continuing operations</b>		<b>469 170</b>	<b>(982)</b>	<b>472 313</b>	<b>(24 563)</b>
<b>Profit / (loss) attributable to:</b>					
Owners of the parent		469 134	(3 971)	472 577	(29 084)
Non-controlling interests		37	2 990	(264)	4 521

<sup>(1)</sup>The interim financial information has not been subject to audit

# Balance sheet Q2 2018<sup>(1)</sup>

## ASSETS

<i>(NOK'000)</i>	Note	June 30, 2018	December 31, 2017
<b>Non-current assets</b>			
Property, plant & equipment		823 659	792 250
Intangible assets		85 597	96 775
Goodwill		1 235 986	1 235 986
Deferred tax assets		98 754	93 367
Investments in associated companies		20 708	21 360
Other receivables		38 315	44 242
<b>Total non-current assets</b>		<b>2 303 020</b>	<b>2 283 980</b>
<b>Current assets</b>			
Inventories		101 242	112 716
Trade and other receivables		614 226	713 102
Cash and cash equivalents		766 609	176 995
Assets held for sale	6	-	207 348
<b>Total current assets</b>		<b>1 482 076</b>	<b>1 210 160</b>
<b>Total assets</b>		<b>3 785 096</b>	<b>3 494 140</b>

# Balance sheet Q2 2018<sup>(1)</sup>

## EQUITY AND LIABILITIES

<i>(NOK'000)</i>	<i>Note</i>	<i>June 30, 2018</i>	<i>December 31, 2017</i>
<b>Equity</b>			
Share capital and reserves attributable to owners of parent		463 776	52 855
Non-controlling interest		11 398	21 527
<b>Total equity</b>		<b>475 174</b>	<b>74 382</b>
<b>Non-current liabilities</b>			
Loans and borrowings		2 401 802	2 474 734
Other financial liabilities		2 476	9 318
Deferred income tax liabilities		22 868	24 926
Post-employment benefits		10 893	10 265
Provisions for other liabilities and charges		73 165	75 292
<b>Total non-current liabilities</b>		<b>2 511 204</b>	<b>2 594 534</b>
<b>Current liabilities</b>			
Trade and other payables		704 042	695 180
Current income tax		2 230	15 651
Loans and borrowings		70 047	68 516
Other financial liabilities		877	16 015
Provisions for other liabilities and charges		21 523	29 862
<b>Total current liabilities</b>		<b>798 718</b>	<b>825 224</b>
<b>Total liabilities</b>		<b>3 309 922</b>	<b>3 419 759</b>
<b>Total equity and liabilities</b>		<b>3 785 096</b>	<b>3 494 140</b>

# Consolidated cash flow statement Q1 2018<sup>(1)</sup>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOW

(NOK'000)	Note	YTD Q2 2018	YTD Q2 2017
<b>Profit / (Loss) before income tax</b>		<b>459 093</b>	<b>(29 211)</b>
Adjustments for:			
Income tax paid		(12 245)	(2 686)
Depreciation, amortization and impairment charges		109 895	109 980
Net (gain) loss on sale of non-current assets and business		(510 307)	(7 785)
Financial items without cash effect		(5 183)	26 589
Items classified as investing- or financing activities		81 254	100 966
Changes in other short term items		93 202	(116 459)
<b>Net cash flow from operating activities</b>		<b>215 709</b>	<b>81 394</b>
Purchase of shares in subsidiaries and associates		(300)	(9 000)
Proceeds from sale of business		24 955	1 600
Payments for purchases of non-current assets		(75 649)	(43 073)
Proceeds from sale of non-current assets		708 132	12 456
Net other investments		-	(11 420)
<b>Net cash flow from investing activities</b>		<b>657 138</b>	<b>(49 437)</b>
Repayment of borrowings		(109 653)	(1 595)
Debt related expenses		(1 090)	(3 217)
Repayment of financial leasing liability		(20 482)	(13 820)
Dividends paid to non-controlling interest		(4 635)	(5 355)
Transactions with non-controlling interest		(65 485)	-
Interest paid		(80 164)	(88 247)
<b>Net cash flow from financing activities</b>		<b>(281 509)</b>	<b>(112 234)</b>
<b>Net increase in cash and cash equivalents</b>		<b>591 338</b>	<b>(80 277)</b>
Effect of exchange rate changes		(1 724)	1 287
Cash and cash equivalents at beginning of period		176 995	167 724
<b>Cash and cash equivalents at end of period</b>		<b>766 609</b>	<b>88 734</b>

## Events after reporting period

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- Real estate:
  - Exercised call option – repayment of bonds totaling NOK 739.6 million in face value following closing of real estate transactions
- Refinancing
  - Decision made not to refinance in the bond market in 2018 due to unfavorable market conditions and unattractive pricing

**Thank you!**  
**Q&A**