Viscofan

The casing company

January – September 2013 Results



29th October 2013

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Interim management report

Main highlights of the January-September 2013 results

- +2.8% growth in consolidated revenues in 9M13 to €579 million. The substantial depreciation of the company's main trading currencies (USD and BRL) was offset by the increase in casings sales volumes.
- -2.5% year-on-year drop in consolidated EBITDA[1] down to €136 million, with the EBITDA margin eroded by -1.3 p.p. to 23.5%.
- Net profit decreased by -0.7% year-on-year to €77.4 million.
- Net bank debt[2] increased by 4.5% vs December 2012, driven by strong operating cash flow, to stand at €67.5 million despite the substantial investment (€69.5 million in 9M13) made as part of the Group's expansion plan.
- According to Viscofan's Chairman, José Domingo de Ampuero y Osma, "the Viscofan Group's strong operating performance and the growth achieved in emerging markets have offset the negative impact of currency depreciation, the energy regulation in Spain and the rise in unit prices for production inputs. This strength puts the Viscofan Group in a better position to achieve global growth in the casings market over the next few years, although currency weakness means that the targets set for 2013 are unlikely to be met".

Consolidated 9M13 Results

Viscofan Group consolidated income statement ('000 €)

	Jan-Sep'13	Jan-Sep' 12	*Change*	Jul-Sep' 13	Jul-Sep' 12	*Change*
Revenue	578,777	562,799	2.8%	191,282	191,904	-0.3%
EBITDA	136,088	139,520	-2.5%	44,265	48,454	-8.6%
EBITDA margin	*23.5%*	*24.8%*	-1.3 p.p.	*23.1%*	*25.2%*	-2.1 p.p.
EBIT	99,835	105,289	-5.2%	32,055	36,695	-12.6%
Net profit	77,415	77,949	-0.7%	23,643	26,509	-10.8%

Consolidated revenues at September 2013 stood at €578.8 million, 2.8% higher year-on-year, driven by the positive performance of the casings division (+2.8% vs. 9M12) and the vegetable food division (+2.9% vs. 9M12).

The weakness of the Group's main trading currencies eroded growth by 2.9 p.p. Therefore, stripping out the exchange rate effect[3], consolidated revenues at 30 September 2013 were up 5.7% vs 9M12.

[1] EBITDA = Operating profit (EBIT) + depreciation and amortisation charges.
[2] Net bank debt = Non-current bank borrowings + Current bank borrowings – Cash and 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.

On a quarterly basis, the sharp depreciation of the Viscofan Group's main trading currencies (USD/EUR and BRL/EUR weakened by 5.8% and 19.3% respectively) triggered a slight fall in consolidated revenues (-0.3% vs. 3Q12) standing at €191.3 million, but marking an increase of 4.6% stripping out the exchange rate effect.

The higher raw material prices (mainly collagen skins and cogeneration gas) are further pushing up the cost of consumption[4] which rose 6.1% in 3Q13 year-on-year to €68.4 million, putting the gross margin[5] at 64.2% (-2.2 p.p. vs. 3Q12).

Cost of consumption totalled €193.7 million, an increase of 6.8% year-on-year. Therefore, the gross margin was 66.5% in 9M13, compared to 67.8% in the same period the previous year.

The average headcount in the period was 4,702, 6.4% more than at September 2012 due to the increase in the workforce in China. Both, the Suzhou collagen extrusion plant and the vegetable food plant belonging to the IAN Group at Lingbao, took on temporary workers for the harvest over the spring and summer months.

Despite the increase in production in both the casings and vegetable food divisions, personnel costs totalled €117.0 million in 9M13 (+4.9% vs. 9M12) and €38.8 million in 3Q13 (+3.4% vs. 3Q12).

Other operating costs climbed 1.9% vs 9M12 to stand at €136.2 million. This performance contrasts with the significant rise in the first half of the year (+4.3% vs. 1H12) thanks to the cost control and energy efficiency measures implemented over the course of the year. Therefore, Other operating costs dropped 3.4% year-on-year in 3Q13 to €40.9 million, driven by the savings achieved in energy supply costs in the quarter (-13.2% vs. 3Q12).

In a particularly adverse scenario shaped by the factors mentioned previously (weakness of the Group's main trading currencies, higher raw material prices, regulatory changes causing energy costs to rise and the start up of the new collagen extrusion plant in China) strong revenues and efficient cost control led to EBITDA of €136.1 million, down 2.5% on 9M12.

Stripping out the exchange rate effect, EBITDA climbed 1.4% year-on-year.

The exchange rate effect was stronger in 3Q13, especially the effect of the USD and BRL, which depreciated by 5.8% and 19.3% respectively, eroding EBITDA by 5.6 p.p. and triggering a drop of 8.6% to €44.3 million.

The EBITDA margin was 23.1% in 3Q13 (-2.1 p.p. vs 3Q12) and 23.5% in 9M13 (-1.3 p.p. vs. 9M12).

Depreciation and amortisation charges totalled €12.2 million in 3Q13 (+3.8% vs. 3Q12) and €36.3 million in 9M13 (+5.9% vs. 9M12) due to the rise in investments. Consequently, consolidated EBIT stood at €32.1 million in 3Q13 and €99.8 million in 9M13, marking a year-on-year variation of -12.6% and -5.2% respectively.

The net financial loss was €2.9 million in 9M13 compared to €5.2 million in 9M12, impacted by foreign exchange differences (-€0.8 million in 9M13 vs. -€3.3 million in 9M12) while the finance cost remained stable year-on-year.

Most of the expansion projects in the Be MORE 12-15 strategic plan are being developed this year, including construction of the new collagen plant in Uruguay and the capacity increase at the plant in China. Investments in Uruguay are progressing well towards their start up in the first quarter of 2014, with

[4] Cost of consumption = Supplies +/- Change in inventories of finished and unfinished products
[5] Gross margin = (Revenue – cost of consumption) / revenue

the first trial production runs scheduled for the last quarter of 2013. Therefore, capex stood at €69.5 million in 9M13.

Net bank debt was €67.5 million, up 4.5% compared to December 2012, putting the Viscofan Group's financial leverage[6] at 12.7% vs. 13.0% in December 2012.

Profit before tax was €96.9 million in 9M13 (-3.2% vs. 9M12). Income tax expense stood at €19.5 million in 9M13, equivalent to an effective tax rate of 20.1%.

Consequently, net profit for the period was €77.4 million, down 0.7% vs 9M12 and €23.6 million in 3Q13 (-10.8% vs. 3Q12).

9M13 results: Casings

Casings income statement ('000€)

	Jan-Sep'13	Jan-Sep' 12	Change	Jul-Sep' 13	Jul-Sep' 12	Change
Revenue	499,543	485,824	2.8%	164,040	165,293	-0.8%
EBITDA	130,491	133,904	-2.5%	42,131	46,393	-9.2%
EBITDA margin	*26.1%*	*27.6%*	-1.5 p.p.	*25.7%*	*28.1%*	-2.4 p.p.
EBIT	96,811	102,169	-5.2%	30,889	35,612	-13.3%
Net profit	74,122	75,374	-1.7%	22,633	25,380	-10.8%

The artificial casings market continued to show strong growth in the third quarter of the year, with the collagen segment marking a double digit increase, and the Viscofan Group continues to reap gains from the capacity increases and production improvements carried out during the year, particularly in China, where local production activities got underway during the first quarter of the year.

The increase in volumes seen in 3Q13 was not mirrored by an increase in revenues (down 0.8% year-on-year), due to the negative exchange rate effect and drop in cogeneration revenues. Stripping out the exchange rate effect, 3Q13 revenues rose 4.9%, while the new regulatory framework for cogeneration caused a decline of €1.1 million in 3Q13. Therefore, cogeneration revenues dropped 11.0% while revenues from casings sales grew 0.2% vs. 3Q12.

Revenues in the casings division rose 2.8% in 9M13 year-on-year, standing at €499.5 million, comprising €39.7 million in cogeneration energy sales (+0.3% vs. 9M12) and €459.8 million in casings sales (+3.0% vs. 9M12).

The geographical breakdown of revenue[7] in 9M13 was as follows:

- In Europe and Asia, revenues rose 4.8% on 9M12 to €263.1 million.
- In North America revenues declined 1.6% to €156.8 million, mainly due to the 2.8% depreciation of the USD vs. EUR.
- In Latin America, revenues rose 5.6% year-on-year to €79.6 million, very strong growth considering the 13.0% depreciation of the BRL.

[6] Financial leverage = Net bank borrowings / Equity
[7] Revenue by origin of sales

Stripping out the impact of the foreign exchange rates applied on consolidation, revenues rose 6.2% in 9M13 year-on-year, driven mainly by the emerging markets in Asia and Latin America.

This growth in sales volumes was achieved amid a significant increase in raw material prices, especially collagen skins, and gas prices for cogeneration in Spain.

This increase in raw material costs eroded the gross margin in 9M13 to 70.6% (-1.2 p.p. vs. 9M12) and 67.8% in 3Q13 (-2.1 p.p. vs. 3Q12). It should be noted that scheduled maintenance stoppages took place in the third quarter which pushed up the cost of consumption associated with productive waste caused when production is resumed. As a result, the gross margin is below the annual average for this quarter.

The average headcount in the casings division was 3,894 in 9M13, 3.7% more than in September 2012. This increase was due mainly to the increase in the workforce at the new plant in China.

Personnel expenses were €35.6 million in 3Q13 (+3.5% vs. 3Q12), more contained compared to the increase of 4.9% recorded in 9M13, to €107.4 million.

Other operating costs rose 2.3% in 9M13 year-on-year to €118.3 million. To offset the rise in energy costs, the Viscofan Group has developed various energy efficiency initiatives as part of its Be MORE 12-15 strategic plan, including using natural gas in Mexico and installing boilers in Germany in 3Q13, among others. All these initiatives helped reduce energy costs in the quarter (-12.7% vs 3Q12), driving down Other operating costs by 3.3% in 3Q13 vs. 3Q12 to €34.3 million.

The unfavourable exchange rate effect, regulatory changes in the cogeneration industry and higher unit prices of some raw materials held back EBITDA in 3Q13 (€42.1 million, -9.2% vs 3Q12), with a margin of 25.7%, 2.4 p.p. lower than in 3Q12.

9M13 EBITDA was €130.5 million, down 2.5% compared to 9M12, with the EBITDA margin dropping -1.5 p.p. to 26.1%. Stripping out the exchange rate effect, EBITDA grew 1.5% in 9M13 vs. 9M12.

Depreciation and amortisation charges amounted to €11.2 million in 3Q13 (+4.3% vs 3Q12) and €33.7 million in 9M13 (+6.1% vs. 9M12), putting EBIT at €30.9 million in 3Q13 (-13.3% vs. 3Q12) and €96.8 million in 9M13 (-5.2% vs. 9M12).

Internal operational improvements and volume growth, coupled with maximum tax benefits and the financial strength of this division have largely offset the impact of the unfavourable business environment. Therefore, net profit totalled €74.1 million at September 2013, down 1.7% year-on-year. 3Q13 net profit was €22.6 million, -10.8% vs. 3Q12.

9M13 results: IAN Group

IAN Group income statement ('000€)

	Jan-Sep'13	Jan-Sep' 12	*Change*	Jul-Sep' 13	Jul-Sep' 12	*Change*
Revenue	**79,234**	**76,975**	**2.9%**	**27,242**	**26,611**	**2.4%**
EBITDA	**5,597**	**5,616**	**-0.3%**	**2,134**	**2,061**	**3.5%**
EBITDA margin	***7.1%***	***7.3%***	**-0.2 p.p.**	***7.8%***	***7.7%***	**0.1 p.p.**
EBIT	**3,024**	**3,120**	**-3.1%**	**1,166**	**1,083**	**7.7%**
Net profit	**3,293**	**2,575**	**27.9%**	**1,010**	**1,129**	**-10.5%**

Once again the vegetable food division increased revenues in the quarter despite the weakness of household demand in Spain. Revenues increased by 2.4% in 3Q13 to €27.2 million, and by 2.9% in 9M13 to €79.2 million year-on-year.

This performance was driven by growth in Carretilla brand revenues, new export markets and the balance contributed by the diversified product range.

Higher raw material costs and pressure from retailers to reduce sale prices eroded the EBITDA margin in 9M13 (-0.2 p.p. to 7.1%). 9M13 EBITDA was €5.6 million, down 0.3% year-on-year.

Meanwhile, sales growth and a good cost performance led to an improvement in the 3Q13 margin (up 0.1 p.p. to 7.8%), with EBITDA rising 3.5% year-on-year to €2.1 million.

Sound operating results and tax benefits deriving from the asset revaluation in Spain (+€0.9 million in May 2013) led to net profit of €3.3 million in the vegetable food division, 27.9% more than in 9M12.

APPENDICES

Significant events

- The Board of Directors, at its meeting on 28 February 2013, appointed Ms Agatha Echevarría as Second Vice-Chairwoman.

- In May 2013, the following resolutions, among others, were adopted at the General Shareholders' Meeting:

  - The meeting approved the balance sheet, income statement, statement of changes in equity, cash flow statement, proposed distribution of earnings including a final dividend of €0.694 per share, explanatory notes, management report including the annual report on corporate governance and management's performance, for Viscofan, S.A., as well as the consolidated statement of financial position, the consolidated income statement, the consolidated statement of total changes in equity, the consolidated cash flow statement, explanatory notes, management report and management's performance for the Viscofan Group, of which Viscofan, S.A. is the parent, for the year ended 31 December 2012.

    Bearing in mind the interim dividend of €0.40 per share paid on 20 December 2012, and the above mentioned final dividend of €0.694 per share paid on 4th June 2013, the proposed total remuneration per share, including the premium for attending the General Shareholders' Meeting of €0.006 per share, is €1.10 per share.

  - The meeting approved the revaluation of the Viscofan SA balance sheet to 31 December 2012 in application of Regional Law 21/2012, of 26 December, on the modification of various taxes and other tax measures.

  - The meeting resolved to appoint Ernst & Young, S.L. as auditors to review the financial statements of Viscofan, S.A. and the consolidated annual accounts of the business group of which Viscofan is the parent, for the fiscal year closing on 31 December 2013.

  - The meeting approved the adoption and application of recommendation 29 of the Unified Code of Good Governance of Listed Companies and subsequent amendment of article 27 of the Company Bylaws, related to the limit of 12 years for the Independent Directors.

  - The meeting approved the modification of the remuneration system of the Board of Directors with the subsequent amendment of articles 27 and 30 of the Company Bylaws.

  - The meeting resolved to renew, for the maximum term envisaged by law, and running from the date of the resolution, the authorisation for the Board of Directors to buy and sell treasury shares on the market at the listed share price on the day of the transaction, subject to the maximum number of shares permitted by the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital) and related legal provisions, with the minimum price being the par value and the maximum not exceed 15% of the value of the share price in the stock market at the time of the acquisition.

  - The meeting approved, by advisory vote, the report on the directors'compensation policy, pursuant to art. 61.3 "of the Securities Market Act.

Viscofan Group Profit and loss account ('000 €)

	Jan-Sep'13	Jan-Sep' 12	Change	Jul-Sep' 13	Jul-Sep' 12	Change
Revenues	**578,777**	**562,799**	**2.8%**	**191,282**	**191,904**	**-0.3%**
Other operating income	3,182	2,513	26.6%	762	636	19.8%
Self-constructed assets	219	343	-36.2%	71	147	-51.7%
Variation in stocks of finished products and work-in-progress	10,932	177	6076.3%	-483	1,084	c.s
Net purchases	-204,610	-181,540	12.7%	-67,903	-65,531	3.6%
Personnel expenses	-117,021	-111,576	4.9%	-38,810	-37,519	3.4%
Other operating expenses	-136,179	-133,691	1.9%	-40,869	-42,320	-3.4%
Capital grants	552	635	-13.1%	185	190	-2.6%
Impairment and results coming from disposals of non-current assets	236	-140	c.s	30	-137	c.s
Other results	0	0	n.s.	0	0	n.s.
EBITDA	**136,088**	**139,520**	**-2.5%**	**44,265**	**48,454**	**-8.6%**
EBITDA margin	*23.5%*	*24.8%*	*-1.3 p.p.*	*23.1%*	*25.2%*	*-2.1 p.p.*
Amortization and depreciation	-36,253	-34,231	5.9%	-12,210	-11,759	3.8%
EBIT	**99,835**	**105,289**	**-5.2%**	**32,055**	**36,695**	**-12.6%**
EBIT margin	*17.2%*	*18.7%*	*-1.5 p.p.*	*16.8%*	*19.1%*	*-2.3 p.p.*
Financial incomes	360	462	-22.1%	155	141	9.9%
Financial expenditures	-2,470	-2,420	2.1%	-928	-876	5.9%
Changes in reasonable value of financial instruments	0	0	n.s.	0	0	n.s.
Exchange differences	-815	-3,257	-75.0%	-1,583	-2,208	-28.3%
Impairment and results coming from disposals of financials assets	0	0	n.s.	0	0	n.s.
Financial results	**-2,925**	**-5,215**	**-43.9%**	**-2,356**	**-2,943**	**-19.9%**
Profit from associated companies	0	0	n.s.	0	0	n.s.
Profit before taxes	**96,910**	**100,074**	**-3.2%**	**29,699**	**33,752**	**-12.0%**
Taxes	-19,495	-22,125	-11.9%	-6,056	-7,243	-16.4%
Profit after taxes	**77,415**	**77,949**	**-0.7%**	**23,643**	**26,509**	**-10.8%**
Minority interest	0	0	n.s.	0	0	n.s.
Net profit	**77,415**	**77,949**	**-0.7%**	**23,643**	**26,509**	**-10.8%**

Consolidated balance sheets ('000 €)

	Sep '13	Dec '12	Change
Intangible assets	15,019	16,342	-8.1%
Goodwill	0	0	n.s.
Others intangible asset	15,019	16,342	-8.1%
Tangible assets	368,473	344,536	6.9%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	0	0	n.s.
Non-current financial assets	1,100	1,360	-19.1%
Deferred tax assets	13,833	11,023	25.5%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	**398,425**	**373,261**	**6.7%**
Non-current assets held for sale	0	0	n.s.
Inventories	201,755	197,837	2.0%
Trade and other receivables	164,192	155,897	5.3%
Trade debtors	131,439	133,563	-1.6%
Other debtors	25,992	20,011	29.9%
Current tax assets	6,761	2,323	191.0%
Other financial current assets	6,283	3,411	84.2%
Other current assets	6,587	2,300	186.4%
Cash and cash equivalents	24,302	44,863	-45.8%
CURRENT ASSETS	**403,119**	**404,308**	**-0.3%**
TOTAL ASSETS= EQUITY AND LIABILITIES	**801,544**	**777,569**	**3.1%**
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	441,868	386,858	14.2%
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	77,415	105,063	-26.3%
Less: Interim dividend	0	-18,641	n.s.
Other equity instruments	0	0	n.s.
SHAREHOLDER'S FUNDS	**551,918**	**505,915**	**9.1%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	67	1,125	-94.0%
Currency translation differences	-22,025	-8,471	160.0%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**-21,958**	**-7,346**	198.9%
SHAREHOLDERS' EQUITY	**529,960**	**498,569**	**6.3%**
Minority interest	0	0	n.s.
EQUITY	**529,960**	**498,569**	**6.3%**
Grants	4,517	5,434	-16.9%
Non-current provision	22,312	26,772	-16.7%
Non-current financial liabilities	29,842	25,856	15.4%
Financial debt	22,625	19,000	19.1%
Other financial liabilities	7,217	6,856	5.3%
Deferred tax liabilities	23,160	25,315	-8.5%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	**79,831**	**83,377**	**-4.3%**
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	3,722	3,834	-2.9%
Current financial liabilities	81,920	102,112	-19.8%
Financial debt	69,224	90,516	-23.5%
Other financial liabilities	12,696	11,596	9.5%
Trade creditor and other payable accounts	105,741	89,677	17.9%
Trade creditors	72,758	62,458	16.5%
Other creditors	19,376	17,784	9.0%
Current tax liabilities	13,607	9,435	44.2%
Other current liabilities	370	0	n.s.
CURRENT LIABILITIES	**191,753**	**195,623**	**-2.0%**
NET BANK DEBT	**67,547**	**64,653**	**4.5%**

Average exchange rates (Currency/€)

	9M13	9M12	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.317	1.282	2.8%
Canadian Dollar	1.348	1.285	5.0%
Mexican Peso	16.705	16.946	-1.4%
Brazilian real	2.776	2.457	13.0%
Czech crown	25.748	25.135	2.4%
British Pound	0.852	0.812	4.9%
Serbian Dinar	112.684	112.858	-0.2%
Chinesse yuan remminbi	8.187	8.097	1.1%
Uruguayan Peso	26.430	26.244	0.7%

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