

# Norsk Gjenvinning Group

## 4th Quarter 2017

Erik Osmundsen, CEO and Dean Zuzic, CFO



**VV Holding AS is providing the following interim financial statements for Q4 2017 to holders of its NOK 2,235,000,000 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.

Q4 is the fifth quarter in a row with increasing results

The results improvement comes as a result of our systematic work to industrialize Norsk Gjenvinning.

Higher effectiveness, lower costs and an improved gross margin were important contributors to the results improvement.

We expect a continued positive development for the group in 2018, however Q1 is expected to be weak due to: (i) weakening recovered paper prices following Chinese import quotas, (ii) reduced volumes due to weather conditions in Norway and (iii) Easter falling in Q1 this year.

## Highlights Q4 and YTD 2017

- Slight increase in waste volumes compared to Q4 2016; YTD waste volumes are up by 2.7%
- Operating revenue is up 11.2% compared to Q4 2016; YTD adjusted operating revenue is up by 5.4%
- Gross profit is up by NOK 52.5 million compared to Q4 2016, and YTD adjusted gross profit is up NOK 99.3 million, driven by improved gross profit per tonne waste and growth in Household Collection and other businesses. Adjusted gross margin is down by 0.5 percentage points compared to Q4 2016, and down by 0.2 percentage points YTD.
- Adjusted EBITDA was NOK 77.0 million, up by NOK 13.9 million compared to Q4 2016; YTD adjusted EBITDA is up NOK 114.3 million
- NG200 cost and productivity initiatives implemented according to plan. Operating costs reduced by an additional NOK 17.2 million in Q4 in NG core divisions; NOK 53.2 million YTD .

# EBITDA snapshot for Q4 and YTD 2017

## Special items in Q1:

- No special items
- Positive impact from Easter falling in Q2 in 2017 vs. Q1 in 2016 of 12-14 MNOK

## Special items in Q2:

- No special items
- Negative impact from Easter falling in Q2 in 2017 vs. Q1 in 2016 of 12-14 MNOK

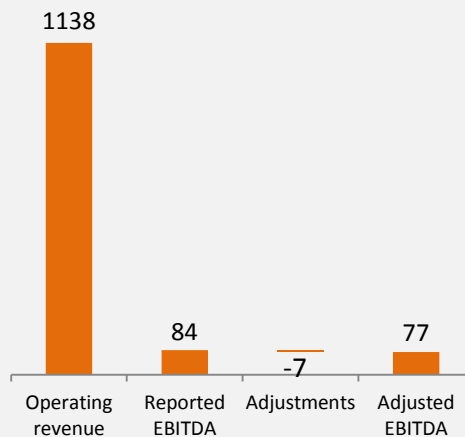
## Special items in Q3:

- NOK 10 million in employee bonuses accruals vs. no accruals in 2016

## Special items in Q4:

- NOK 23 million in employee bonuses accruals vs. NOK 10 million in 2016

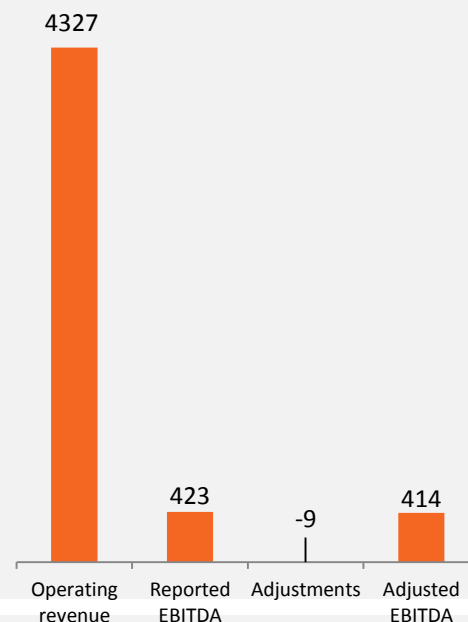
**Q4 2017**  
MNOK



**Q4 2016**  
MNOK

1 022	53	10	63
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**YTD 2017**  
MNOK



**YTD 2016**  
MNOK

4 020	309	-9	300
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# Adjusted earnings by segment Q4

## Division Recycling

- Increase in revenue due to new contracts and upstream price increases
- Reduction in EBITDA due to weak recovered paper prices, costs related to clean ups and site closures, NG Flow implementation costs



	Revenues	Adj. EBITDA <sup>(1)</sup>
4Q 2017	610	57
4Q 2016	588	75

## Division Metal

- Increase in revenue due to significantly higher prices for steel and metals
- Increase in EBITDA due to increased volumes and improved production efficiencies, clean-up costs related to site closures in 2016



	Revenues	Adj. EBITDA <sup>(1)</sup>
4Q 2017	252	8
4Q 2016	209	-8

## Project based businesses

- Reduction in revenue in 2017 mainly due to non recurring revenue from a major service stop at an industrial customer in Q3/Q4 2016 paired with lower activity levels in the North-West
- EBITDA reduction: Cost reductions not large enough to offset reduction in GP from reduced activity



	Revenues	Adj. EBITDA <sup>(1)</sup>
4Q 2017	99	3
4Q 2016	113	6

## Division Household Collection

- Increase in revenue due to start up of new contracts
- Reduced EBITDA due to start up costs and severe weather conditions at the end of 2017
- Awarded one new contract in Q4 – Tranemo (complaint filed) and took over three Reno Norden contracts



	Revenues	Adj. EBITDA <sup>(1)</sup>
4Q 2017	91	3
4Q 2016	61	6

MNOK

4Q 2017

4Q 2016

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

# Main drivers for improved performance YTD

Our aim is to both be a leading service provider to customers in demand of waste solutions (the upstream market), and the most efficient supplier of recycled raw materials to customers in Europe and Asia (the downstream market)

## Upstream market

### *Sales effectiveness*

- 2.7% volume growth driven by recyclables and scrap metals
- Operating income up by 5.4%

### *Margin management*

- Gross profit per ton improved by 10.3%, driven by high focus on margin management and successful price increases upstream

### *Productivity collection logistics and sales*

- Focus on further improvements in sales and inbound logistics effectiveness
- Sharp reduction in SG&A costs implemented at the end of 2016

## Industrial value chain

### *Plants*

- Key part of NG200 cost reduction program driven by plant consolidation from 74 plants in 2012 to below 40 at the end of Q4
- Increasing scrap metal volumes enabled new production records at our Øra plant during 2017

### *Long haul logistics*

- Improved long haul logistics efficiency through centralizing operations and implementing Lean

### *Downstream*

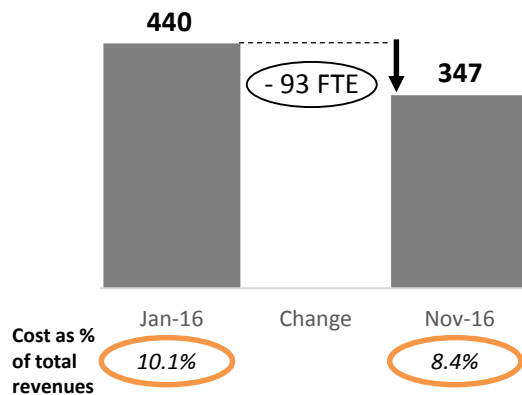
- Improved gate fees for fuel fractions through low inventories and portfolio optimization
- Improved position on scrap metals through opening up new export markets



# Increased efficiency and improving gross margins in NG

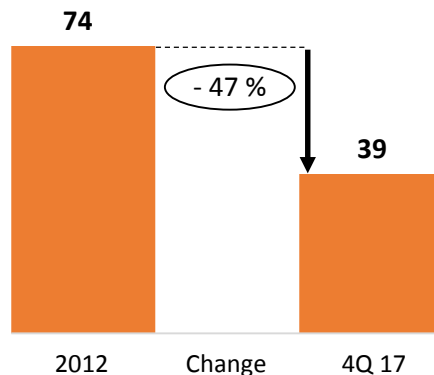
## NG Group total SG&A/other headcount

Run-rate FTEs



## NG Group plant consolidation

Number of plants



## Gross profit per metric tonne

YTD 2017 (Jan-December) vs YTD 2016

Mixed waste  
(RDF)

↑ 7.6%

Recycled wood

↑ 11.0%

Paper

↑ 17.1%

Ferrous metals

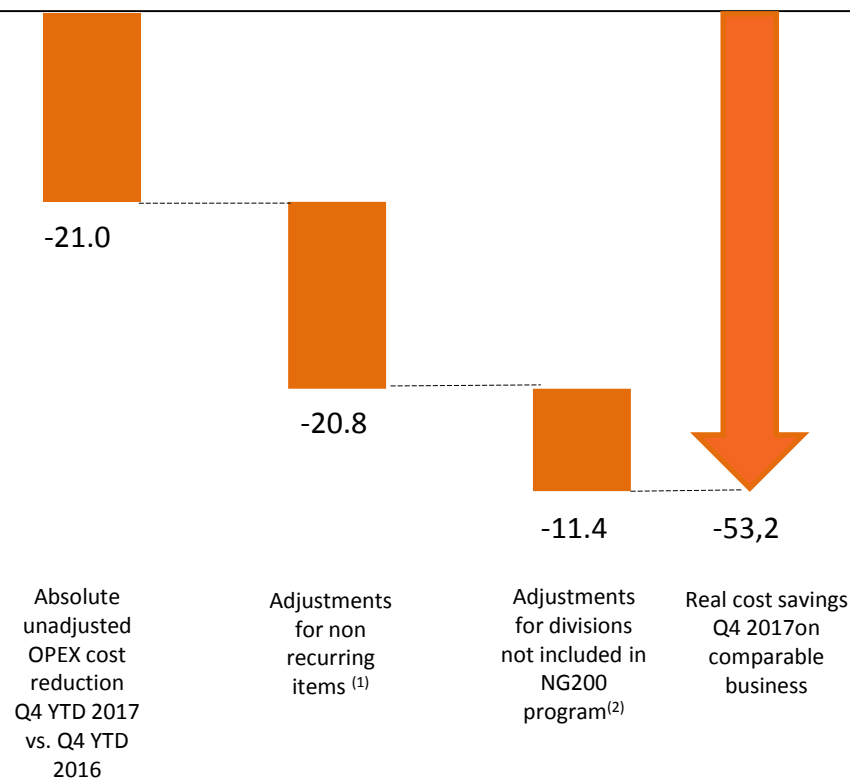
↑ 21.6 %

Non-ferrous  
metals

↑ 2.8 %

# Development in OPEX

## OPEX cost comparison YTD Q4 2017 vs YTD Q4 2016 MNOK



### Comment

- Real cost savings of NOK 53.2 million Q4 YTD 2017
- Adjustments for:
  - 1) Reversal of charges for onerous contract in Division Household collection; increase in accrual for employee bonuses; other non recurring costs
  - 2) Adjustments for non core divisions not included in cost reduction program; and M&A's (Sortera)



# NG response to market dev'l – fuels

## Market development

### Refuse Derived Fuel (RDF)

- RDF markets remained stable with low inventory levels at incineration plants throughout Q4

### Woodchips

- The woodchips markets have been stable in Q4
- We expect an improvement in downstream markets with stable prices in 2018 as we see new capacity coming online in Sweden and UK for 2018

## NG response

### Refuse Derived Fuel (RDF)

- 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
- Increased 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 further strengthens 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

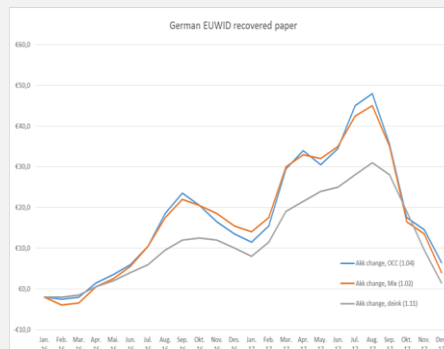
### Metals

- Ferrous market prices (CELSA index) 48% above Q4 2016 on average – prices volatile from 1 275 - 1 575 NOK/tonne level in Q4. We expect CELSA to remain in this range in Q1
- Metal prices increased in Q4 for all fractions (aluminium, copper, nickel)



### Paper

- Prices for recovered paper continued to decline in Q4 following import restrictions to the Chinese market
- We expect a decline in recovered paper prices to continue in most of Q1 as inventories are building up in Europe
- Uncertainties around import quotas to China remain unsettled



## NG response

### Metals

- Keeping inventories low, back-to-back pricing, financial hedging
- Improved collection logistics efficiency led to increased catchment area for Øra
- Increased volumes led to new production records which drives down unit costs
- Improved long haul logistics efficiency has opened up new export markets
- 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 Q1 and 2018

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Q1 expected to be weak due to:

- Chinese import restrictions for recovered paper
- Adverse weather conditions reducing volumes and increasing costs
- Easter in Q1

For 2018 as a whole however, we stick to our previous guidance:

- 3-5% increase in top line compared to 2017; most of the top line growth to come from Household Collection, Project businesses and other niche businesses
  - Expect gross margins\* to be flat compared to 2017
  - We expect normal RDF and woodchips inventories, and metals volumes
  - Costs in core operations (Recycling and Metals) expected to increase slightly due to cost creep; Costs in other parts of the business expected to increase following increased activity
  - EBITDA in 2018 expected to be 10-15% higher than in 2017
- FY 2018 Maintenance Capex expectations of 120-130 MNOK
  - Increasing growth capex expectations to NOK 110 million due to increased investment needs in the Household Collection business
  - Comfortable liquidity position

# Financials P&L Q4 2017 <sup>(1)</sup>

## INTERIM CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(NOK'000)	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
Revenue	1 135 399	1 019 857	4 225 905	3 996 934
Other income	2 175	2 728	11 443	23 365
<b>Total operating income</b>	<b>1 137 572</b>	<b>1 022 585</b>	<b>4 237 347</b>	<b>4 020 299</b>
Cost of goods sold	572 734	510 235	2 113 147	1 995 383
Employee benefits expense	272 679	260 629	963 312	982 850
Depreciation/amortization/impairment	63 611	62 977	227 705	233 115
Other operating expenses	203 479	199 695	729 979	731 427
Other (gains)/losses - net	4 221	(1 083)	7 684	1 580
<b>Operating profit</b>	<b>20 849</b>	<b>(9 868)</b>	<b>195 520</b>	<b>75 944</b>
Finance income	1 148	(8 574)	4 103	15 770
Finance costs	63 463	52 601	230 425	207 250
Net income from associated companies	1 508	1 563	2 741	4 378
<b>Profit / (loss) before income tax</b>	<b>(39 959)</b>	<b>(69 480)</b>	<b>(28 062)</b>	<b>(111 158)</b>
Income tax expense	(7 923)	(8 845)	(4 633)	(25 003)
<b>Profit / (loss) for the period from continuing operations</b>	<b>(32 036)</b>	<b>(60 636)</b>	<b>(23 429)</b>	<b>(86 156)</b>
<b>Profit / (loss) attributable to:</b>				
Owners of the parent	(34 144)	(62 332)	(32 359)	(92 100)
Non-controlling interests	2 108	1 696	8 930	5 944

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

# Balance sheet Q4 2017<sup>(1)</sup>

## ASSETS

<i>(NOK'000)</i>	December 31, 2017	December 31, 2016
<b>Non-current assets</b>		
Property, plant & equipment	792 250	1 015 748
Intangible assets	96 775	124 649
Goodwill	1 235 986	1 235 986
Deferred tax assets	93 367	96 262
Investments in associated companies	21 360	15 119
Other receivables	44 242	39 487
<b>Total non-current assets</b>	<b>2 283 980</b>	<b>2 527 251</b>
<b>Current assets</b>		
Inventories	112 716	85 065
Trade and other receivables	713 102	607 663
Other financial assets	-	3 581
Cash and cash equivalents	176 995	167 724
Assets held for sale	207 348	-
<b>Total current assets</b>	<b>1 210 160</b>	<b>864 034</b>
<b>Total assets</b>	<b>3 494 140</b>	<b>3 391 284</b>

# Balance sheet Q4 2017<sup>(1)</sup>

## EQUITY AND LIABILITIES

<i>(NOK'000)</i>	December 31, 2017	December 31, 2016
<b>Equity</b>		
Share capital and reserves attributable to owners of parent	52 855	75 125
Non-controlling interest	21 527	17 952
<b>Total equity</b>	<b>74 382</b>	<b>93 077</b>
<b>Non-current liabilities</b>		
Loans and borrowings	2 474 734	2 431 168
Other financial liabilities	9 318	24 885
Deferred income tax liabilities	24 926	31 794
Post-employment benefits	10 265	7 919
Provisions for other liabilities and charges	75 292	93 531
<b>Total non-current liabilities</b>	<b>2 594 534</b>	<b>2 589 298</b>
<b>Current liabilities</b>		
Trade and other payables	695 180	608 619
Current income tax	15 651	11 971
Loans and borrowings	68 516	65 432
Other financial liabilities	16 015	-
Provisions for other liabilities and charges	29 862	22 886
<b>Total current liabilities</b>	<b>825 224</b>	<b>708 909</b>
<b>Total liabilities</b>	<b>3 419 759</b>	<b>3 298 207</b>
<b>Total equity and liabilities</b>	<b>3 494 140</b>	<b>3 391 284</b>

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

# Consolidated cash flow statement Q4 2017<sup>(1)</sup>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOW

(NOK'000)	YTD Q4 2017	YTD Q4 2016
<b>Profit / (Loss) before income tax</b>	<b>(28 062)</b>	<b>(111 158)</b>
Adjustments for:		
Income tax paid	(9 965)	(1 579)
Depreciation, amortization and impairment charges	227 705	233 115
Items reclassified to investing and financing activities	187 335	181 003
Other P&L items without cash effect	25 926	(11 202)
Changes in other short term items	(53 957)	(6 629)
<b>Net cash flow from operating activities</b>	<b>348 982</b>	<b>283 550</b>
Payments for purchases of shares and businesses	(9 000)	(12 600)
Proceeds from sale of business	3 291	-
Payments for purchases of non-current assets	(179 771)	(200 923)
Proceeds from sale of non-current assets	15 654	40 883
Net other investments	(11 420)	-
Dividend from associated companies	2 500	2 002
<b>Net cash flow from investing activities</b>	<b>(178 746)</b>	<b>(170 638)</b>
Proceeds from borrowings	1 800	-
Repayment of borrowings	(3 390)	(1 111)
Debt related expenses	(3 217)	-
Net change in credit facility	25 837	23 705
Dividend paid to non-controlling interest	(5 355)	(2 757)
Net group contributions received/(paid)	(5 000)	(2 347)
Net interest paid	(173 361)	(180 563)
<b>Net cash flow from financing activities</b>	<b>(162 686)</b>	<b>(163 073)</b>
<b>Net increase in cash and cash equivalents</b>	<b>7 550</b>	<b>(50 161)</b>
Effect of exchange rate changes	1 721	(1 934)
Cash and cash equivalents at beginning of period	167 724	219 819
<b>Cash and cash equivalents at end of period</b>	<b>176 995</b>	<b>167 724</b>



## Events after reporting period

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- Real estate:
  - Finalized sale of Hegstadmoen 7 AS; net proceeds of NOK 71 million
  - Ongoing discussions regarding remaining 4 properties with potential investors

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