

# Norsk Gjenvinning Group

## 3rd Quarter 2018

Erik Osmundsen, CEO and Dean Zuzic, CFO



**VV Holding AS is providing the following interim financial statements for Q3 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.

In Q3 lower downstream prices due to Chinese import restrictions continued to have negative impact on Division Recycling and Division Metal although we see signs of stabilization. The healthy performance in the Project Based Businesses with strong top line growth and increased margins continued during the quarter. The contracts that were taken over following the bankruptcy of Reno Norden continued to put pressure on profitability in Household Collection.

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 fourth quarter of 2018.

## Highlights Q3 and YTD 2018

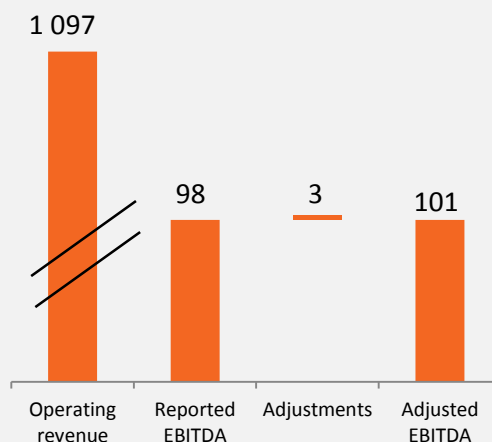
- **Volumes:** Reduction in waste volumes compared to Q3 2017 by 3.2%; YTD waste volumes are down by 0.3%
- **Revenues:** Total operating revenue is up 2.2% compared to Q3 2017; YTD adjusted operating revenue is up by 6.3%
- **Gross profit/margin:** Gross profit is up by NOK 20.4 million compared to Q3 2017, and YTD adjusted gross profit is up by NOK 66.6 million. Adjusted gross margin is up by 0.8 percentage points compared to Q3 2017, and down by 1.0 percentage point YTD
- **EBITDA:** Adjusted EBITDA is NOK 101.1 million, down by NOK 28.9 million compared to Q3 2017; YTD adjusted EBITDA is NOK 253.5 million down NOK 83.9 million

# EBITDA snapshot for Q3 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
- Special items in Q3:
  - M&A transaction costs NOK 4 million

## Q3 2018

MNOK



**Q3 2017**  
MNOK

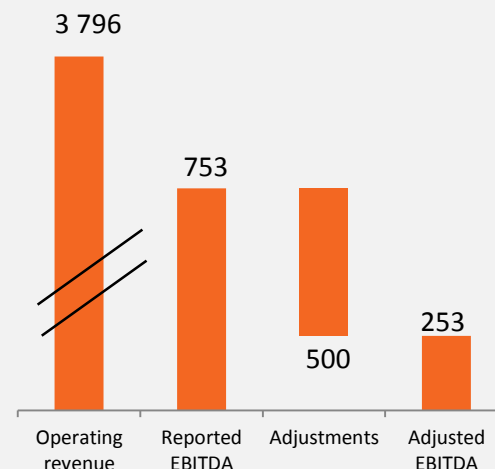
1 073	130	0	130
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**2018 vs. 2017**

+24	-32	+3	-29
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## YTD 2018

MNOK



**YTD 2017**  
MNOK

3 100	339	-2	337
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**2018 vs. 2017**

+696	+414	-498	-84
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# Adjusted earnings by segment Q3

## Division Recycling

- Reduction in collection assignments (-5.4%); and reduction in volumes (-1.0%)
- Reduced downstream prices for paper. However prices are improving for high quality grades ; investment in new paper machine
- Increasing costs in collection



	Revenues	Adj. EBITDA <sup>(1)</sup>
3Q 2018	608	68
3Q 2017	617	99

## Division Metal

- Still high commodity prices; reduction in ferrous volumes (-15,9%); reduction in non ferrous volumes -12.4%)
- Chinese import restrictions for certain metal qualities leading to low downstream prices



	Revenues	Adj. EBITDA <sup>(1)</sup>
3Q 2018	189	-3
3Q 2017	208	1

## Project based businesses

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



	Revenues	Adj. EBITDA <sup>(1)</sup>
3Q 2018	168	24
3Q 2017	152	21

## Division Household Collection

- Increase in revenue due to start up of new contracts
- Reduced EBITDA due to start up costs and challenges related to Reno Norden contracts that were taken over
- No new contracts awarded



	Revenues	Adj. EBITDA <sup>(1)</sup>
3Q 2018	104	6
3Q 2017	66	10

MNOK

3Q 2018

3Q 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 were in supply/demand equilibrium.

### Woodchips

- Woodchips prices stabilized in Q3 after experiencing large gains in Q2.
- The Scandinavian market is currently in a short-term equilibrium.
- Temperatures in upcoming months will influence future price developments.

## 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

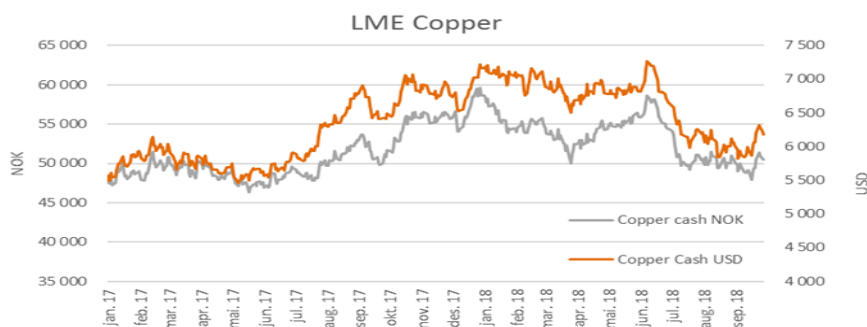


# NG response to market dev'l– recyclables

## Market development

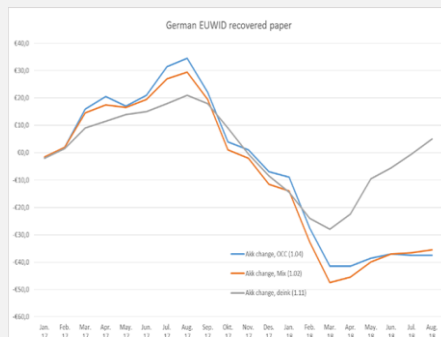
### Metals

- Ferrous market prices (CELSA index) in line with Q3 2017 prices on average – prices fluctuate from 1 305 - 1 555 NOK/tonne level in Q3. We expect CELSA to remain relatively stable in Q4
- Metal prices higher in 2018 compared to 2017 for nickel, lower for copper and at same level for aluminum. Aluminum scrap/Zorba has however been negatively effected by the Chinese import restrictions.



### Paper

- For packaging grades OCC and mixed paper, prices were stable in Q3. Deink grades for printing paper have seen a sharp increase, bringing the price span between packaging grades and printing grades to a historical high.
- We expect prices to remain stable in Q4
- 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 to mitigate the lower quality of ferrous volumes.
- Continue to adjust upstream prices in our contracts due to decreased Zorba

### Paper

- Focus on keeping inventories low
- Focus on improving quality of finished products to meet current challenging market situation
- Adjust pricing upstream to compensate for lower prices downstream
- Optimization of customer portfolio downstream to strengthen gross margin further
- Actively seeking alternatives to China
- Investment in new paper machine

# Outlook for 2018

Maintain our guiding for 2018:

- Continued recovery and positive results development expected in Q4
- EBITDA in 2018 expected to come in at 370-380 MNOK, but risk on the downside due to uncertainty on how Chinese import restrictions will effect paper and Zorba prices
- 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 Q3 2018 <sup>(1)</sup>

## INTERIM CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(NOK'000)	Note	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Revenue	4, 5	1 086 939	1 069 185	3 246 643	3 080 398
Other income	6	10 033	3 671	549 653	19 376
<b>Total operating income</b>		<b>1 096 972</b>	<b>1 072 856</b>	<b>3 796 296</b>	<b>3 099 775</b>
Cost of goods sold		543 413	539 669	1 669 254	1 540 413
Employee benefits expense		246 156	224 768	764 513	690 633
Depreciation/amortization/impairment		45 731	54 114	155 626	164 094
Other operating expenses		211 272	175 925	613 463	526 500
Other (gains)/losses - net		(1 757)	2 068	(3 483)	3 463
<b>Operating profit</b>		<b>52 157</b>	<b>76 311</b>	<b>596 923</b>	<b>174 671</b>
Finance income	2	3 056	1 168	14 237	2 955
Finance costs	2	45 421	37 137	142 785	166 962
Share of profit in associated companies		766	765	1 276	1 233
<b>Profit / (loss) before income tax</b>		<b>10 558</b>	<b>41 108</b>	<b>469 651</b>	<b>11 897</b>
Income tax expense		2 110	7 938	(11 110)	3 290
<b>Profit / (loss) for the period from continuing operations</b>		<b>8 448</b>	<b>33 170</b>	<b>480 761</b>	<b>8 607</b>
<b>Profit / (loss) attributable to:</b>					
Owners of the parent		7 820	30 869	480 397	1 785
Non-controlling interests		628	2 301	365	6 822

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

# Balance sheet Q3 2018<sup>(1)</sup>

## ASSETS

<i>(NOK'000)</i>	Sep 30, 2018	Dec 31, 2017
<b>Non-current assets</b>		
Property, plant & equipment	869 158	792 250
Intangible assets	81 619	96 775
Goodwill	1 257 961	1 235 986
Deferred tax assets	97 381	93 367
Investments in associated companies	15 291	21 360
Other receivables	31 765	44 242
<b>Total non-current assets</b>	<b>2 353 174</b>	<b>2 283 980</b>
<b>Current assets</b>		
Inventories	129 360	112 716
Trade and other receivables	549 587	713 102
Other financial assets	4 094	-
Cash and cash equivalents	66 721	176 995
Assets held for sale	-	207 348
<b>Total current assets</b>	<b>749 761</b>	<b>1 210 160</b>
<b>Total assets</b>	<b>3 102 935</b>	<b>3 494 140</b>

# Balance sheet Q3 2018<sup>(1)</sup>

## EQUITY AND LIABILITIES

(NOK'000)	Sep 30, 2018	Dec 31, 2017
<b>Equity</b>		
Share capital and reserves attributable to owners of parent	473 357	52 855
Non-controlling interest	22 243	21 527
<b>Total equity</b>	<b>495 600</b>	<b>74 382</b>
<b>Non-current liabilities</b>		
Loans and borrowings	298 364	2 474 734
Other financial liabilities	617	9 318
Deferred income tax liabilities	22 051	24 926
Post-employment benefits	11 404	10 265
Provisions for other liabilities and charges	70 527	75 292
<b>Total non-current liabilities</b>	<b>402 963</b>	<b>2 594 534</b>
<b>Current liabilities</b>		
Trade and other payables	682 484	695 180
Current income tax	2 040	15 651
Loans and borrowings	1 501 271	68 516
Other financial liabilities	28	16 015
Provisions for other liabilities and charges	18 549	29 862
<b>Total current liabilities</b>	<b>2 204 372</b>	<b>825 224</b>
<b>Total liabilities</b>	<b>2 607 335</b>	<b>3 419 759</b>
<b>Total equity and liabilities</b>	<b>3 102 935</b>	<b>3 494 140</b>

# Consolidated cash flow statement Q3 2018<sup>(1)</sup>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOW

(NOK'000)	YTD Q3 2018	YTD Q3 2017
<b>Profit / (Loss) before income tax</b>	<b>469 651</b>	<b>11 897</b>
Adjustments for:		
Income tax paid	(12 304)	(2 911)
Depreciation, amortization and impairment charges	155 626	164 094
Net (gain) loss on sale of non-current assets and business	(516 791)	(8 005)
Financial items without cash effect	(6 678)	18 234
Items classified as investing- or financing activities	118 433	144 478
Changes in other short term items	105 383	(171 276)
<b>Net cash flow from operating activities</b>	<b>313 319</b>	<b>156 511</b>
Purchase of shares in subsidiaries and associates	(5 396)	(9 000)
Proceeds from sale of business	24 955	1 600
Payments for purchases of non-current assets	(142 520)	(75 287)
Proceeds from sale of non-current assets	708 742	13 004
Net other investments	-	(11 420)
Dividend from associated companies	1 500	-
<b>Net cash flow from investing activities</b>	<b>587 281</b>	<b>(81 103)</b>
Proceeds from borrowings	60 000	-
Repayment of borrowings	(849 623)	(2 358)
Debt related expenses	(1 090)	(3 217)
Repayment of financial leasing liability	(31 062)	(20 910)
Dividends paid to non-controlling interest	(4 635)	(5 355)
Transactions with non-controlling interest	(65 485)	-
Interest paid	(117 342)	(131 558)
<b>Net cash flow from financing activities</b>	<b>(1 009 237)</b>	<b>(163 398)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(108 637)</b>	<b>(87 990)</b>
Effect of exchange rate changes	(1 637)	760
Cash and cash equivalents at beginning of period	176 995	167 724
<b>Cash and cash equivalents at end of period</b>	<b>66 721</b>	<b>80 494</b>

# Events after reporting period

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- None

The logo for NG Norsk Gjenvinning, featuring the letters 'NG' in a bold, white, sans-serif font on an orange square background.

**NG**

Norsk  
Gjenvinning

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