January – March 2013 Results



24th April 2013

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Interim management report

Main highlights of the January-March 2013 results

- +4% in growth in consolidated revenues, amounting to €184.6 million, underpinned by casings volumes.
- -1% year-on-year decline in consolidated EBITDA[1] to €42.4MM, with the EBITDA margin eroded by 1.2 p.p. to 22.9%.
- +1% year-on-year growth in net profit to €23.4MM.
- Net bank debt[2] remain virtually stable at €64.8 million (+0.3%) compared with December 2012, showing the progress in investment plans (€20.4 million in the first quarter).
- According to Mr. José Domingo de Ampuero, the Chairman of Viscofan, "In the first quarter of 2013, the market trend is still of strong growth, combined with high inflation in production costs. Against this backdrop, we have achieved a landmark in the Viscofan Group with the launch of the first collagen extrusion plant in China, which, despite the difficulties, is performing well and will therefore allow our customers in China to receive an adequate service".

Consolidated Q1 13 Results

Viscofan Group consolidated income statement ('000 €)

	Jan-Mar' 13	Jan-Mar' 12	*Change*
Revenue	**184,597**	**177,879**	**3.8%**
EBITDA	**42,361**	**42,848**	**-1.1%**
EBITDA margin	***22.9%***	***24.1%***	**-1.2 p.p.**
EBIT	**30,420**	**31,633**	**-3.8%**
Net profit	**23,414**	**23,286**	**0.5%**

The Viscofan Group's consolidated net turnover in 1Q13 amounted to €184.6 million, up 3.8% on the 1Q12 figure, due to the 3.9% gain at the casings division and the 3.0% rise at vegetable foods

Excluding the impact of exchange rate fluctuations[3], consolidated revenue in 1Q13 increased by 5.9% compared with 1Q12.

Costs of consumption in 1Q13 rose 5.2% against the same period of the previous year to €58.9 million, in a setting in which the prices of the most important raw materials, especially collagen hides, continued to rise.

Consequently, the gross margin[4] was 68.1% in 1Q13, vs. 68.5% in the same period one year previously.

[1] EBITDA = Operating (EBIT) + Depreciation and amortization charges
[2] Net bank debt = Non-current bank borrowings + Current bank 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] Gross margin = (Revenue – cost of consumption) / revenue.

The average headcount was 4,249, i.e. 5.2% higher than in March 2012, largely due to the increase in staff at the Suzhou extrusion factory (China). During 1Q13, Viscofan has continued deploying personnel from the different Group plants to facilities in China to carry out training and monitoring and so ensure that the new machinery and production process are properly implemented.

The average headcount of the Group is increasing as a result of the new facilities, although, at the rest of the Group's factories, the company has continued with projects geared towards ramping up production and boosting competitiveness among the staff of the Viscofan Group, with the aim of improving the productivity margin over the year as a whole. In this regard, negotiations were conducted during 1Q13 concerning a new collective wage agreement for the next three years at the Danville plant (USA). This agreement, which was signed in April, will provide more organisational flexibility, with a view to gaining productivity at that plant.

Personnel expenses rose 3.1% year-on-year in the first quarter of 2013, to €38.3 million.

Other operating costs rose by 7.9% to €46.2 million in 1Q13, with energy supply costs up by 9.8% against the previous year; among other factors, energy cogeneration taxes in Spain had a marked impact.

Accordingly, consolidated EBITDA at the Viscofan Group in 1Q13 totalled €42.4 million, 1.1% lower than in 1Q12, and the quarterly EBITDA margin was 22.9% (-1.1 p.p. vs. 1Q12). The decline in the EBITDA margin in 1Q13 vs. 1Q12 was due mainly to the start-up costs in the new collagen extrusion plant in China, the aforementioned co-generation taxes and the lower productivity in the Danville plant (USA).

Stripping out the exchange rate effect, 1Q13 EBITDA increase by 2.0% compared to 1Q12.

Depreciation and amortisation charges amounted to €11.9 million (+6.5% vs. 1Q12), to leave EBIT of €30.4 million (-3.8% vs. 1Q12).

Net financial profit amounted to €0.3 million, compared with a loss of €2.2 million posted in 1Q12 due to the impact of foreign exchange differences (which this quarter contributed €1.2 million, compared with a loss of €1.7 million reported in 1Q12) as a result of the weakness of the Brazilian real, the Czech crown and the Serbian dinar.

Profit before tax in 1Q13 amounted to €30.8 million, up 4.5% on the previous year, although the increase in the effective tax rate from 20.9% to 23.9% in 1Q13 brought growth in net profit to 0.5% against 1Q12, to €23.4 million.

Net bank debt totalled €64.8 million, virtually in line with the €64.7 million recorded at December 2012 (+0.3%), despite the heftier investments, of €20.4 million in 1Q13. These investments have mainly been earmarked for the China plant, the preliminary construction tasks for the new Uruguay plant and environmental improvements in Serbia. Thus, the Viscofan Group's financial leverage[5] stood at 12.3%, vs. 13.0% in December 2012.

[5] Financial leverage = Net bank borrowings / Equity

1Q13 results: Casings

Casings income statement ('000€)

	Jan-Mar' 13	Jan-Mar' 12	*Change*
Revenue	**159,962**	**153,957**	**3.9%**
EBITDA	**41,060**	**41,376**	**-0.8%**
EBITDA margin	***25.7%***	***26.9%***	**-1.2 p.p.**
EBIT	**29,870**	**30,902**	**-3.3%**
Net profit	**23,015**	**22,826**	**0.8%**

In the first quarter of 2013, the casings market continued to grow strongly, underpinned by meat processing companies' search for savings and productivity in the production of cold meat products. Against this background, it is important to note the growth in the collagen segment, a product which continues to replace natural guts in both emerging and developed markets.

In order to meet the demands of this growth, the Viscofan Group is making great efforts to increase its capacity; its measures include the launch of the new Suzhou plant in China, which began production for the local market in February 2013, and the investment earmarked to install a new plant in Uruguay in 2014. These capacity increases are coupled with operating improvements in the other Group plants, particularly those located in the United States.

In this context, revenue in the casings division rose 3.9% against the previous year, to €160.0 million, buoyed by growth in volumes, most notably in collagen products. Of this total revenue in the casing division, €13.6 million (+5.8% vs. 1Q12) relate to sales of cogeneration energy and €146.6 million (+3.7% vs. 1Q12) to casings sales.

Sales in the casing division continue to increase sharply in Latin America, Europe and Asia, while performance is more moderate in North America, specifically the United States, where the company must plough ahead with the improvement project set out in the "Be MORE" strategic plan to ensure that market recovery goes hand in hand with productive and competitive improvements.

The geographical breakdown of revenue[6] for the quarter was as follows:

- In Europe and Asia, revenue rose 7.0% on 1Q12 to €84.5 million.
- In North America, revenue declined by 2.0% to €49.8 million.
- In Latin America, revenue rose 6.0% year-on-year to €25.7 million despite the significant 13.7% y-o-y depreciation on the Brazilian real.

Inflation in the cost of raw materials, specifically in collagen hides, energy and plastic derivatives, has prompted an increase in costs of consumption of 5.2%, vs. 1Q12 to €43.3 million. Consequently, gross margin for the quarter stands at 72.9%, vs. 73.2% in 1Q12.

The average headcount in the casings division is 3,856, i.e. 5.0% higher than in March 2012, mainly as a result of the increase in staff associated with the new plant in China. This brought personnel expenses to €35.7 million, up 3.1% against the previous year.

Other operating costs rose by 9.0% vs. 1Q12 to €40.9 million, impacted by the increase in energy costs, which were up 10.8% against the previous year. The new regulation for electrical cogeneration in Spain impacted in €1.3 million in total expenses against 1Q12.

[6] Revenue by origin of sales.

EBITDA for 1Q13 amounted to €41.1 million, 0.8% down against the previous year, with a margin of 25.7% (-1.2 p.p. vs. 1Q12) impacted by the higher costs due to the China plant launch, reduced activity in the United States, the new regulatory environment for energy in Spain, and the depreciation of the Brazilian real and the US dollar against the euro.

These impacts have been partially offset by the growth in sales in emerging markets, growth which is set to continue improving in the second half of the year, as the new installed capacity absorbs the higher market volumes, and also due to the high productivity ratios achieved at centres of excellence.

Stripping out the exchange rate effect, 1Q13 EBITDA increase by 2.5% compared to 1Q12.

Depreciation and amortisation charges amounted to €11.2 million (+6.8% vs. 1Q12), with EBIT of €29.9 million, 3.3% lower year-on-year.

First-quarter net profit in the casings division rose 0.8% year-on-year to €23.0 million.

1Q13 results: IAN Group

IAN Group income statement ('000€)

	Jan-Mar' 13	Jan-Mar' 12	*Change*
Revenue	24,635	23,922	3.0%
EBITDA	1,301	1,472	-11.6%
EBITDA margin	*5.3%*	*6.2%*	-0.9 p.p.
EBIT	550	731	-24.8%
Net profit	399	460	-13.3%

The vegetable food division continues to reinforce its leadership position in the Spanish market, underpinned by the diversification of the range and the leadership of the Carretilla brand.

In 1Q13, the division managed to increase its net revenue by 3.0% year-on-year, to €24.6 million, with the growth in ready-made-meals and the slight recovery in asparagus sales particularly worthy of note, in a context of economic crisis in the Spanish market, which continues to erode household consumption.

Despite the growth in revenue, the higher cost of raw materials and the pressure by retailers to reduce prices had a negative impact on the EBITDA margin, which shrank by 0.9 p.p. to 5.3%; EBITDA amounted to €1.3 million, down 11.6% year-on-year.

First-quarter net profit fell by 13.3% year-on-year to €0.4 million.

Description of risks and uncertainties

The Viscofan Group has shown improved results in a time of great volatility and uncertainty, and is well placed to capture market growth in its main business activities. Nevertheless, it should be remembered that, due to the nature of its operations, the Group's activities are exposed to various operational, financial, strategic, legal and environmental risks. The Group manages risk based on policies approved by the Board of Directors, which are outlined in the annual corporate governance report, the supervision of which is also entrusted to the Audit Committee.

Among the specific risks it is worth highlighting the possibility of lower returns and risks relating to the success of the investments made, a worsening of exchange rates, credit risk, financial disclosure oversight systems, liquidity risk, interest rate risk with regard to cash flows and fair value, operating risk in the supply of raw materials, material damage and production continuity, strategic risk linked to the competitive environment in the sector, and legal risks, including criminal liability of legal persons. Furthermore, the Group manages its operations from commercial offices and production centres in 13 countries and markets products in more than 100 countries worldwide. Consequently, political decisions, natural disasters and food or food security crises, whether linked to the company itself or triggered by third parties in any of those countries, could affect our operations.

APPENDICES

Significant events

- The Board of Directors, at its meeting on 28 February 2013, agreed to submit to the General Shareholders' Meeting a proposal for a final dividend from 4 June 2013 of 0.694 per share. This brings total shareholder remuneration to €1.10 per share, including the interim dividend of €0.400 per share paid on 20 December 2012, the aforementioned final dividend of €0.694 per share, and €0.006 per share as a bonus for attending the Shareholders' Meeting. The remuneration proposed is 10.0% higher than the total remuneration of €1.00 approved last year.

- In April, the Parliament of the Autonomous Region of Navarre approved the amendments to Regional Act 21/2012, which will allow the balance sheet closed at 31 December 2012 to be updated. Based on these amendments, the company has drawn up the updated balance sheet of Viscofan S.A. at 31 December 2012, which has been delivered to the shareholders to enable them to make a decision with regard to item 2 on the agenda of the General Shareholders' Meeting.

Viscofan Group Profit and loss account ('000 €)

	Jan-Mar' 13	Jan-Mar' 12	*Change*
Revenues	**184,597**	**177,879**	**3.8%**
Other operating income	895	583	53.5%
Self-constructed assets	62	102	-39.2%
Variation in stocks of finished products and work-in-progress	5,518	-1,519	c.s
Net purchases	-64,414	-54,453	18.3%
Personnel expenses	-38,332	-37,168	3.1%
Other operating expenses	-46,151	-42,758	7.9%
Capital grants	184	187	-1.6%
Impairment and results coming from disposals of non-current assets	2	-5	c.s
Other results	0	0	n.s.
EBITDA	**42,361**	**42,848**	**-1.1%**
EBITDA margin	*22.9%*	*24.1%*	*-1.2 p.p.*
Amortization and depreciation	-11,941	-11,215	6.5%
EBIT	**30,420**	**31,633**	**-3.8%**
EBIT margin	*16.5%*	*17.8%*	*-1.3 p.p.*
Financial incomes	65	223	-70.9%
Financial expenditures	-937	-680	37.8%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	1,218	-1,735	c.s
Impairment and results coming from disposals of financials assets	0	0	n.s.
Financial results	**346**	**-2,192**	**c.s**
Profit from associated companies	0	0	n.s.
Profit before taxes	**30,766**	**29,441**	**4.5%**
Taxes	-7,352	-6,155	19.4%
Profit after taxes	**23,414**	**23,286**	**0.5%**
Minority interest	0	0	n.s.
Net profit	**23,414**	**23,286**	**0.5%**

Consolidated balance sheets ('000 €)

	Mar '13	Dec '12	Change
Intangible assets	17,960	16,342	9.9%
Goodwill	0	0	n.s.
Others intangible asset	17,960	16,342	9.9%
Tangible assets	356,373	344,536	3.4%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	0	0	n.s.
Non-current financial assets	1,478	1,360	8.7%
Deferred tax assets	11,070	11,023	0.4%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	**386,881**	**373,261**	**3.6%**
Non-current assets held for sale	0	0	n.s.
Inventories	206,566	197,837	4.4%
Trade and other receivables	163,433	155,897	4.8%
Trade debtors	135,747	133,563	1.6%
Other debtors	24,216	20,011	21.0%
Current tax assets	3,470	2,323	49.4%
Other financial current assets	2,340	3,411	-31.4%
Other current assets	7,591	2,300	230.0%
Cash and cash equivalents	38,198	44,863	-14.9%
CURRENT ASSETS	**418,128**	**404,308**	**3.4%**
TOTAL ASSETS, EQUITY AND LIABILITIES	**805,009**	**777,569**	**3.5%**
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	491,685	386,858	27.1%
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	23,414	105,063	-77.7%
Less: Interim dividend	-18,641	-18,641	0.0%
Other equity instruments	0	0	n.s.
SHAREHOLDER'S FUNDS	**529,093**	**505,915**	**4.6%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	775	1,125	-31.1%
Currency translation differences	-1,509	-8,471	-82.2%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**-734**	**-7,346**	-90.0%
SHAREHOLDERS' EQUITY	**528,359**	**498,569**	**6.0%**
Minority interest	0	0	n.s.
EQUITY	**528,359**	**498,569**	**6.0%**
Grants	5,278	5,434	-2.9%
Non-current provision	25,211	26,772	-5.8%
Non-current financial liabilities	25,715	25,856	-0.5%
Financial debt	18,827	19,000	-0.9%
Other financial liabilities	6,888	6,856	0.5%
Deferred tax liabilities	25,193	25,315	-0.5%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	**81,397**	**83,377**	**-2.4%**
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	4,778	3,834	24.6%
Current financial liabilities	93,308	102,112	-8.6%
Financial debt	84,199	90,516	-7.0%
Other financial liabilities	9,109	11,596	-21.4%
Trade creditor and other payable accounts	97,159	89,677	8.3%
Trade creditors	66,526	62,458	6.5%
Other creditors	17,492	17,784	-1.6%
Current tax liabilities	13,141	9,435	39.3%
Other current liabilities	8	0	n.s.
CURRENT LIABILITIES	**195,253**	**195,623**	**-0.2%**
NET BANK DEBT	**64,828**	**64,653**	**0.3%**

Average exchange rates (Currency/€)

	1Q13	1Q12	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.320	1.311	0.7%
Canadian Dollar	1.331	1.313	1.4%
Mexican Peso	16.692	17.018	-1.9%
Brazilian real	2.634	2.317	13.7%
Czech crown	25.567	25.080	1.9%
British Pound	0.852	0.835	2.0%
Serbian Dinar	111.721	108.017	3.4%
Chinesse yuan remminbi	8.291	8.269	0.3%
Uruguayan Peso	25.273	na	na

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