Viscofan

January – September 2010 Results



27 October 2010

Interim management report

Main Highlights of January - September 2010 Results

- 28% year-on-year growth in net profit to €61.2 million.
- 21% year-on-year consolidated EBITDA[1] growth to €117.7 million.
- 2.7 p.p. year-on-year increase in the consolidated EBITDA margin to 24.8%, with improvement in both the casings (2.5 p.p.) and vegetable food (2.2 p.p.) divisions.
- 8% increase in consolidated revenue to €474.1 million, driven by higher volumes across the entire casings technologies.
- 51.9% reduction in net debt[2] vs. December 2009 to robust operating performance.

9M10 Consolidated Results

Viscofan Group consolidated income statement ('000 €)

	Jan-Sep' 10	Jan-Sep' 09	*Change*	Jul-Sep' 10	Jul-Sep' 09	*Change*
Revenue	474,093	439,370	7.9%	165,603	148,374	11.6%
EBITDA	117,701	97,194	21.1%	41,416	31,968	29.6%
EBITDA margin	*24.8%*	*22.1%*	2.7 p.p.	*25.0%*	*21.5%*	3.5 p.p.
EBIT	87,906	69,340	26.8%	31,337	22,466	39.5%
Net profit	61,246	47,823	28.1%	20,729	16,729	23.9%

Revenue to 30 September continues to improve, advancing 7.9% on the year ago figure to €474.1 million. This accelerated growth is due to the strong growth enjoyed by the casings division (+8.7% vs. 9M09) and the positive performance of the vegetable food division (+3.6% vs. 9M09).

Stripping out the exchange rate effect[3], consolidated revenue through to September also accelerated posting a 3.2% growth vs. 9M09 compared to the 2.5% year-on-year increase seen in 1H10.

Record quarterly revenue of €165.6 million was booked in the third quarter despite the seasonality of this quarter due to the summer period in the Northern Hemisphere and production stoppages at our main customers. This figure is 11.6% higher than in 3Q09 and was driven by the 13.4% year-on-year growth enjoyed by the casings division and the positive contribution of growth in the vegetable food division (+2.4% in 3Q10 vs. 3Q09).

Cost of consumption[4] advanced 1.2% vs. 9M09 to €127.8 million and 1.8% vs. 3Q09. The y-o-y increase in the cost of consumption, both cumulative and quarterly, in the casings division (+3.0% vs. 9M09) was partially offset by the decline at the vegetable food division (-2.1% vs. 9M09). Operational gearing at the

[1] EBITDA = Earnings before interest, taxes, depreciation and amortisation
[2] Net financial debt = Non-current financial debt + Current financial debt – Cash and cash equivalents.
[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 US$ fluctuations on trade transactions
[4] Cost of consumption = change in inventories + net purchases

Viscofan Group has meant that increased sales have triggered a 1.8 p.p improvement in the gross margin [5] vs. 9M09 to 73.0% and a 2.7 p.p. improvement in 3Q10 to 71.6%.

Personnel expenses in the first nine months rose 3.2% year-on-year to €101.7 million, amounting to 21.5% of consolidated revenue compared to 22.4% in 9M09. Improvements in productivity rolled out in recent years have helped combine the need for fewer personnel (-3.2% vs. 9M09) with greater output and higher sales volume.

In 3Q10 personnel expenses stood at €34.1 million, 4.1% higher than in 3Q09.

Energy costs to 30 September rose 17.9% vs. the previous year thanks to greater cogeneration capacity. In 9M10 other operating expenses rose 9.2% year-on-year to €133.6 million.

In 3Q10, other operating expenses rose 14.6% year-on-year to €45.0 million.

Consolidated EBITDA rose 21.1% year-on-year in 3Q10 to €117.7 million, thanks to higher sales volume and operating gearing as productivity improvements were carried out with lower workforce structure.

Stripping out the exchange rate effect, EBITDA through to September was up 15.1% compared to 9M09.

Consolidated EBITDA advanced 29.6% in 3Q10 to €41.4 million.

With a 3.5 p.p. widening of the EBITDA margin (25.0% in 3Q10 vs. 21.5% in 3Q09), this is the eighth consecutive quarter that the Viscofan Group's EBITDA margin has improved year-on-year and puts the consolidated EBITDA margin to 30 September at 24.8% (+2.7 p.p. vs. 9M09).

Accumulated depreciation and amortization through September 2010 rose 7.0% vs. 9M09 to €29.8 million.

EBIT totalled €87.9 for the first nine months of the year (+26.8% vs. 9M09) and €31.3 million in the third quarter (+39.5% vs. 3Q09).

The strength of operating cash flows helped bring down net debt sharply to €43.6 million (-56.8% vs. 9M09) at 30 September, putting the Group's financial leverage[6] at 10.9% vs. 29.6% at 31 December 2009.

Lower financial debt meant a 17.8% reduction in consolidated finance costs. Nevertheless, net finance loss grew by 19.0% year-on-year at 30 September to -€5.9 million compared to -€4.9 million in 9M09 due to greater exchange rate differences (+134.9% vs. 9M09) as a consequence of forex volatility in the last quarter of the current year.

Significantly wider margins every quarter, helped boost profit before tax to €82.0 million in 9M10 (+27.4% vs. 9M09) and €28.4 million in 3Q10 (+30.6% vs. 3Q09).

With an effective tax rate for 9M10 of 25.3%, 0.4 p.p. below the year earlier figure, income tax expense totalled €20.8 million (+25.5% vs. 9M09).

As a consequence, Net profit rose 28.1% year-on-year in 9M10 to €61.2 million and 23.9% in 3Q10 to €20.7 million.

[5] Gross margin = (Revenue – Cost of consumption) / Revenue
[6] Financial leverage = Net financial debt / Equity

9M10 Results: Casings

In thousand €

	Jan-Sep' 10	Jan-Sep' 09	*Change*	Jul-Sep' 10	Jul-Sep' 09	*Change*
Revenue	402.977	370.725	8,7%	140.527	123.889	13,4%
EBITDA	112.186	93.853	19,5%	38.955	30.575	27,4%
EBITDA margin	*27,8%*	*25,3%*	2,5 p.p.	*27,7%*	*24,7%*	3,0 p.p.
EBIT	84.431	68.191	23,8%	29.774	22.059	35,0%
Net profit	58.748	47.053	24,9%	19.477	16.362	19,0%

The artificial casings market confirm its recovery trend in the third quarter, with record sales volumes in the quarter which is usually affected by lower commercial activity due to the summer period in the Northern Hemisphere.

Therefore, 9M10 volumes for all artificial casings, cellulose, collagen, fibrous and plastic, were higher than for the same period in 2009.

Higher sales volumes, strong energy sales in Spain (+68.0% vs. 9M09) from the enlargement of the cogeneration plant in July 2009 and a strong dollar and Brazilian real, helped boost revenues which advanced 8.7% to €403.0 million to 30 September.

This acceleration in the year-on-year growth was driven by strong revenues in the casings division which, stripping out revenues from cogeneration in Spain, rose 11.7% in 3Q10 vs. 3Q09 and 6.4% in 9M10 vs. 9M09.

Excluding the impact of the foreign exchange rates applied in consolidation, net casings revenues rose 3.1% year-on-year (+2.2% in 1H10 vs. 1H09).

In 3Q10, casings revenues totalled €140.5 million, 13.4% higher than 3Q09 and 2.2% higher than 2Q10 despite the seasonality effect.

The geographical breakdown of revenue[7] for this business shows positive performances by all areas in both current and constant exchange rates:

- In Europe, revenue rose 5.4% year-on-year to €191.0 million.
- In North America, revenue increased 6.9% year-on-year to €144.6 million.
- In Latin America, appreciation by the Brazilian real (+17.3% vs. 9M09) and the rebound in volumes in the region drove a 24.1% increase in revenue vs. 9M09.

In order to respond to the strong rebound in volumes, particularly in emerging markets, and in a bid to offer customers a better service, the Viscofan Group is anticipating capacity expansion plans for a value of €10 million this year.

Cost of consumption through September rose 3.0% year-on-year to €85.2 million, which implies a gross margin of 78.8% over revenues compared with the 77.7% achieved in 9M09.

The third quarter featured a 6.0% year-on-year increase in the cost of consumption, mainly due to higher sales volumes.

[7] Revenue per origino f sales

The ongoing quest for efficiencies, and the gains reaped from the automation and productivity enhancements made in recent years, has allowed the Group to reduce the average workforce in the casings division by 3.8% to 3,515 employees. Personnel expenses to 30 September rose 3.2% to €94.3 million vs. 9M09 while in the quarter these were 4.1% higher at €31.2 million.

Other operating expenses rose 10.0% in 9M10 vs. 9M09 to €117.9 million, on the back of higher energy costs (+18.5% vs. 9M09) as a result of higher gas consumption from the capacity addition at the cogeneration plant in Spain (July 2009). Excluding energy costs, other operating expenses would have risen 3.9% vs. 9M09.

Higher sales volumes and better operating efficiency ratios drove a 19.5% year-on-year increase in EBITDA in 9M10 to €112.2 million while in 3Q10 growth was even higher, advancing 27.4% to €39.0 million.

In 3Q10 the EBITDA margin rose yet again to 27.7% (+3.0 p.p. vs. 3Q09), putting the EBITDA margin at 30 September at 27.8% (+2.5 p.p. year-on-year).

EBIT at 30 September advanced 23.8% to €84.4 million, boosted by strong margin growth, while the quarterly figure totalled €29.8 million, 35.0% higher.

As a consequence, net profit in the casings division in 9M10 advanced 24.9% to over €58.7 million, of this amount €19.5 million was generated in the third quarter (+19.0% vs. 3Q09).

9M10 Results: IAN Group

In thousand €

	Jan-Sep' 10	Jan-Sep' 09	*Change*	Jul-Sep' 10	Jul-Sep' 09	*Change*
Revenue	71.116	68.646	3,6%	25.076	24.485	2,4%
EBITDA	5.515	3.341	65,1%	2.461	1.393	76,7%
EBITDA margin	*7,8%*	*4,9%*	2,9 p.p.	*9,8%*	*5,7%*	4,1 p.p.
EBIT	3.476	1.150	202,3%	1.563	407	283,7%
Net profit	2.498	770	224,2%	1.252	367	240,9%

Product diversification at the IAN Group enabled the group to capture the growth in some vegetable food families, mainly tomato products and olives. Thanks to this, revenue advanced 2.4% year-on-year in 3Q10 to €25.1 million and 3.6% in 9M10 to €71.1 million.

Strong revenue, the Group's disciplined sales strategy and lower cost of consumption (-2.1% vs. 9M09) triggered a 3.5 p.p. increase in the gross margin to 30 September to 40.1%.

The strong gross margin was accompanied by strict cost control which drove the EBITDA margin 4.1 p.p. and 2.9 p.p. wider vs. 3Q09 and 9M09 to 9.8% and 7.8% respectively. This confirms the trend seen in previous quarters.

EBITDA totalled €2.5 million in 3Q10 (+76.7% vs. 3Q09) and €5.5 million to 30 September (+65.1% vs. 9M09). This meant that EBITDA for the first nine months of the year at the IAN Group was higher than for the whole of 2009.

EBIT at 30 September soared 202.3% to €3.5 million vs. 9M09 thanks to better operating margins.

This operating improvement brought positive cash flows which continue to reduce the IAN Group's net debt, triggering a lower finance cost (-59.6% vs. 9M09) and higher net profit of €2.5 million, up 224.4%.

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

Significant events

- 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.

- In September 2010 the Viscofan Technology (Suzhou) Co. Ltd. In China was inaugurated. Staff training and trial production have begun in order for the factory to be operational in the first quarter of 2011.

Viscofan Group Profit and loss account ('000 €)

	Jan-Sep' 10	Jan-Sep' 09	*Change*	Jul-Sep' 10	Jul-Sep' 09	*Change*
Revenues	**474,093**	**439,370**	**7.9%**	**165,603**	**148,374**	**11.6%**
Other operating income	5,915	4,560	29.7%	1,721	1,680	2.4%
Self-constructed assets	751	92	716.6%	59	23	154.7%
Variation in stocks of finished products and work-in-progress	-12,688	4,384	c.s	-1,518	1,004	c.s
Net purchases	-115,125	-130,659	-11.9%	-45,440	-47,110	-3.5%
Personnel expenses	-101,695	-98,532	3.2%	-34,065	-32,737	4.1%
Other operating expenses	-133,581	-122,294	9.2%	-44,971	-39,254	14.6%
Capital grants	269	264	1.9%	89	90	-1.2%
Impairment and results coming from disposals of non-curren	-237	8	c.s	-63	-103	-38.3%
Other results	0	0	n.s.	0	0	n.s.
EBITDA	**117,701**	**97,194**	**21.1%**	**41,416**	**31,968**	**29.6%**
EBITDA margin	*24.8%*	*22.1%*	*2.7 p.p.*	*25.0%*	*21.5%*	*3.5 p.p.*
Amortization and depreciation	-29,795	-27,854	7.0%	-10,079	-9,502	6.1%
EBIT	**87,906**	**69,340**	**26.8%**	**31,337**	**22,466**	**39.5%**
EBIT margin	*18.5%*	*15.8%*	*2.8 p.p.*	*18.9%*	*15.1%*	*3.8 p.p.*
Financial incomes	963	377	155.6%	395	98	303.2%
Financial expenditures	-3,035	-3,693	-17.8%	-923	-1,046	-11.7%
Changes in reasonable value of financial instruments	0	0	n.s.	0	0	n.s.
Exchange differences	-3,798	-1,617	134.9%	-2,466	260	c.s
Impairment and results coming from disposals of financials assets	0	0	n.s.	0	0	n.s.
Financial results	**-5,869**	**-4,932**	**19.0%**	**-2,995**	**-688**	**335.0%**
Profit from associated companies	0	-17	-100.0%	79	-17	c.s
Profit before taxes	**82,037**	**64,391**	**27.4%**	**28,421**	**21,761**	**30.6%**
Taxes	-20,791	-16,568	25.5%	-7,692	-5,032	52.8%
Profit after taxes	**61,246**	**47,823**	**28.1%**	**20,729**	**16,729**	**23.9%**
Minority interest	0	0	n.s.	0	0	n.s.
Net profit	**61,246**	**47,823**	**28.1%**	**20,729**	**16,729**	**23.9%**

Consolidated balance sheets ('000 €)

	Sep '10	Dec '09	*Change*
Intangible assets	16,587	14,342	15.7%
Goodwill	0	0	n.s.
Others intangible asset	16,587	14,342	15.7%
Tangible assets	288,627	289,105	-0.2%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	1,434	1,333	7.6%
Non-current financial assets	472	507	-6.8%
Deferred tax assets	7,424	8,051	-7.8%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	**314,544**	**313,338**	**0.4%**
Non-current assets held for sale	0	0	n.s.
Inventories	153,332	150,045	2.2%
Trade and other receivables	134,390	123,796	8.6%
Trade debtors	119,613	105,437	13.4%
Other debtors	11,168	18,215	-38.7%
Current tax assets	3,609	144	2406.3%
Other financial current assets	3,054	3,000	1.8%
Other current assets	4,155	47	8740.9%
Cash and cash equivalents	79,955	25,763	210.3%
CURRENT ASSETS	**374,886**	**302,651**	**23.9%**
TOTAL ASSETS= EQUITY AND LIABILITIES	**689,431**	**615,989**	**11.9%**
Share capital	13,981	13,981	0.0%
Share issue premium	12	16,650	-99.9%
Reserves	317,777	267,318	18.9%
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	61,246	64,259	-4.7%
Less: Interim dividend	0	-12,117	n.s.
Other equity instruments	0	0	n.s.
SHAREHOLDER´S FUNDS	**393,017**	**350,091**	**12.3%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	-252	788	c.s.
Currency translation differences	6,135	-5,673	c.s.
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**5,884**	**-4,885**	c.s.
SHAREHOLDERS' EQUITY	**398,900**	**345,206**	**15.6%**
Minority interest	0	0	n.s.
EQUITY	**398,900**	**345,206**	**15.6%**
Grants	4,440	2,998	48.1%
Non-current provision	36,401	37,213	-2.2%
Non-current financial liabilities	51,344	51,248	0.2%
Financial debt	45,165	46,241	-2.3%
Other financial liabilities	6,179	5,007	23.4%
Deferred tax liabilities	24,053	25,252	-4.7%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	**116,237**	**116,711**	**-0.4%**
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	6,777	7,855	-13.7%
Current financial liabilities	85,975	73,484	17.0%
Financial debt	78,355	70,042	11.9%
Other financial liabilities	7,620	3,442	121.4%
Trade creditor and other payable accounts	81,535	72,733	12.1%
Trade creditors	57,100	48,162	18.6%
Other creditors	18,420	24,031	-23.3%
Current tax liabilities	6,015	540	1013.8%
Other current liabilities	6	0	n.s.
CURRENT LIABILITIES	**174,293**	**154,072**	**13.1%**
NET DEBT	**43,566**	**90,520**	**-51.9%**

Average exchange rates (Currency/€)

	9M10	9M09	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.316	1.365	-3.6%
Canadian Dollar	1.363	1.594	-14.5%
Mexican Peso	16.730	18.525	-9.7%
Brazilian real	2.344	2.834	-17.3%
Czech crown	25.468	26.630	-4.4%
British Pound	0.858	0.887	-3.2%
Polish Zloty	4.005	4.378	-8.5%
Serbian Dinar	101.670	93.675	8.5%
Chinesse yuan remminbi	8.959	9.340	-4.1%

For further information please contact to:

Investor relations and Communications
Tfno: + 34 948 198436
e-mail: aresa@viscofan.com

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