Viscofan

January – March 2011 Results



10th March 2011

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Interim management report

Main highlights of the January-March 2011 results

- 15% year-on-year growth in net profit to €21.9 million
- 8% year-on-year consolidated EBITDA[1] growth to €39.1 million
- 0.3p.p. year-on-year increase in the consolidated EBITDA margin to 24.9%, driven by the improvement in the casings division (EBITDA margin: 28.2%).
- 7% growth in consolidated revenue to €157.2 million, extending the healthy pace of volume growth across the entire casings range
- Further 4% reduction in net bank debt[2] on the year-end 2010 balance to €57.7 million, enabled by robust operating profits

Consolidated 1Q11 results

Viscofan Group consolidated income statement ('000 €)

	Jan-Mar' 11	Jan-Mar' 10	*Change*
Revenue	157,182	147,300	6.7%
EBITDA	39,145	36,296	7.8%
EBITDA margin	*24.9%*	*24.6%*	0.3 p.p.
EBIT	29,249	26,633	9.8%
Net profit	21,886	18,986	15.3%

Viscofan Group revenue rose 6.7% on the first quarter of 2010 to €157.2 million, driven by strong performances in both the casings division (+7.0%) and the vegetable food business (+5.2%).

Stripping out the exchange rate effect[3], consolidated revenue growth was 4.0% vs. 1Q11.

Cost of consumption[4] rose 7.4% year-on-year in 1Q11 to €39.2 million as a result of an increase in unit raw material costs in both the casings and vegetable food divisions.

The average headcount stood at 3,852, 1.5% more than at the 1Q10 close, due to the start-up of the converting factory in China and higher non-edible collagen production capacity in Serbia. As a result, first-quarter personnel expense rose 5.9% to €34.9 million.

Other operating expenses climbed 5.9% higher year-on-year to €45.7 million, driven by growth of 7.2% in energy costs.

[1] EBITDA = Earnings before interest, taxes, depreciation and amortisation
[2] Net bank debt = Non-current borrowings + current borrowings – 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

The volume-led revenue growth, coupled with control over expenditure despite the inflationary environment, particularly with respect to raw material and energy costs, widened the EBITDA margin 0.3p.p. vs. 1Q10 to 24.9%. Accordingly, consolidated first-quarter EBITDA at the Viscofan Group rose 7.8% on 1Q10 to €39.1 million.

Stripping out the exchange rate effect, EBITDA growth was 6.9% compared to 1Q10.

Depreciation and amortisation charges amounted to €9.9 million (+2.4% vs. 1Q10), leaving EBIT at €29.2 million, representing year-on-year growth of 9.8%.

Net financial losses, at €0.2 million, fell 83.3%, thanks to the trend in exchange differences (a slight gain in 1Q11 compared to a net loss of €0.4 million in 1Q10), higher interest income and lower interest expense on the back of lower average bank debt.

Net bank debt declined by 3.6% from year-end 2010 and by 13.5% compared to the 1Q10 close, to €57.7 million. In all, the Viscofan Group's financial leverage[6] fell to 13.6%, down from 14.7% at the end of 2010.

Profit before tax rose 14.4% to €29.0 million. Tax expense, meanwhile, was €7.1 million (+11.8% vs. 1Q10), implying an effective tax rate of 24.5%.

As a result, first-quarter net profit rose 15.3% to €21.9 million.

1Q11 results: casings

(€, 000)

	Jan-Mar' 11	Jan-Mar' 10	*Change*
Revenue	**133,721**	**124,997**	**7.0%**
EBITDA	**37,722**	**34,907**	**8.1%**
EBITDA margin	***28.2%***	***27.9%***	**0.3 p.p.**
EBIT	**28,455**	**25,773**	**10.4%**
Net profit	**21,323**	**18,415**	**15.8%**

The casings market extended the healthy performance posted last year. Against this backdrop, since the second half of 2010, the Viscofan Group has been increasing capacity in several casings families, primarily collagen and fibrous casings. This capacity will be brought on stream during 2H11.

Revenue in the casings division rose 7.0% year-on-year to €133.7 million. Of this, revenue from cogeneration in Spain and North America amounted to €10.0 million (+2.3% vs. 1Q10), while revenue from sales of casings totalled €123.7 million (+7.4% vs. 1Q10), driven by growth in sales volumes of all casing product families (cellulose, collagen, fibrous and plastic), most notably in Asia and Latin America.

Stripping out the impact of the foreign exchange rates applied in consolidation, revenue in the casings division increased 3.8%.

The geographical breakdown of revenue[7] for the quarter was as follows:

- In Europe and Asia, revenue rose 11.4% on 1Q10 to €67.1 million.
- In North America, revenue declined 1.8% to €44.4 million.
- In Latin America, revenue rose 13.7% year-on-year to €22.2 million.

Production at the converting plant for the Chinese market started up in February 2011, following completion of the necessary productive learning process, as a result of which the volumes of waste incurred in 4Q10 were reduced. Shaped by this, cost of consumption rose 8.2% year-on-year in 1Q11 to

[6] Financial leverage = Net debt / equity
[7] Revenue by origin of sales

€24.3 million as a result of higher sales volumes, coupled with an increase in unit raw material costs, particularly those of cellulose derivatives, to leave the gross profit margin at 81.8% (vs. 82.0% in 1Q10).

Personnel costs amounted to €32.4 million in 1Q11, 5.6% higher than in 1Q10. Together with the higher activity in China and Serbia, linked with new production capacity in both countries, Viscofan's Group keeps it strategy to raise the productivity and competitiveness of its human resources, it is worth highlighting the collective agreement reached covering its personnel in Spain through 2014. This agreement includes, among other aspects, salary increases in line with real CPI during the first three years of the agreement and at CPI plus 25 basis points thereafter; in turn, in an attempt to boost the Group's competitive positioning, it was agreed to extend working hours by 16 hours (+0.9%).

Other operating expenses rose 5.9% vs. 1Q10 to €40.7 million, including the 7.6% growth in energy costs which were partially offset by control over other items of expenditure.

Revenue growth, together with control over expenditure in an inflationary environment, particularly with respect to raw material and energy costs, enabled continued margin expansion: EBITDA margin widened by 0.3 p.p. vs. 1Q10 to 28.2%. As a result, EBITDA rose 8.1% year-on-year to €37.7 million in 1Q11.

Depreciation and amortisation charges amounted to €9.3 million (+1.5% vs. 1Q10), to leave EBIT at €28.5 million, representing year-on-year growth of 10.4%.

First-quarter net profit in the casings division rose 15.8% year-on-year to €21.3 million.

1Q11 results: IAN Group

(€, 000)

	Jan-Mar' 11	Jan-Mar' 10	*Change*
Revenue	23,461	22,304	5.2%
EBITDA	1,423	1,391	2.3%
EBITDA margin	*6.1%*	*6.2%*	-0.1 p.p.
EBIT	795	863	-7.9%
Net profit	565	574	-1.6%

The IAN Group continued to display its strong positioning in the Spanish market, obtaining in highly competitive environment revenues of €23.5 million, and registering year-on-year revenue growth of 5.2%.

This revenue increase was led by growth of 70% in the ready-meal segment, where Carretilla is positioned as a sector leader, coupled with growth in sales of olives and solid sales of tomato products, offsetting the decline in sales of asparaguses.

Thanks to this revenue growth, the IAN Group partially mitigated the increase in unit raw material costs, paving the way for quarterly EBITDA growth of 2.3% to €1.4 million, although the EBITDA margin declined by 0.1p.p. year-on-year to 6.1%.

First-quarter net profit in the vegetable foods division fell by 1.6% year-on-year to €0.6 million.

Description of risks and uncertainties

The Viscofan Group strengthened its results during a period of great volatility and uncertainty, and is well prepared to benefit from market growth in its main businesses. However, it should be recalled that due to the nature of its operations, the Group's businesses are exposed to various operating, financial and strategic risks. The Group manages risk on the basis of policies approved by the Board of Directors.

Specific risks include a weakening of exchange rates, increased costs of production inputs including raw materials and energy prices, and a deterioration in market conditions as a result of the global economic situation.

APPENDICES

Significant events

- In April 2011, the following resolutions, among others, were adopted at the General Shareholders' Meeting:

  - To approve the balance sheet, income statement, cash flow statement, statement of changes in equity, explanatory notes, the management report, including the annual corporate governance report for the year ended 31 December 2010 of Viscofan, S.A., as well as the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity, the notes to the consolidated financial statements, the management report and management's performance for the year ended 31 December 2010 of the Viscofan Group, of which Viscofan, S.A. is the parent.

  - To approve the appropriation, with a charge to 2010 profit of Viscofan, S.A., of €23,488,255.73 to the payment of dividends and €39,491,243.63 to voluntary reserves. It was therefore approved to declare a final dividend of €0.204 per share for a total payout of €9,507,151.13, paid last 5 May 2011.

  - To decrease share capital by €13,515,067.78 by reducing the unit par value of the Company's shares from €0.30 to €0.01, in order to partially return capital to shareholders, thereby amending article 5 of the bylaws. The difference of €0.29 per share will be returned to shareholders once all legal requirements related to the capital reduction resolution have been fulfilled, within a maximum term of six months from date of publication of the last announcement regarding the reduction resolution.

  - To increase the Company's share capital by €32,156,540.58 through an increase in the unit par value of its shares by €0.69, from €0.01 to €0.70 per share. The capital increase does not entail any contributions by shareholders, as it will be charged against the Company's reserves, as recognised on the 31 December 2010 balance sheet, approved earlier at the same General Meeting. The capital increase will be undertaken following the capital reduction approved under the previous Agenda item, so that the shareholders agreed to empower the Company's directors to execute the increase within a maximum term of one year from when the resolution was ratified.

Viscofan Group Profit and loss account ('000 €)

	Jan-Mar' 11	Jan-Mar' 10	*Change*
Revenues	**157,182**	**147,300**	**6.7%**
Other operating income	1,554	935	66.2%
Self-constructed assets	61	609	-90.0%
Variation in stocks of finished products and work-in-progress	114	-10,328	c.s
Net purchases	-39,339	-26,188	50.2%
Personnel expenses	-34,857	-32,920	5.9%
Other operating expenses	-45,665	-43,110	5.9%
Capital grants	114	90	26.7%
Impairment and results coming from disposals of non-curren	-19	-92	-79.3%
Other results	0	0	n.s.
EBITDA	**39,145**	**36,296**	**7.8%**
EBITDA margin	*24.9%*	*24.6%*	*0.3 p.p.*
Amortization and depreciation	-9,896	-9,663	2.4%
EBIT	**29,249**	**26,633**	**9.8%**
EBIT margin	*18.6%*	*18.1%*	*0.5 p.p.*
Financial incomes	684	174	293.1%
Financial expenditures	-911	-1,025	-11.1%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	16	-412	c.s
Impairment and results coming from disposals of financials assets	0	0	n.s.
Financial results	**-211**	**-1,263**	**-83.3%**
Profit from associated companies	-41	-26	57.7%
Profit before taxes	**28,997**	**25,344**	**14.4%**
Taxes	-7,111	-6,358	11.8%
Profit after taxes	**21,886**	**18,986**	**15.3%**
Minority interest	0	0	n.s.
Net profit	**21,886**	**18,986**	**15.3%**

Consolidated balance sheets ('000 €)

	Mar '11	Dec '10	*Change*
Intangible assets	16,044	16,918	-5.2%
Goodwill	0	0	n.s.
Others intangible asset	16,044	16,918	-5.2%
Tangible assets	301,099	300,301	0.3%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	1,448	1,565	-7.5%
Non-current financial assets	419	1,178	-64.4%
Deferred tax assets	13,598	14,459	-6.0%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	**332,608**	**334,422**	**-0.5%**
Non-current assets held for sale	0	0	n.s.
Inventories	164,163	159,258	3.1%
Trade and other receivables	134,803	129,268	4.3%
Trade debtors	113,629	114,754	-1.0%
Other debtors	15,119	14,514	4.2%
Current tax assets	6,055	0	n.s.
Other financial current assets	14,070	6,730	109.1%
Other current assets	4,403	2,193	100.8%
Cash and cash equivalents	53,273	57,301	-7.0%
CURRENT ASSETS	**370,712**	**354,749**	**4.5%**
TOTAL ASSETS= EQUITY AND LIABILITIES	**703,320**	**689,171**	**2.1%**
Share capital	13,981	13,981	0.0%
Share issue premium	12	12	0.0%
Reserves	392,999	312,051	25.9%
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	21,889	81,346	-73.1%
Less: Interim dividend	-13,981	-13,981	0.0%
Other equity instruments	0	0	n.s.
SHAREHOLDER´S FUNDS	**414,900**	**393,410**	**5.5%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	4,003	2,277	75.8%
Currency translation differences	4,590	10,683	-57.0%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**8,593**	**12,960**	-33.7%
SHAREHOLDERS' EQUITY	**423,493**	**406,369**	**4.2%**
Minority interest	0	0	n.s.
EQUITY	**423,493**	**406,369**	**4.2%**
Grants	4,239	4,386	-3.4%
Non-current provision	25,857	27,606	-6.3%
Non-current financial liabilities	44,662	38,770	15.2%
Financial debt	37,247	32,928	13.1%
Other financial liabilities	7,415	5,842	26.9%
Deferred tax liabilities	31,644	30,509	3.7%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	**106,402**	**101,270**	**5.1%**
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	8,132	7,639	6.5%
Current financial liabilities	83,192	92,931	-10.5%
Financial debt	73,715	84,191	-12.4%
Other financial liabilities	9,477	8,739	8.4%
Trade creditor and other payable accounts	82,099	80,894	1.5%
Trade creditors	55,537	60,816	-8.7%
Other creditors	17,028	18,603	-8.5%
Current tax liabilities	9,534	1,475	546.4%
Other current liabilities	2	68	-97.1%
CURRENT LIABILITIES	**173,425**	**181,532**	**-4.5%**
NET BANK DEBT	**57,689**	**59,818**	**-3.6%**

Average exchange rates (Currency/€)

	1Q11	1Q10	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.367	1.384	-1.3%
Canadian Dollar	1.348	1.441	-6.5%
Mexican Peso	16.491	17.689	-6.8%
Brazilian real	2.279	2.495	-8.7%
Czech crown	24.373	25.890	-5.9%
British Pound	0.853	0.887	-3.8%
Polish Zloty	-	3.992	n.s.
Serbian Dinar	104.013	98.059	6.1%
Chinesse yuan remminbi	9.000	9.452	-4.8%

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