

Viscofan

THE CASING COMPANY

Results JANUARY-JUNE twenty 17

2017, 27th July

(Free translation from the original in Spanish, in event of discrepancy, the Spanish-language version prevails)

Management Report

Main Highlights of the January-June 2017 Results

- €390.3 million in revenue, up 9.4% compared with the previous year.
- EBITDA[1] of €116.6 million, up 15.8% compared with the previous year.
- Excluding the non-recurring profit of €6.0 million recorded in 2Q17, associated with the compensation received for the fire declared in Germany in November 2016, EBITDA rose to €110.6 million, up 9.9% versus 1H16, reaching an EBITDA margin of 28.3% (+0.1 p.p. vs. 1H16).
- Net Profit amounted to €66.2 million, up 10.5% compared with the previous year and 3.5% excluding non-recurring profit.
- Net bank debt[2] of €18.9 million, versus €8.8 million in December 2016.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group, "The results achieved enable us to continue deploying our strategic plan, MORE TO BE 2016-2020, in order to strengthen our positioning in the sector, by carrying out a multitude of initiatives and projects, which continue to progress according to our initial plans, while reiterating our short-term growth targets in main financial figures".

[1] EBITDA = Operating profit (EBIT) + Depreciation of property, plant and equipment and amortization.
[2] Net bank debt = Non-current bank borrowings + Current bank borrowings – Cash and cash equivalents

Viscofan Group. 1H17 Results

Selected figures. Viscofan Group income statement ('000 €)

	Accumulated				Quarterly			
	Jan-Jun' 17	Jan-Jun' 16	Change	Like-for-like (2)	Apr-Jun' 17	Apr-Jun' 16	Change	Like-for-like (2)
Revenue	390,299	356,876	9.4%	2.9%	195,695	182,448	7.3%	1.5%
Recurring EBITDA (1)	110,595	100,650	9.9%	4.7%	56,005	51,525	8.7%	3.7%
Recurring EBITDA Margin (1)	*28.3%*	*28.2%*	0.1 p.p.	0.5 p.p.	*28.6%*	*28.2%*	0.4 p.p.	0.6 p.p.
EBITDA	116,585	100,650	15.8%		61,995	51,525	20.3%	
EBITDA Margin	*29.9%*	*28.2%*	1.7 p.p.		*31.7%*	*28.2%*	3.5 p.p.	
EBIT	88,455	76,375	15.8%		47,939	39,379	21.7%	
Net profit	66,162	59,894	10.5%		34,568	32,609	6.0%	

(1) Recurring results: On a comparative basis, the figure excludes the positive impact of €6.0 million in EBITDA and €4.2 million in Net Profit corresponding to the net impact of the compensation for the fire in Germany, once non-recurring costs are deducted for inventory, clearing and cleaning, *inter alia*.
(2) Like-for-like: Like-for-like growth excludes the impact of the change in different exchange rates, the change in the scope of consolidation (Vector) and non-recurring results.

In the first half of the year, the Viscofan Group grew in the main financial figures, driven by higher casings volumes, its operations strength that have led to improved production efficiencies and the incorporation of Vector companies into the scope of consolidation.

In this context, in line with the time frames Viscofan Group is carrying out investments, aimed at strengthening its market position and taking advantage of the growth opportunities offered by the sector.

Revenue

Accumulated revenue in the first six months of the year rose to €390.3 million, up 9.4% compared with the same period of the previous year.

Volume growth rates in the casings market is in line with historical average growth rates, mainly driven by emerging countries in Latin America, Asia and Eastern Europe, which contrasts with a moderate evolution in developed markets, mainly in North America.

In this interim period, the Viscofan Group has strengthened its competitive positioning by revenue, with growth in all casings technologies and in all reported geographical areas, especially the recovery of the Brazilian market and Latin America as a whole.

Moreover, the incorporation of Vector companies into the scope of consolidation was highly satisfactory, generating additional sales of €15.2 million in the first half of the year.

On the other hand, the appreciation of the main currencies against the € entailed an additional contribution of 2.3 p.p. to the growth in revenue.

In terms of revenue, casing sales contributed €369.4 million in 1H17 (+9.8% vs. 1H16) and revenues from the sale of co-generation energy contributed €20.9 million in the same period (+2.4% vs. 1H16).

On a like-for-like basis[3] cumulative revenues grew by 2.9% versus 1H16 and by 1.5% in 2Q17 vs. 2Q16, i.e., without taking into account the impact of the exchange rate variation and the consolidation of Vector companies.

The breakdown and geographical performance of cumulative revenue[4] as at June 2017 is as follows:

[3] Like-for-like: Like-for-like growth excludes the impact of the change in different exchange rates, the exchange effect on the scope of consolidation (Vector) and non-recurring income from the business.
[4] Revenue by origin of sales.

- Europe and Asia (53.6% of the total): Reported revenues amounted to €209.1 million, up 4.2% versus 1H16 and up 1.9% on a like-for-like basis, due to higher sales volumes, both in Europe and Asia.
- North America (31.1% of the total): Revenues rose to €121.5 million, reporting a growth of 11.3% versus 1H16 and 0.1% on a like-for-like basis, highlighting the slowdown in sales in the United States in the second quarter of the year, in contrast with the favourable performance achieved in 1Q17.
- Latin America (15.3% of the total): Revenues grew by 26.8% in 1H17 vs. 1H16 to €59.6 million, reflecting the consolidation in the recovery of the casings market in Brazil and Viscofan's positioning in the region. This increase in sales was due to the like-for-like growth of 13.2% compared with the previous year and the appreciation of the Brazilian Real (+16.8% BRL/€).

In the second quarter of 2017, the Viscofan Group achieved revenues of €195.7 million, growing by 7.3% versus 2Q16. Of these, casing sales contributed €185.2 million (+7.5% vs. 2Q16), whilst revenues from co-generation contributed €10.5 million (+4.0% vs. 2Q16).

Other operating income

Other operating income accrued to June 2017 rose to €12.5 million, versus €2.5 million recorded in the same period the previous year, due to compensation received for the fire declared in November 2016 at a spare parts warehouse on the grounds of the company Naturin Viscofan GmbH in Weinheim (Germany), owned by Viscofan S.A.

Based on the insurance policy taken out, the aforementioned compensation includes the replacement value of the spare parts warehouse, the contents thereof and the related costs for clearing and cleaning the warehouse. The total compensation received by Naturin amounted to €14.0 million, of which €3.0 million had already been paid on account and recorded in the financial statements for 2016.

Operating expenses

Improvements in production efficiencies and savings made in raw material purchases led to an improvement of +1.5 p.p. in gross margin[5] to 75.4% in 1H17 and +2.1 p.p. in the second quarter compared with the previous year, amounting to 75.1%.

Cost of consumption[6] grew by 2.9% vs. 1H16 to €95.9 million, whilst, in the second quarter of 2017 it declined by 1.3% vs. 2Q16 to €48.7 million.

Personnel expenses grew by 13.7% in 1H17 versus 1H16 to €93.5 million, of which €46.4 million corresponded to the second quarter of 2017 (+13.0% vs. 2Q16).

The average headcount as at June 2017 rose to 4,515 persons, up 4.8% year-on-year. This increase is mainly explained by the incorporation of human resources to deploy the "MORE TO BE" projects, including the production of plastics in Mexico, the new plant with fibrous capacity in Spain, expansion in Serbia and the incorporation of the staff from Vector companies.

"Other operating expenses" in 1H17 grew by 16.3% versus 1H16 to €97.4 million and by 14.3% in 2Q17 vs. 2Q16, to €48.6 million, as a result of higher energy supply costs, which grew by 16.4% and 20.8%, respectively.

[5] Gross margin = (Revenue – Cost of consumption) / Revenue.
[6] Cost of consumption = Supplies +/- Change in finished and semi-finished products.

EBITDA

Higher revenues, cost control and the production efficiencies achieved resulted in a growth in cumulative EBITDA and in an improvement in operating profitability, both in reported terms and on a like-for-like basis.

Cumulative EBITDA in the half-year grew by 15.8% vs. 1H16 to €116.6 million and by 20.3% in the quarter to €62.0 million.

In 2Q17, a positive non-recurring net impact of €6.0 million was recorded related with the compensation received for the fire declared in Germany, amounting to €14.0 million, from which non-recurring operating expenses were deducted, including, *inter alia*, inventory losses, cleaning and clearing expenses.

Excluding these non-recurring results, cumulative EBITDA amounted to €110.6 million, increasing by +9.9% vs. 1H16 with an EBITDA margin of 28.3% (+0.1 p.p. vs. 1H16). Quarterly EBITDA, excluding the non-recurring impact, amounted to €56.0 million (+8.7% in 2Q17 vs. 2Q16) and reached a margin of 28.6% (+0.4 p.p. vs. 2Q16).

On a like-for-like basis[3], cumulative EBITDA increased by 4.7% vs. 1H16 and by 3.7% in 2Q17 vs. 2Q16 with a like-for-like EBITDA margin in 1H17 of 28.7% (+0.5 p.p. vs. 1H16) and of 28.8% in 2Q17 (+0.6 p.p. vs. 2Q16).

Net Profit

After the investments made during the course of this "MORE TO BE" strategic plan, amortisation and depreciation expenses in the first half of 2017 grew by 15.9% vs. 1H16 to €28.1 million and by 15.7% in 2Q17 vs. 2Q16 to €14.1 million.

As a result, the Group achieved a cumulative EBIT of €88.5 million, up 15.8% on the same period of the previous year, of which €47.9 million correspond to the second quarter, up 21.7% versus 2Q16.

In the first half of 2017, the net financial result was negative at -€5.7 million, mainly due to negative exchange rate differences of -€4.9 million, which compares with a positive net financial result of +€0.8 million in 1H16, during which period the exchange differences were positive, amounting to +€1.3 million.

Cumulative profit before tax as at June 2017 increased to €82.7 million, with a corporate tax expense of €16.6 million, an effective tax rate of 20.0% (22.4% in the same period of the previous year).

As a consequence, cumulative net profit as at June 2017 grew by 10.5% to €66.2 million and €34.6 million in the quarter (+6.0% vs. 2Q16), driven by the increase in revenues, the improvement in operating margins and the non-recurring net profit recorded in 2Q17 amounting to €4.2 million.

Capex

Works on the construction of a new plant with fibrous technology in Cáseda (Spain) are very advanced and production tests are planned during the third quarter of 2017 and production start-up is planned for the second half of 2017.

In these first few months of the year, projects involving the expansion of the collagen production capacity also progressed satisfactorily in China and Serbia.

In the first six months of the year, the Viscofan Group invested €51.8 million, more than the €37.3 million recorded in 1H16, which are included in the total of €85 million expected for the whole of 2017.

Bank debt

Net bank debt at the end of June 2017 stood at €18.9 million, versus €8.8 million as at December 2016. This increase in net debt is mainly attributable to the payment of the final dividend in June 2017, giving a total amount of €40.5 million and due to increased investments under the MORE TO BE 2016-2020 strategic plan.

Viscofan Group Profit and loss account. 1H17 ('000 €)

	Jan-Jun' 17	Jan-Jun' 16	*Change*
Revenues	**390,299**	**356,876**	**9.4%**
Other operating income	12,490	2,512	397.2%
Self-constructed assets	132	130	1.5%
Variation in stocks of finished products andwork-in-progress	22,531	9,906	127.4%
Net purchases	-118,400	-103,103	14.8%
Personnel expenses	-93,471	-82,208	13.7%
Other operating expenses	-97,422	-83,766	16.3%
Capital grants	320	336	-4.8%
Impairment and results coming from disposals of non-current assets	106	-33	c.s
Other results	0	0	n.s.
EBITDA	**116,585**	**100,650**	**15.8%**
EBITDA margin	*29.9%*	*28.2%*	*1.7 p.p.*
Amortization and depreciation	-28,130	-24,275	15.9%
EBIT	**88,455**	**76,375**	**15.8%**
EBIT margin	*22.7%*	*21.4%*	*1.3 p.p.*
Financial incomes	63	275	-77.1%
Financial expenditures	-913	-779	17.2%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	-4,872	1,325	c.s
Impairment and results coming from disposals of financials assets	0	0	n.s.
Financial results	**-5,722**	**821**	**c.s**
Profit from associated companies	0	0	n.s.
Profit before taxes	**82,733**	**77,196**	**7.2%**
Taxes	-16,571	-17,302	-4.2%
Profit after taxes from continued operations	**66,162**	**59,894**	**10.5%**
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	**66,162**	**59,894**	**10.5%**
a) Net profit attributable to the parent comany	66,210	59,919	10.5%
b) Net profit attributable to minority interests	-48	-25	92.0%

Viscofan Group Profit and loss account. 2Q17 ('000 €)

	Apr-Jun' 17	Apr-Jun' 16	*Change*
Revenues	**195,695**	**182,448**	**7.3%**
Other operating income	9,853	1,869	427.2%
Self-constructed assets	63	66	-4.5%
Variation in stocks of finished products and work-in-progress	11,875	-350	c.s
Net purchases	-60,587	-48,989	23.7%
Personnel expenses	-46,410	-41,088	13.0%
Other operating expenses	-48,603	-42,526	14.3%
Capital grants	160	167	-4.2%
Impairment and results coming from disposals of non-current assets	-51	-72	-29.2%
Other results	0	0	n.s.
EBITDA	**61,995**	**51,525**	**20.3%**
EBITDA margin	*31.7%*	*28.2%*	*3.5 p.p.*
Amortization and depreciation	-14,056	-12,146	15.7%
EBIT	**47,939**	**39,379**	**21.7%**
EBIT margin	*24.5%*	*21.6%*	*2.9 p.p.*
Financial incomes	24	156	-84.6%
Financial expenditures	-405	-373	8.6%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	-4,826	1,973	c.s
Impairment and results coming from disposals of financials assets	0	0	n.s.
Financial results	**-5,207**	**1,756**	**c.s**
Profit from associated companies	0	0	n.s.
Profit before taxes	**42,732**	**41,135**	**3.9%**
Taxes	-8,164	-8,526	-4.2%
Profit after taxes from continued operations	**34,568**	**32,609**	**6.0%**
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	**34,568**	**32,609**	**6.0%**
a) Net profit attributable to the parent comany	34,594	32,618	6.1%
b) Net profit attributable to minority interests	-26	-9	188.9%

Consolidated balance sheets ('000 €)

	Jun '17	Dec '16	*Change*
Intangible assets	15,586	16,425	-5.1%
Goodwill	3,520	3,520	0.0%
Others intangible asset	12,066	12,905	-6.5%
Tangible assets	448,004	431,910	3.7%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	0	0	n.s.
Non-current financial assets	9,853	12,793	-23.0%
Deferred tax assets	14,239	16,329	-12.8%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	487,682	477,457	2.1%
Non-current assets held for sale	0	0	n.s.
Inventories	243,837	229,578	6.2%
Trade and other receivables	178,670	174,871	2.2%
Trade debtors	146,933	141,659	3.7%
Other debtors	27,034	29,763	-9.2%
Current tax assets	4,703	3,449	36.4%
Other financial current assets	2,334	1,460	59.9%
Other current assets	5,919	2,574	130.0%
Cash and cash equivalents	58,272	45,054	29.3%
CURRENT ASSETS	489,032	453,537	7.8%
TOTAL ASSETS= EQUITY AND LIABILITIES	976,714	930,994	4.9%
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	650,148	592,173	9.8%
Treasury shares	0	0	n.s.
Profit for previous years	0	0	n.s.
Received from associates	0	0	n.s.
Result of the period	66,210	125,084	-47.1%
Less: Interim dividend	0	-26,564	n.s.
Other equity instruments	0	0	n.s.
SHAREHOLDER´S FUNDS	748,993	723,328	3.5%
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	1,391	2,240	-37.9%
Currency translation differences	-32,275	-17,704	82.3%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	-30,884	-15,464	99.7%
SHAREHOLDERS' EQUITY	718,109	707,864	1.4%
Minority interest	169	217	-22.1%
EQUITY	718,278	708,081	1.4%
Grants	2,641	3,001	-12.0%
Non-current provision	23,187	23,317	-0.6%
Non-current financial liabilities	80,827	54,867	47.3%
Financial debt	66,350	42,147	57.4%
Other financial liabilities	14,477	12,720	13.8%
Deferred tax liabilities	20,579	22,811	-9.8%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	127,234	103,996	22.3%
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	6,335	6,678	-5.1%
Current financial liabilities	27,951	30,119	-7.2%
Financial debt	10,862	11,698	-7.1%
Other financial liabilities	17,089	18,421	-7.2%
Trade creditor and other payable accounts	96,319	81,753	17.8%
Trade creditors	57,198	53,160	7.6%
Other creditors	27,342	22,069	23.9%
Current tax liabilities	11,779	6,524	80.5%
Other current liabilities	597	367	62.7%
CURRENT LIABILITIES	131,202	118,917	10.3%
NET BANK DEBT / (NET BANK CASH)	18,940	8,791	115.4%

Cash flow statements ('000 €)

	Jan-Jun' 17	Jan-Jun' 16	*Change*
Cash flows from operating activities	**92,224**	**65,697**	**40.4%**
Profit for the year before tax	**82,733**	**77,196**	**7.2%**
Adjustments in results	**35,832**	**22,159**	**61.7%**
Amortisation and depreciation	28,130	24,275	15.9%
Others adjustments in results(net)	7,702	-2,116	c.s.
Changes in working capital	**-13,483**	**-16,042**	**-16.0%**
Other cash flows from operating activities	**-12,858**	**-17,616**	**-27.0%**
Interest paid	0	0	n.s.
Dividend paid and other payments from others equity instruments	0	0	n.s.
Dividends received	0	0	n.s.
Interests received	0	0	n.s.
Proceeds/ (payments) from income tax	-12,536	-17,176	-27.0%
Proceeds/(payments) from operating activities	-322	-440	-26.8%
Cash flows from investing activities	**-47,953**	**-37,763**	**27.0%**
Investment payments	**-49,625**	**-38,038**	**30.5%**
Group companies, associated & business units	0	0	n.s.
Acquisition of property, plant and equipment and intangible assets	-49,625	-38,038	30.5%
Other financial assets	0	0	n.s.
Other assets	0	0	n.s.
Cash from disposals	**1,389**	**0**	**n.s.**
Group companies, associated & business units	0	0	n.s.
Disposal of property, plant and equipment and intangible assets	1,389	0	n.s.
Other financial assets	0	0	n.s.
Other assets	0	0	n.s.
Other cash flows from investing activities	**283**	**275**	**2.9%**
Dividends received	0	0	n.s.
Interest received	283	275	2.9%
Proceeds/(Payments) from interrupted operations	0	0	n.s.
Cash flows from financing activities	**-20,920**	**-33,804**	**-38.1%**
Proceeds and payments from equity instruments	**0**	**0**	**n.s.**
Proceeds from issue of stock	0	0	n.s.
Cancellation and payments	0	0	n.s.
Acquisition	0	0	n.s.
Disposal	0	0	n.s.
Proceeds and payments from financial liabilities instruments	**24,021**	**9,263**	**159.3%**
Proceeds from issue of financial liabilities instruments	28,778	24,341	18.2%
Refund, cancellation and payments	-4,757	-15,078	-68.5%
Dividends paid and others payments from others equities instruments	**-40,545**	**-38,215**	**6.1%**
Others cash flows from financing activities	**-4,396**	**-4,852**	**-9.4%**
Interest paid	-833	-493	69.0%
Others proceeds /(payments) from financing activities	-3,563	-4,359	-18.3%
Effect of foreign exchange rate changes on collections and payments	**-10,133**	**-1,239**	**717.8%**
Net increase (decrease) in cash and cash equivalents	**13,218**	**-7,109**	**c.s.**
Cash and cash equivalents at the begining of the period	**45,054**	**44,453**	**1.4%**
Cash and cash equivalent at the end of the period	**58,272**	**37,344**	**56.0%**

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€)

	1H17	1H16	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.082	1.116	-3.0%
Canadian Dollar	1.444	1.486	-2.8%
Mexican Peso	21.022	20.162	4.3%
Brazilian real	3.441	4.134	-16.8%
Czech crown	26.785	27.040	-0.9%
British Pound	0.860	0.779	10.5%
Serbian Dinar	123.391	122.922	0.4%
Chinesse yuan remminbi	7.441	7.246	2.7%
Uruguayan Peso	30.743	34.784	-11.6%

End period (Currency/€)

	Jun 17	Dec 16	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.141	1.054	8.3%
Canadian Dollar	1.479	1.419	4.2%
Mexican Peso	20.584	21.772	-5.5%
Brazilian real	3.775	3.435	9.9%
Czech crown	26.197	27.021	-3.0%
British Pound	0.879	0.856	2.7%
Serbian Dinar	120.849	123.472	-2.1%
Chinesse yuan remminbi	7.750	7.307	6.1%
Uruguayan Peso	32.519	30.927	5.1%

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All results information can be consulted on Viscofan Group website.

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