

Viscofan

THE CASING COMPANY

Results JANUARY-SEPTEMBER twenty 17

2017, 30th October

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

Management Report

Main highlights of the January-September 2017 Results

- Revenue of €580.7 million, an increase of 8.1% compared with the previous year.
- EBITDA[1] of €164.8 million, an increase of 10.8% compared with the previous year.
- Net Profit of €92.2 million, an increase of 4.6% compared with the previous year.
- Net bank debt [2] of €17.1 million in September 2017, compared with €8.8 million in December 2016.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group: "Third quarter results highlight the strength of the casings volumes growth, which was anticipated by Viscofan, contrasting with an adverse forex environment in the quarter. Main investment projects for the year have already been completed, underscoring the new plant in Cáseda that will start-up production in 4Q17. These results place the Viscofan Group in an excellent situation to achieve targets for the year despite facing a more adverse forex environment than expected at the beginning of the year."

[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. 9M17 Results

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

	Accumulated				Quarterly			
	Jan-Sep' 17	Jan-Sep' 16	Change	Like-for-like (2)	Jul-Sep' 17	Jul-Sep' 16	Change	Like-for-like (2)
Revenue	580,727	537,357	8.1%	3.2%	190,429	180,481	5.5%	3.8%
Recurring EBITDA (1)	158,836	149,410	6.3%	4.0%	48,241	48,763	-1.1%	2.4%
Recurring EBITDA Margin (1)	*27.4%*	*27.8%*	-0.4 p.p.	0.2 p.p.	*25.3%*	*27.0%*	-1.7 p.p.	-0.4 p.p.
EBITDA	164,826	148,810	10.8%		48,241	48,163	0.2%	
EBITDA Margin	*28.4%*	*27.7%*	0.7 p.p.		*25.3%*	*26.7%*	-1.4 p.p.	
EBIT	122,723	112,262	9.3%		34,268	35,889	-4.5%	
Net profit	92,209	88,130	4.6%		26,045	28,237	-7.8%	

(1) Recurring results: a) In 2017 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 from inventory, clearing and cleaning, among others. b) In 3Q16, the figure excludes management costs associated with the purchase of Vector companies in the USA and Europe totaling €0.6 million in EBITDA and €0.4 million in Net Profit.

(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.

The casings market continues to show solid growth rates in 2017, driven by growth in emerging areas that is translating into greater demand for casing in the main technologies: cellulose, fibrous, plastic and collagen.

The Viscofan Group, bolstered by greater presence in the emerging countries of Latin America and Asia, is taking advantage of this recovery in volume that is counteracting the weakness in the United States, while at the same time achieving its expansion plans. Construction of a new plant in Cáseda is now complete and it will start production during the last quarter of this year.

Revenue

In the third quarter of the year, Viscofan Group casings volumes keep on growing in all technologies. Positive performance stands out in Latin America, Europe and Asia. On the other hand North America continues to be affected by the decline in sales in the United States coupled with the weakness of its currency. The increase in revenue from casings is accompanied by greater income from the sale of co-generation energy.

In like-for-like[3] terms, third-quarter revenue increased by 3.8% over 3Q16, that is, without taking into account the impact of the exchange rate variation and the consolidation of Vector companies.

The acceleration in quarterly growth of volumes is eroded by the weakness of the main commercial currencies compared with the euro in the quarter, reducing growth by -2.3 percentage points (p.p.). In 3Q17 vs. 3Q16, average depreciation is noteworthy in US$/€ (–5.2%), BRL/€ (–2.5%), GBP/€ (–5.6%) and in CNY/€ (–5.3%).

The incorporation of the Vector companies in the scope of consolidation generated additional sales of €7.1 million in the third quarter.

Nevertheless, revenue in reported terms rose to €190.4 million in the third quarter, showing an increase of 5.5% over 3Q16. Broken down by source of revenue, reported sales of casings contributed €178.8 million (+4.7% vs. 3Q16) and sales from co-generation energy provided €11.6 million (+19.6% vs. 3Q16).

Revenue in the first nine months of the year increased by 8.1% to €580.7 million. Likewise, sales of casings contributed €548.3 million in 9M17 (+8.1% vs. 9M16), and sales of co-generation energy provided €32.5 million in the same period (+8.0% vs. 9M16).

[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.

The incorporation of the Vector companies in the scope of consolidation brought in sales totalling €22.3 million in the first nine months of 2017.

In like-for-like[3] terms cumulative revenue increased 3.2% compared with the same period in 2016.

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

- Europe and Asia (54.6% of the total): Reported revenue reached €317.3 million, increasing 5.0% compared with the first nine months of 2016 and 2.9% in like-for-like terms, driven by greater sales volume in both Europe and Asia.
- North America (30.2% of the total): Revenue stands at €175.3 million, an increase of 8.3% compared with the first nine months of 2016, supported by Vector sales volume. In like-for-like terms revenue in the region declined -0.4%.
- Latin America (15.2% of the total): Revenue grew 20.2% in 9M17 vs. 9M16 to €88.1 million, led by the volume increase in Brazil and other countries in the area. This increase is supported by a 12.2% growth on a like-for-like basis versus the same period of the last year.

Operating expenses

In the first nine months of 2017, the Viscofan Group achieved efficiency improvements in its factories and savings in production costs together with investment in new resources, mainly human resources, enabling it to complete the construction and start-up of the new plant in Cáseda (Spain) and other expansion projects.

Accumulated consumption costs[5] rose by 2.5% vs. 9M16 to €151.3 million, and 1.9% in 3Q17 vs. 3Q16 to €55.5 million. This performance resulted in a gross margin[6] of 73.9% in the first nine months of 2017 (+1.4 p.p. vs. 9M16) and 70.9% in 3Q17 (+1.1 p.p. vs. 3Q16).

Personnel costs increased 13.3% in 9M17 vs. 9M16 to €139.5 million, out of which €46.0 was assigned to 3Q17 (+12.5% vs. 3Q16). Higher personnel costs are driven by the incorporation of Vector workforce in the United States and Europe, and the increase in staff employed, especially in Spain, where new personnel in training have already been incorporated, so as to be able to start up production at the new plant in the last quarter of the year. In addition, the appreciation in the exchange rate against the euro in the Czech Republic (+3.5%) and Serbia (+2.9%), with labour-intense production processes have pushed up reported personnel costs in 3Q17.

The average workforce as of September 2017 grew to 4,537 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 and the incorporation of the staff from Vector companies.

"Other operating costs" in 3Q17 grew 5.3% vs. 3Q16 to €42.7 million, and in accumulated terms rose to 12.7% vs. 9M16 to €140.1 million, with energy supply expenses increasing 10.7% in 9M17 vs. 9M16.

Non-recurring items

In 2Q17, a positive non-recurring net impact of €6.0 million in EBITDA and €4.2 million was recorded related with the compensation received for the fire declared in Germany, from which non-recurring operating expenses were deducted, including, among others, inventory losses, cleaning and clearing expenses.

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

Furthermore, in 3Q16 the Viscofan Group accounted management costs associated with the purchase of the Vector companies in the US and Europe under "Other operating costs" in the amount of €0.6 million in EBITDA and €0.4 million in net profit.

EBITDA

In like-for-like[3] terms, the Viscofan Group increased EBITDA by +2.4% in 3Q17 vs. 3Q16 driven by the increase in sales volume, and it is partially offset by higher personnel costs and costs associated with the construction and start-up of new operations. This performance resulted in an increase of 4.0% vs. the first nine months of 2016 in accumulated EBITDA, and an EBITDA margin of 28.0% in 9M17, +0.2 p.p. vs. 9M16.

In reported terms, accumulated EBITDA increased 10.8% vs. 9M16 to €164.8 million, out of which €48.2 million correspond to the third quarter, which increased +0.2% vs. 3Q16, hampered by the adverse currency situation with the euro.

Net Profit

After the investments made during the course of this "MORE TO BE" strategic plan, amortisation and depreciation expenses in accumulated terms rose by 15.2% vs. 9M16 to €42.1 million and by 13.8% in 3Q17 vs. 3Q16 to €14.0 million.

This led to an accumulated EBIT of €122.7 million, up 9.3% on the same period of the previous year, of which €34.3 million correspond to the third quarter, -4.5% compared with 3Q16.

In 9M17, the net financial result was negative at -€8.3 million due to negative exchange differences of -€7.0 million, compared with the net financial result of -€0.1 million for the first three quarters of 2016, a period in which the exchange differences were positive in the amount of +€0.8 million.

Accumulated profit before taxes as of September 2017 increased to €114.4 million with an income corporate tax expense of €22.2 million, an effective tax rate of 19.4% (21.5% in the same period during the previous fiscal year).

Finally, the accumulated net profit to September 2017 increased 4.6% vs. 9M16 to €92.2 million, out of which €26.0 million correspond to the third quarter (-7.8% vs. 3Q16).

Capex

Construction work on the new plant in Cáseda (Spain) that will permit the Viscofan Group fibrous casing production in Europe has been completed satisfactorily. Start-up of production is targeted for the fourth quarter of 2017.

The Viscofan Group has invested €79.4 million in the annual aggregate, having almost completely finished the new plant in Spain. The favourable market conditions and the good results achieved in testing the new installations support the MORE TO BE strategy in continuing investments to strengthen the competitive position of the Viscofan Group into the fourth quarter of 2017.

Bank debt

Net bank debt at the close of September 2017 is €17.1 million compared with €8.8 million in December 2016. A strong balance sheet that has justified a dividend increase and acceleration of investments included in the 2016-2020 MORE TO BE strategic plan.

Viscofan Group Profit and loss account. 9M17 ('000 €)

	Jan-Sep' 17	Jan-Sep' 16	*Change*
Revenues	**580,727**	**537,357**	**8.1%**
Other operating income	13,730	5,693	141.2%
Self-constructed assets	195	390	-50.0%
Variation in stocks of finished products and work-in-progress	24,034	4,403	445.9%
Net purchases	-175,373	-152,050	15.3%
Personnel expenses	-139,516	-123,146	13.3%
Other operating expenses	-140,100	-124,302	12.7%
Capital grants	478	504	-5.2%
Impairment and results coming from disposals of non-current assets	651	-39	c.s
Other results	0	0	n.s.
EBITDA	**164,826**	**148,810**	**10.8%**
EBITDA margin	*28.4%*	*27.7%*	*0.7 p.p.*
Amortization and depreciation	-42,103	-36,548	15.2%
EBIT	**122,723**	**112,262**	**9.3%**
EBIT margin	*21.1%*	*20.9%*	*0.2 p.p.*
Financial incomes	99	346	-71.4%
Financial expenditures	-1,410	-1,169	20.6%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	-7,016	766	c.s
Impairment and results coming from disposals of financials assets	0	0	n.s.
Financial results	**-8,327**	**-57**	**14508.8%**
Profit from associated companies	0	0	n.s.
Profit before taxes	**114,396**	**112,205**	**2.0%**
Taxes	-22,187	-24,075	-7.8%
Profit after taxes from continued operations	**92,209**	**88,130**	**4.6%**
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	**92,209**	**88,130**	**4.6%**
a) Net profit attributable to the parent comany	92,280	88,170	4.7%
b) Net profit attributable to minority interests	-71	-40	77.5%

Viscofan Group Profit and loss account. 3Q17 ('000 €)

	Jul-Sep' 17	Jul-Sep' 16	*Change*
Revenues	**190,429**	**180,481**	**5.5%**
Other operating income	1,240	3,182	-61.0%
Self-constructed assets	63	261	-75.9%
Variation in stocks of finished products and work-in-progress	1,503	-5,502	c.s
Net purchases	-56,973	-48,947	16.4%
Personnel expenses	-46,045	-40,938	12.5%
Other operating expenses	-42,678	-40,535	5.3%
Capital grants	157	167	-6.0%
Impairment and results coming from disposals of non-current assets	545	-6	c.s
Other results	0	0	n.s.
EBITDA	**48,241**	**48,163**	**0.2%**
EBITDA margin	*25.3%*	*26.7%*	*-1.4 p.p.*
Amortization and depreciation	-13,973	-12,274	13.8%
EBIT	**34,268**	**35,889**	**-4.5%**
EBIT margin	*18.0%*	*19.9%*	*-1.9 p.p.*
Financial incomes	36	71	-49.3%
Financial expenditures	-498	-391	27.4%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	-2,144	-560	282.9%
Impairment and results coming from disposals of financials assets	0	0	n.s.
Financial results	**-2,606**	**-880**	**196.1%**
Profit from associated companies	0	0	n.s.
Profit before taxes	**31,662**	**35,009**	**-9.6%**
Taxes	-5,617	-6,772	-17.1%
Profit after taxes from continued operations	**26,045**	**28,237**	**-7.8%**
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	**26,045**	**28,237**	**-7.8%**
a) Net profit attributable to the parent comany	26,068	28,252	-7.7%
b) Net profit attributable to minority interests	-23	-15	53.3%

Consolidated balance sheets ('000 €)

	Sep '17	Dec '16	*Change*
Intangible assets	15,457	16,425	-5.9%
Goodwill	3,520	3,520	0.0%
Others intangible asset	11,937	12,905	-7.5%
Tangible assets	457,745	431,910	6.0%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	0	0	n.s.
Non-current financial assets	10,412	12,793	-18.6%
Deferred tax assets	13,411	16,329	-17.9%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	497,025	477,457	4.1%
Non-current assets held for sale	0	0	n.s.
Inventories	242,460	229,578	5.6%
Trade and other receivables	178,718	174,871	2.2%
Trade debtors	140,717	141,659	-0.7%
Other debtors	31,537	29,763	6.0%
Current tax assets	6,464	3,449	87.4%
Other financial current assets	2,491	1,460	70.6%
Other current assets	4,906	2,574	90.6%
Cash and cash equivalents	60,116	45,054	33.4%
CURRENT ASSETS	488,691	453,537	7.8%
TOTAL ASSETS= EQUITY AND LIABILITIES	985,716	930,994	5.9%
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	650,146	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	92,280	125,084	-26.2%
Less: Interim dividend	0	-26,564	n.s.
Other equity instruments	0	0	n.s.
SHAREHOLDER´S FUNDS	775,061	723,328	7.2%
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	1,243	2,240	-44.5%
Currency translation differences	-38,992	-17,704	120.2%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	-37,749	-15,464	144.1%
SHAREHOLDERS' EQUITY	737,312	707,864	4.2%
Minority interest	146	217	-32.7%
EQUITY	737,458	708,081	4.1%
Grants	2,467	3,001	-17.8%
Non-current provision	23,186	23,317	-0.6%
Non-current financial liabilities	86,995	54,867	58.6%
Financial debt	72,330	42,147	71.6%
Other financial liabilities	14,665	12,720	15.3%
Deferred tax liabilities	19,706	22,811	-13.6%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	132,354	103,996	27.3%
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	5,008	6,678	-25.0%
Current financial liabilities	15,284	30,119	-49.3%
Financial debt	4,875	11,698	-58.3%
Other financial liabilities	10,409	18,421	-43.5%
Trade creditor and other payable accounts	95,050	81,753	16.3%
Trade creditors	60,266	53,160	13.4%
Other creditors	23,854	22,069	8.1%
Current tax liabilities	10,930	6,524	67.5%
Other current liabilities	562	367	53.1%
CURRENT LIABILITIES	115,904	118,917	-2.5%
NET BANK DEBT / (NET BANK CASH)	17,089	8,791	94.4%

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€)

	9M17	9M16	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.113	1.116	-0.3%
Canadian Dollar	1.453	1.476	-1.5%
Mexican Peso	20.993	20.415	2.8%
Brazilian real	3.532	3.964	-10.9%
Czech crown	26.552	27.036	-1.8%
British Pound	0.873	0.802	8.7%
Serbian Dinar	122.182	123.046	-0.7%
Chinesse yuan remminbi	7.570	7.310	3.6%
Uruguayan Peso	31.748	34.079	-6.8%

End period (Currency/€)

Sep 17	Dec 16	% Change
1.000	1.000	0.0%
1.181	1.054	12.0%
1.469	1.419	3.5%
21.461	21.772	-1.4%
3.740	3.435	8.9%
25.981	27.021	-3.8%
0.882	0.856	3.0%
119.366	123.472	-3.3%
7.823	7.307	7.1%
34.214	30.927	10.6%

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All results information can be consulted on Viscofan Group website.

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