Viscofan

January – June 2010 Results



28 July 2010

VI. Interim management report

Main Highlights of January - June 2010 Results

- +30% year-on-year growth in net profit to €40.5 million.
- +17% year-on-year consolidated EBITDA[1] growth to €76.3 million.
- +2.3 p.p. year-on-year increase in the consolidated EBITDA margin to 24.7%, with improvement in both the casings (+2.3 p.p.) and vegetable food (+2.2 p.p.) divisions.
- +6% year-on-year growth in consolidated revenue to €308.5 million.
- -24.7% reduction in Group net debt[2] in the first half of the year to €68.1 million after payment of €16.6 million related to the return of share premium approved at the General Shareholders' Meeting.
- Upgrade to guidance following the solid set of half-yearly earnings, above all the growth in margins, coupled with prospects of a stronger dollar against the euro in 2010 (1.30x) than initially forecast (1.45x). The Viscofan Group's new guidance for FY10 is as follows:
    - Revenue between €625 million and €635 million (+7% to +9% vs. 2009), €20 million higher than the previous forecast.
    - EBITDA between €148 million and €152 million (+15% to +18% vs. 2009), an increase of €10 million from the previous estimate.
    - Net profit between €76 million and €78 million (+18% to +21% vs. 2009), €6 million above the initial forecast.
    - Capex of approximately €45 million.

[1] EBITDA = Earnings before interest, taxes, depreciation and amortisation

[2] Net financial debt = Non-current financial debt + Current financial debt – Cash and cash equivalents.

1H10 Consolidated Group Results

Viscofan Group Profit and loss account ('000 €)

	Jan-Jun' 10	Jan-Jun' 09	*Change*	Apr-Jun' 10	Apr-Jun' 09	*Change*
Revenues	**308,490**	**290,996**	**6.0%**	**161,189**	**148,017**	**8.9%**
Other operating income	4,194	2,879	45.7%	3,259	1,760	85.1%
Self-constructed assets	692	69	904.3%	83	14	514.5%
Variation in stocks of finished products and work-in-progress	-11,170	3,380	c.s	-842	960	c.s
Net purchases	-69,685	-83,549	-16.6%	-43,497	-42,524	2.3%
Personnel expenses	-67,631	-65,794	2.8%	-34,711	-32,879	5.6%
Other operating expenses	-88,611	-83,039	6.7%	-45,501	-42,496	7.1%
Capital grants	179	173	3.5%	90	108	-17.3%
Impairment and results coming from disposals of non-curren	-174	110	c.s	-82	80	c.s
Other results	0	0	n.s.	0	0	n.s.
EBITDA	**76,285**	**65,226**	**17.0%**	**39,988**	**33,040**	**21.0%**
EBITDA margin	*24.7%*	*22.4%*	*2.3 p.p.*	*24.8%*	*22.3%*	*2.5 p.p.*
Amortization and depreciation	-19,716	-18,352	7.4%	-10,053	-9,300	8.1%
EBIT	**56,569**	**46,874**	**20.7%**	**29,935**	**23,740**	**26.1%**
EBIT margin	*18.3%*	*16.1%*	*2.2 p.p.*	*18.6%*	*16.0%*	*2.5 p.p.*
Financial incomes	568	279	103.7%	394	139	184.1%
Financial expenditures	-2,111	-2,646	-20.2%	-1,087	-1,116	-2.7%
Changes in reasonable value of financial instruments	0	0	n.s.	0	0	n.s.
Exchange differences	-1,331	-1,877	-29.1%	-919	-142	547.8%
Impairment and results coming from disposals of financials assets	0	0	n.s.	0	0	n.s.
Financial results	**-2,874**	**-4,244**	**-32.3%**	**-1,611**	**-1,119**	**43.9%**
Profit from associated companies	-79	0	n.s.	-53	0	n.s.
Profit before taxes	**53,616**	**42,630**	**25.8%**	**28,270**	**22,621**	**25.0%**
Taxes	-13,099	-11,536	13.6%	-6,741	-6,154	9.5%
Profit after taxes	**40,517**	**31,094**	**30.3%**	**21,529**	**16,467**	**30.7%**
Minority interest	0	0	n.s.	0	0	n.s.
Net profit	**40,517**	**31,094**	**30.3%**	**21,529**	**16,467**	**30.7%**

The Viscofan Group reported a 6.0% year-on-year increase in 1H10 revenue to €308.5 million, driven by higher revenue in both the casings (+6.3% vs. 1H09) and vegetable food (+4.3% vs. 1H09) divisions.

Stripping out the impact of exchange rates[3], consolidated revenue through June is up 2.5% year-on-year.

The acceleration in the pace of consolidated revenue growth in 2Q10 (+8.9% vs. 2Q09) compared with the year-on-year growth achieved in 1Q10 (+3.0%) is due to gradual increases in casing volume sales and favourable trends in exchange rates, especially the Brazilian real (+18.2% vs. 1H09). This, coupled with electricity sales from cogeneration in Spain (€7,4 million in 2Q10), enabled the casings division to post its highest ever quarterly revenue posting an increase of 11.0% vs. 2Q09, offsetting the 2.0% year-on-year decline of revenue from the vegetable food division in 2Q09.

Cost of consumption[4] totalled €80.9 million in 1H10, 0.9% higher than in 1H09. Accordingly, the gross margin[5] widened 1.3 p.p. vs. 1H09 to 73.8%. In 2Q10, cost of consumption rose 6.7% year-on-year to €44.3 million due to higher spending in the casings businesses (+15.9% vs. 2Q09) on the back of the pickup in volumes, and to appreciation of American currencies versus the euro.

Personnel expenses in the first six months of 2010 rose 2.8% from the year-earlier period, to €67.6 million, amounting to 21.9% of consolidated revenue compared to 22.6% in 1H09 thanks to improved productivity and a 3.8% reduction in the Group's average workforce, to 3,773 employees.

In 2Q10, personnel expenses stood at over €34.7 million, 5.6% higher than in the same quarter last year.

Other operating expenses in 1H10 amounted to €88.6 million, 6.7% higher than in 1H09 mostly due to higher costs related to energy consumption (+18.7%) after the second phase of the cogeneration plant in Spain came on stream on July 2009. Stripping out energy costs, other operating expenses were 0.1% lower than in 1H09.

In 2Q10, other operating expenses rose 7.1% year-on-year to €45.5 million.

Higher revenue, efficiency and productivity gains, control over expenses and better exchange rates fed through to a 17.0% year-on-year increase in EBITDA in 1H10 to €76.3 million, leaving a consolidated EBITDA margin of 24.7%, 2.3 p.p. higher than in 1H09.

Consolidated EBITDA rose 21.0% year-on-year in 2Q10 to €40.0 million, driving up the consolidated EBITDA by 2.5 p.p. from 2Q09 to 24.8%.

Accumulated depreciation and amortisation through June 2010 was €19.7 million, a year-on-year increase of 7.4%.

Accordingly, EBIT in 1H10 stood at €56.6 million, 20.7% above the €46.9 million of 1H09 and equivalent to 18.3% of consolidated revenue (+2.2 p.p. vs. 1H09). EBIT growth was even higher in 2Q10, rising 26.1% year-on-year to over €29.9 million.

Net finance loss in 1H10 amounted to -€2.9 million, 32.3% lower than the -€4.2 million of 1H09. The decrease was mainly due to lower finance costs this year (-20.2% vs. 1H09) as a result of the Viscofan Group's low gearing ratio[6] (17.6% vs. 39.9% at 30 June 2009), and smaller foreign exchange losses (-€1.3 million vs. -€1.9 million in 1H09).

1H10 featured the partial return of share premium in the amount of €16.6 million, 23.1% higher than the return in 1H09. Thus, the strength of operating cash flows from both the casings and vegetable food businesses led to a decrease in net financial debt of €22.4 million (-24.7%) from 31 December 2009 to €68.1 million at 30 June 2010.

[3] Constant exchange rate growth: for comparative purposes, growth excluding foreign exchange differences excludes the impact of the various exchange rates applied in the consolidation of financial statements, as well as the impact of USD fluctuations on trade transactions
[4] Cost of consumption = variation in stocks + net purchases
[5] Gross margin = (Revenue – Cost of consumption) / Revenue
[6] Gearing ratio = Net financial debt / Equity

Wider margins and a lower net finance loss drove a 25.8% year-on-year increase in profit before tax in 1H10 to €53.6 million. Profit before tax in 2Q10 rose 25.0% year-on-year to €28.3 million.

With an effective tax rate for 1H10 of 24.4%, 2.6 p.p. below the 27.1% of 1H09, income tax expense totalled €13.1 million (+13.6% vs. 1H09).

Net profit rose 30.3% year-on-year in 1H10 to €40.5 million and 30.7% in 2Q10 vs. 2Q09 to €21.5 million, marking a new quarterly high for the company.

1H10 Results: Casings

In thousand €

	Jan-Jun' 10	Jan-Jun' 09	*Change*	Apr-Jun' 10	Apr-Jun' 09	*Change*
Revenues	262,450	246,836	6.3%	137,453	123,808	11.0%
EBITDA	73,231	63,277	15.7%	38,325	32,059	19.5%
EBITDA margin	*27.9%*	*25.6%*	2.3 p.p.	*27.9%*	*25.9%*	2.0 p.p.
EBIT	54,656	46,132	18.5%	28,885	23,436	23.2%
Net profit	39,271	30,691	28.0%	20,857	16,276	28.2%

Artificial casing market shows clear signs of volume recovery in the year's second quarter, underpinned by higher demand in the world's main markets after a period of stabilisation and faster substitution of gut casings with artificial casings, which afford productivity gains and are more easily adapted to customers' demands.

The Viscofan Group captures this growth with higher volumes on collagen, fibrous and plastic casings. Skinless casings volumes were slightly higher in 2Q10 than 1Q10, but in the first six months as a whole were a touch lower than in the same period last year.

In this environment, casings revenues increased by 3.7% vs. 1H09 excluding the effect of cogeneration sales in Spain. This growth, together with higher electricity sales in Spain (+82.7% vs. 1H09) fuelled by the enlargement of the cogeneration plant in July 2009, led to a division revenue of €262.5 million in the six-month period (+6.3% vs. 1H09). Stripping out the impact of the foreign exchange rates applied in consolidation, net casings revenue rose 2.2% year-on-year in 1H10.

In 2Q10, revenue from the casings division totalled €137.5 million, 10.0% higher than in 1Q10 and 11.0% higher than in 2Q09, boosted by higher sales of electricity in Spain (+102.2% vs. 2Q09) and the higher value of casings sales.

The geographical breakdown of 1H10 revenue for this business shows positive performances by all areas in both current and constant exchange rates:

- In Europe, revenue rose 4.3% year-on-year to €126.0 million.
- In North America, revenue rose 3.6% year-on-year to over €93.9 million.
- In Latin America, revenue rose 20.1% year-on-year boosted by the Brazilian real appreciation (+18.2% vs. 1H09).

Cost of consumption through June rose 1.1% year-on-year to €52.0MM, which implies a gross margin of 80.2% over revenues compared with the 79.2% achieved in 1H09.

2Q10 featured a 15.9% year-on-year increase in cost of consumption, mainly due to the appreciation of American currencies against the Euro and the spike in volumes in 2Q10, whereas unit prices for the main raw materials in the currency of purchase remained broadly unchanged.

The Viscofan Group continues to reap gains from the automation and productivity enhancements made during the course of last year and the early part of 2010, allowing it to reduce headcount by 4.3% to 3,508 employees; personnel expenses rose 2.7% year-on-year in 1H10 to €63.1 million and 5.7% year-on-year in 2Q10 to €32.4 million.

Other operating expenses rose 7.3% in 1H10 vs. 1H09 to €79.1 million and 8.3% in 2Q10 vs. 2Q09 to €40.6 million. The increase this year was largely the result of higher consumption of gas brought by the capacity addition at the cogeneration plant in Spain; excluding energy costs, other operating expenses would have fallen by 0.5% vs. 1H09.

Higher revenue, coupled with control over costs and increased productivity drove a 15.7% year-on-year increase in EBITDA for the casings businesses in 1H10 to €73.2 million and a 19.6% increase in 2Q10 from 2T09 to €38.3 million.

As a result, the EBITDA margin in 2Q10 rose for the seventh straight quarter to 27.9% in 2Q10 (+2.0 p.p. vs. 2Q09). For 1H10, the EBITDA margin advanced 2.3 p.p. year-on-year to 27.9%.

This casings -division's high operational leverage enabled EBIT to climb 18.5% year-on-year in 1H10 to €54.7 million, and by 23.2% year-on-year in 2Q10 to €28.9 million.

In all, the Viscofan Group set a new quarterly record for net profit in its casings division of €20.9 million in 2Q10, up 28.2% from 2Q09, with net profit for 1H10 of €39.3 million (+28.0% vs. 1H09).

1H10 Results: IAN Group

In thousand €

	Jan-Jun' 10	Jan-Jun' 09	*Change*	Apr-Jun' 10	Apr-Jun' 09	*Change*
Revenues	46,040	44,160	4.3%	23,736	24,209	-2.0%
EBITDA	3,054	1,948	56.7%	1,663	982	69.4%
EBITDA margin	*6.6%*	*4.4%*	2.2 p.p.	*7.0%*	*4.1%*	3.0 p.p.
EBIT	1,913	742	157.7%	1,050	304	245.1%
Net profit	1,246	403	209.0%	672	191	251.5%

Revenue in the first six months of 2010 in the vegetable food division amounted to €46.0 million, an increase of 4.3% on the year-ago figure. Driving growth were large increases in sales of tomato products and olives in the year's first quarter, thanks to the special promotions carried out, and the jump in olive exports. Performance was more moderate in 2Q10, after the promotions ended.

Revenue in 2Q10 totalled €23.7 million, 6.4% higher than in 1Q10 but 2.0% lower than in 2Q09 as a result of the strong promotional efforts made in the asparagus division in June last year, which led to a sharp increase in IAN Group's sales in 2Q09.

Meanwhile, cost of consumption in the first six months this year amounted to €28.9 million (+0.4% vs. 1H09), leaving a gross margin of 37.2%, 2.4 p.p. higher than in 1H09. While the gross margin for the vegetable food division fared well in the first six months of the year, asparagus prices at source look set to rise as a result of the 2010 harvest, which would squeeze the gross margin in the second half of 2010.

The improvement in the 2Q10 gross margin (+4.1 p.p.), alongside the IAN Group's austerity and cost control policy, helped raise the EBITDA margin by 2.9 p.p. year-on-year in the quarter to 7.0%, its highest quarterly margin since 4Q08. The EBITDA margin through June widened 2.2 p.p. to 6.6%.

EBITDA totalled €1.7 million in 2Q10 (+69.3% vs. 2Q09) and €3.1 million in 1H10 (+56.7% vs. 1H09).

Margin expansion fed through to EBIT in the first half this year, which totalled €1.9 million, marking a 2.6x increase on the 1H09 figure.

This improvement at operating level, with lower financial costs resulting from the reduction in debt (-87.2% vs. 1H09), led to cumulative net profit for this division through June 2010 of €1.2 million, triple the bottom-line delivered in the first half of last year.

Risks and uncertainty

The Viscofan Group produced higher revenues in a period of high volatility and uncertainty and is well placed to take advantage of market increases in its main businesses. However, it must be remembered that due to the nature of its transactions, the Group is exposed to various operational, financial, and economic risks. The Group manages risk according to the policies approved by the Board of Directors.

Among the specific risks worthy of particular note are less favourable exchange rates; increases in production factor costs, such as energy and raw material prices; or worse market conditions due to the global economic crisis, the sector's competitive environment, a reduction in the customer base and higher customer default, or a food crisis.

APPENDICES

Highlights

- On June 2010, the following resolutions, among others, were adopted at the General Shareholders' Meeting:

    - To approve the balance sheet, income statement, explanatory notes, the management report and management's performance in the year ended 31 December 2009 of Viscofan, S.A., as well as the consolidated statement of financial position, the consolidated comprehensive income statement, the consolidated statement of total changes in equity, the consolidated cash flow statement, the notes to the consolidated financial statements, the management report and management's performance for the year ended 31 December 2009 of the Viscofan Group, of which Viscofan, S.A. is the parent.

    - To approve the appropriation, with a charge to 2009 profit of Viscofan, S.A., of €12,116,957.32 to the payment of dividends and €27,179,019.57 to voluntary reserves. It was therefore approved to declare the €0.260 per share dividend paid on 22 December 2009 as the sole dividend charged against 2009 profit.

    - To approve the partial return of share premium in the amount of €0.357 per share, representing a total of €16,637,514.47, effective for shareholders from 23 June 2010.

    - To approve the appointments of Ignacio Marco-Gardoqui Ibáñez and Laura González Molero, for a period of six years following the date of the resolution, as independent directors, in substitution of Jaime Echevarría Abona and Iñigo Solaun Garteiz-Goxeascoa, respectively, who tendered their resignations with effect from 31 December 2009.

Consolidated balance sheets ('000 €)

	Jun '10	Dec '09	Change
Intangible assets	18,005	14,342	25.5%
Goodwill	0	0	n.s.
Others intangible asset	18,005	14,342	25.5%
Tangible assets	295,125	289,105	2.1%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	1,470	1,333	10.3%
Non-current financial assets	515	507	1.6%
Deferred tax assets	8,089	8,051	0.5%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	**323,203**	**313,338**	**3.1%**
Non-current assets held for sale	0	0	n.s.
Inventories	160,211	150,045	6.8%
Trade and other receivables	136,801	123,796	10.5%
Trade debtors	122,478	105,437	16.2%
Other debtors	11,490	18,215	-36.9%
Current tax assets	2,832	144	1866.8%
Other financial current assets	4,084	3,000	36.1%
Other current assets	5,782	47	12201.8%
Cash and cash equivalents	63,438	25,763	146.2%
CURRENT ASSETS	**370,315**	**302,651**	**22.4%**
TOTAL ASSETS= EQUITY AND LIABILITIES	**693,518**	**615,989**	**12.6%**
Share capital	13,981	13,981	0.0%
Share issue premium	12	16,650	-99.9%
Reserves	317,315	267,318	18.7%
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	40,517	64,259	-36.9%
Less: Interim dividend	0	-12,117	n.s.
Other equity instruments	0	0	n.s.
SHAREHOLDER'S FUNDS	**371,826**	**350,091**	**6.2%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	-2,913	788	c.s.
Currency translation differences	17,591	-5,673	c.s.
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**14,677**	**-4,885**	c.s.
SHAREHOLDERS' EQUITY	**386,503**	**345,206**	**12.0%**
Minority interest	0	0	n.s.
EQUITY	**386,503**	**345,206**	**12.0%**
Grants	3,914	2,998	30.6%
Non-current provision	38,252	37,213	2.8%
Non-current financial liabilities	55,592	51,248	8.5%
Financial debt	48,867	46,241	5.7%
Other financial liabilities	6,724	5,007	34.3%
Deferred tax liabilities	25,535	25,252	1.1%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	**123,293**	**116,711**	**5.6%**
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	9,448	7,855	20.3%
Current financial liabilities	95,728	73,484	30.3%
Financial debt	82,692	70,042	18.1%
Other financial liabilities	13,036	3,442	278.7%
Trade creditor and other payable accounts	78,543	72,733	8.0%
Trade creditors	52,341	48,162	8.7%
Other creditors	21,900	24,031	-8.9%
Current tax liabilities	4,302	540	696.6%
Other current liabilities	4	0	n.s.
CURRENT LIABILITIES	**183,722**	**154,072**	**19.2%**
NET DEBT	**68,121**	**90,520**	**-24.7%**

Cash flow statments ('000 €)

	Jan-Jun' 10	Jan-Jun 09	Change
Cash flows from operating activities	**64,060**	**44,324**	**44.5%**
Profit for the year before tax	**53,616**	**42,630**	**25.8%**
Adjustments in results	**22,118**	**20,000**	**10.6%**
Amortisation and depreciation	19,716	18,352	7.4%
Others adjustments in results(net)	2,402	1,648	45.8%
Changes in working capital	**-11,560**	**-17,413**	**-33.6%**
Other cash flows from operating activities	**-115**	**-893**	**-87.2%**
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	-115	-893	-87.2%
Proceeds/(payments) from operating activities	0	0	n.s.
Cash flows from investing activities	**-15,755**	**-21,006**	**-25.0%**
Investment payments	**-16,012**	**-22,247**	**-28.0%**
Group companies, associated & business units	0	-284	n.s.
Acquisition of property, plant and equipment and intangible assets	-16,008	-21,957	-27.1%
Other financial assets	-4	-6	-32.7%
Other assets	0	0	n.s.
Cash from disposals	**258**	**962**	**-73.2%**
Group companies, associated & business units	0	0	n.s.
Disposal of property, plant and equipment and intangible assets	220	962	-77.1%
Other financial assets	38	0	n.s.
Other assets	0	0	n.s.
Other cash flows from investing activities	**0**	**279**	**n.s.**
Dividends received	0	0	n.s.
Interest paid	0	279	n.s.
Proceeds/(Payments) from others investings activities.	0	0	n.s.
Cash flows from financing activities	**-10,150**	**-23,638**	**-57.1%**
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	**10,235**	**4,770**	**114.6%**
Proceeds from issue of financial liabilities instruments	23,326	20,149	15.8%
Refund, cancellation and payments	-13,091	-15,379	-14.9%
Dividends paid and others payments from others equities instruments	**-16,638**	**-23,069**	**-27.9%**
Others cash flows from financing activities	**-3,747**	**-5,339**	**-29.8%**
Interest paid	-2,111	-2,641	-20.1%
Others proceeds /(payments) from financing activities	-1,636	-2,698	-39.4%
Effect of foreign exchange rate changes on collections and payments	**-482**	**-765**	**-37.0%**
Net increase (decrease) in cash and cash equivalents	**37,674**	**-1,085**	**c.s.**
Cash and cash equivalents at the begining of the period	**25,763**	**14,014**	**83.8%**
Cash and cash equivalent at the end of the period	**63,438**	**12,929**	**390.7%**

Average exchange rates (Currency/€)

	1H10	1H09	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.329	1.332	-0.3%
Canadian Dollar	1.374	1.605	-14.4%
Mexican Peso	16.834	18.422	-8.6%
Brazilian real	2.387	2.917	-18.2%
Czech crown	25.738	27.148	-5.2%
British Pound	0.870	0.894	-2.7%
Polish Zloty	4.003	4.470	-10.4%
Serbian Dinar	99.931	93.892	6.4%

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