January – March 2014 Results



07th May 2014

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Interim management report

Main highlights of the January-March 2014 results

- Consolidated revenue up 2% to 187.4 million euros, driven by casings sales volumes and the vegetable foods division.
- Consolidated EBITDA[1] grows 2% to 43.0 million euros with a slight improvement in EBITDA margin (+0.1 p.p.) despite the adverse impact of cogeneration regulation, foreign exchange and the start-up of the Uruguay plant.
- Net profit down 4% to 22.4 million euros, and up 5.8% stripping out the impact of the changes in cogeneration regulations in Spain.
- Strong operating cash flow and lower investment requirements (12.0 million euros in 1Q14 vs. 20.4 million euros in 1Q13) were behind a 3% drop in net bank debt[2] to a total of 81.9 million euros vs. 84.6 million euros in December 2013.
- Viscofan Chairman José Domingo de Ampuero y Osma said: "Once again this quarter, the market keeps showing above historical average growth rates against a backdrop of depreciation in the company's main trading currencies and despite the impact of co-generation regulations in Spain. However, growth in volumes – especially in emerging markets, where the Group is well positioned – along with enhanced operating efficiency and cost control, offset these external factors, and the Group was able to post year-on-year growth in sales and EBITDA".

Consolidated 1Q14 results

Viscofan Group consolidated income statement ('000 €)

	Jan-Mar' 14	Jan-Mar' 13	*Change*
Revenue	**187,433**	**184,597**	**1.5%**
EBITDA	**43,036**	**42,361**	**1.6%**
EBITDA margin	***23.0%***	***22.9%***	**0.1 p.p.**
Royal Decree 9/2013 impact *	-3,371	0	n.s
EBITDA pre-regulation *	46,407	42,361	9.6%
EBITDA margin pre-regulation *	*24.3%*	*22.9%*	1.4 p.p.
EBIT	**30,239**	**30,420**	**-0.6%**
Net profit	**22,415**	**23,414**	**-4.3%**
Net Profit pre-regulation *	24,775	23,414	5.8%

* For comparative purposes, this figure excludes the impact on EBITDA and net profit in 2014 of the application of Royal Decree 9/2013, which came into effect in July 2013 and which lowers the effective price of every MW generated in 1Q14 (a negative impact of 3.6 million euros on revenue and 3.4 million euros on EBITDA).

Viscofan Group's revenues for 1Q14 stood at 187.4 million euros, up 1.5% year on year thanks to the 1.4% growth reported by the casings division and the 2.7% rise in the vegetable foods division.

[1] EBITDA = Operating profit (EBIT) + depreciation of property, plant and equipment and amortisation of intangible assets.
[2] Net bank debt = long and short financial debt - cash and cash equivalents

The first quarter of the year was marked by the weakness of the main trading currencies, particularly the 3.8% depreciation of the US$ against the euro and the 22.9% drop in the Brazilian real against the euro, which eroded revenue by 7.6 million euros. Stripping out the impact of foreign exchange differences[3], consolidated revenue for 1Q14 grew 5.7% year on year.

As well as the aforementioned currency depreciation in 1Q14, the application of Royal Decree 9/2013, which came into effect in July 2013, lowered the effective price per MW generated at the cogeneration plant in Spain. This led to a reduction in Group revenue of 3.6 million euros compared with the equivalent regulatory framework in 1Q13.

Like-for-like[4], net revenue grew by 7.6% vs. 1Q13.

Cost of consumption[5] in 1Q14 rose by 1.6% year-on-year to 59.9 million euros, with the gross margin[6] stable at 68.1%.

The average headcount stood at 4,369, up 2.8% on March 2013, as a result of the Group's international expansion, which includes the launch of two new factories: one in China in 2013 and another in Uruguay in March 2014. With this increase in workforce, personnel costs rose 1.9% in 1Q14 vs. 1Q13, to 39.1 million euros.

Other operating expenses grew by 1.1% year on year to 46.7 million euros, mainly due to energy supply costs, which increased by 3.2% year on year, as well as other general expenses including the start-up costs for the new collagen extrusion plant in Uruguay.

Strong volumes combined with strict cost control and productivity improvements – where China must be mentioned – were behind a 1.6% increase in EBITDA to 43 million euros. This year-on-year growth offset the weakness of the main trading currencies, the regulatory changes in Spain and the expansion costs stemming from the start-up of the new plant in Latin America.

Stripping out the impact of foreign exchange differences, 1Q14 EBITDA was up 5.1% year on year. Moreover new cogeneration regulations in Spain led to a drop of 3.4 million euros in consolidated EBITDA, equivalent to growth of 8.0 p.p. over the quarter. As such, on a like-for-like basis[4], EBITDA rose by 13.1% year on year.

Depreciation and amortisation charges grew by 7.2% year on year in 1Q14 to 12.8 million euros, reflecting the increased asset value stemming from the expansion and upgrade of industrial facilities undertaken in recent years under the Be MORE strategic plan. As a result, EBIT in the quarter stood at 30.2 million euros, down 0.6% compared with 1Q13.

The upgrade of industrial facilities has also continued in 2014, albeit with lower capital requirements year-on year: investments in 1Q14 stood at 12.0 million euros vs. 20.4 million euros in 1Q13.

Net financial losses stood at 0.7 million euros, similar to the net cost of debt, compared to the net financial profit of 0.3 million euros reported in 1Q13, which benefited from exchange gains of 1.2 million euros.

It is noteworthy that the Viscofan Group continues to strengthen its balance sheet thanks to its solid cash flow and lower investment requirements. Net bank debt is totalled 81.9 million euros, down 3.2% on the

[3] Constant exchange rate growth: For comparative purposes, growth stripping out 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 dollar fluctuations on trade transactions.
[4] Like-for-like figures exclude the impact of Royal Decree 9/2013 that reduces the effective price per MW produced in cogeneration plant in Spain and the impact of different Exchange rates used in consolidation.
[5] Cost of consumption = Supplies +/- Change in inventories of finished and unfinished products.
[6] Gross margin = (Income – Cost of consumption)/Income.

84.6 million euros reported in December 2013. Financial leverage[7] therefore stands at 15.0% vs. 16.2% in December 2013.

Profit before tax in 1Q14 stood at 29.5 million euros with income expense for the quarter amounting to 7.1 million euros, reflecting an effective tax rate of 24.1%.

Net profit therefore totalled 22.4 million euros, a drop of 4.3% year on year, and up 5.8% stripping out the impact of cogeneration regulations in Spain.

1Q14 results: Casings

Casings income statement ('000€)

	Jan-Mar' 14	Jan-Mar' 13	*Change*
Revenue	**162,124**	**159,962**	**1.4%**
EBITDA	**41,566**	**41,060**	**1.2%**
EBITDA margin	***25.6%***	***25.7%***	**-0.1 p.p.**
Royal Decree 9/2013 impact *	-3,371	0	n.s
EBITDA pre-regulation *	44,937	41,060	9.4%
EBITDA margin pre-regulation *	*27.1%*	*25.7%*	1.4 p.p.
EBIT	**29,420**	**29,870**	**-1.5%**
Net profit	**21,865**	**23,015**	**-5.0%**
Net Profit pre-regulation *	24,225	23,015	5.3%

* For comparative purposes, this figure excludes the impact on EBITDA and net profit in 2014 of the application of Royal Decree 9/2013, which came into effect in July 2013 and which lowers the effective price of every MW generated in 1Q14 (a negative impact of 3.6 million euros on revenue and 3.4 million euros on EBITDA).

The artificial casings market continued to show robust growth in the first quarter of 2014, driven by emerging markets and by the active search for savings and enhanced productivity in the production of cold meats in both developed and emerging markets. This growth is observed in all casing families, especially on collagen, which continues to steadily replace the use of natural intestine in casings.

Thanks to its anticipation and the productivity improvements undertaken over recent years, Viscofan Group is in an ideal position to efficiently capture this market growth, both in China – where manufacturing facilities, after 12 months of continuous production, have now achieved satisfactory production rates – and in the centres of excellence in Spain and Germany. The contribution to the Group's results of the plant in Uruguay and improvements in the US and in the rest of production plants will have a higher contribution to results.

Casing division revenue grew by 1.4% year on year, within which:

- Casings sales rose by 3.9% vs. 1Q13 to 152.1 million euros, driven by stronger volumes across all families.
- Cogeneration energy sales fell 26.6% vs. 1Q13 to 10.0 million owing to the negative impact of cogeneration energy regulations.

Growth in casing division volumes was not fully reflected in the revenue figure for 1Q14, due partly to currency weakness (stripping out the impact of foreign exchange differences, revenue climbs by 6.1%), and partly to the application of Royal Decree 9/2013, which led to an additional negative impact of 3.6 million on revenue in 1Q14 vs. revenue in 1Q13.

[7] Financial leverage = Net bank debt/Equity.

Considering the impact of these two factors, like-for-like growth in the casings division stood at 8.4% year on year.

Revenue performance by geographic region was as follows[8]:

- In Europa and Asia, revenue grew by 5.4% year on year to 89.1 million euros.
- In North America, revenue fell 5.1% to 47.2 million euros, mainly as a result of the depreciation of the US$ against the euro.
- In Latin America, revenue increased by 0.5% year on year and totalled 25.8 million euros, despite the sharp depreciation of the Brazilian real against the euro (-22.9% 1Q14 vs. 1Q13).

Increased volumes, productivity improvements and lower pressure in the prices of some raw materials meant a gross margin of 72.8% (-0.1 p.p. year-on-year vs. 1Q13) with the cost of consumption totalling 44.2 million euros (up 1.9% vs. 1Q13).

This increase in volumes and commercial activity has required a gradual expansion of production capacity in recent years, with improvements to industrial facilities and expansion into new geographic areas such as China and Uruguay.

Noteworthy factors within this process are the major productivity improvements undertaken at the Group's main plants, with support from the centres of excellence in Spain and Germany, and the positive progress of the new collagen extrusion plant in China, which began operations in early 2013.

In this period of expansion, the average headcount in the casings division stood at 3,993 people in 1Q14, up 3.6% on March 2013. However, improvements in productivity and competitiveness allowed for an increase in production volumes with personnel costs in 1Q14 of 36.3 million euros, up 1.7% year on year.

Other operating expenses increased by 0.8% vs. 1Q13 to 41.2 million euros due to the increase in energy supply expenses (+3.1%) and the start-up costs for the Uruguay plant, among other factors.

Thanks to increased volumes, production efficiency and cost control, EBITDA in the quarter grew by 1.2% to 41.6 million euros, despite the 3.4 million euro impact of Royal Decree 9/2013 on cogeneration in Spain, the impact of the depreciation of the Brazilian real and the US$ against the euro and the cost of starting up the new plant in Uruguay. The EBITDA margin stood at 25.6% vs. 25.7% in 1Q13.

As in the second half of the year, operating improvements stemming from the increase in sales volumes and enhanced productivity were largely eroded by the weakness of the main trading currencies and the application of Royal Decree 9/2013 on cogeneration in Spain.

Stripping out the impact of foreign exchange differences, EBITDA grew by 5.0% year on year.

On a like-for-like basis – i.e. stripping out the impact of foreign exchange differences and the impact of Royal Decree 9/2013 in 1Q14 – EBITDA grew by 13.2%, reflecting a year-on-year improvement of 1.1 p.p. in the like-for-like EBITDA margin.

Depreciation and amortisation charges over the period amounted to 12.1 million euros, up 8.5% on 1Q13, with EBIT of 29.4 million euros (down 1.5% vs. 1Q13).

Net profit in 1Q13 was 21.9 million euros, down 5.0% compared with 1Q13. Stripping out the impact of cogeneration regulatory changes in Spain, net profit rose by 5.3%.

[8] Revenue by origin of sales.

1Q14 results: IAN Group

IAN Group income statement ('000€)

	Jan-Mar' 14	Jan-Mar' 13	*Change*
Revenue	25,309	24,635	2.7%
EBITDA	1,470	1,301	13.0%
EBITDA margin	*5.8%*	*5.3%*	0.5 p.p.
EBIT	819	550	48.9%
Net profit	550	399	37.8%

The vegetable foods division continues to perform well in terms of revenue, driven by the strength of the Carretilla Brand, which posted high single-digit growth thanks to its positioning in the Spanish market and the performance of ready meals. The IAN Group also continues to increase its export volumes.

As a result, revenue in 1Q14 was up 2.7% year on year at 25.3 million euros.

Higher raw material prices and the pressure from distribution chains to cut sales prices were offset by the growth in products with higher value-added and commercial discipline. As a result, the division's EBITDA grew by 13% to 1.5 million euros, with an EBITDA margin of 5.8%, up 0.5 p.p.

Net profit was 0.5 million euros, an increase of 37.8% vs. 1Q13.

Description of risks and uncertainties

The Viscofan Group has strengthened its earnings in a period of high volatility and uncertainty, and is well placed to tap into market growth in its core operations. However, it is important to bear in mind that because of the nature of its operations, the Group's activities are exposed to different types of risks. The Group manages risk through 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.

APPENDICES

Significant events

- In January 2014, the Spanish Government took further steps in enacting Royal Decree Law 9/2013 of July 12, "on the adoption of urgent measures to guarantee the financial stability of the electricity system," and published the "Ministerial Order approving the remuneration parameters of certain electricity generation installations based on renewable energy, cogeneration, and waste" within the legal development of said Royal Decree Law.

  The Group has estimated remuneration for energy sales from its cogeneration plant in Spain for the period from July 14, 2013 to March 31, 2014, basing the calculation on parameters established in the proposed Ministerial Order.

- On February 27, 2014, the Board of Directors agreed to propose a final dividend of 0.704 euros per share to the General Shareholders' Meeting for payment on June 4, 2014. This brings total shareholder remuneration to a total of 1.12 euros per share, including the interim dividend of 0.410 euros per share paid on December 23, 2013, the aforesaid final dividend of 0.704 euros per share and the per diem of 0.006 euros per share for attending the General Shareholders' Meeting. This proposal is 1.8% higher than the total remuneration of 1.10 euros per share approved the previous year.

- Moreover, in April 2014, the following resolutions, among others, were adopted at the General Shareholders' Meeting:

  - The meeting approved the Balance Sheet, Income Statement, Statement of Changes in Shareholder Equity and Cash Flow Statement of the year, the Proposed Distribution of Results, including distribution of an additional dividend of 0.704 euros per share, the Explanatory Report, the Management Report, including the Annual Corporate Governance Report and Management of Viscofan, S.A., as well as the Balance Sheet, Income Statement, Consolidated Cash Flow Statement and Consolidated Change in Shareholder Equity Statement, the Explanatory Report, the Consolidated Management Report, and Management of the Business group for which said company is the parent company, all for the year ended 31 December 2013.

  - 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 2014.

  - The meeting resolved to reduce the duration of Board member posts from 6 to 4 years with the subsequent amendment of article 27 of the Company Bylaws.

  - The meeting resolved to include the Coordinator Director post in the Company Bylaws with the subsequent amendment of article 27 of the Company Bylaws and addition of article 27 quater.

  - The meeting resolved to include assessment of the Board of Directors and its Committees in the Company Bylaws with the subsequent amendment of Company Bylaws to include article 27 quinquies.

- The meeting resolved to include requirements corresponding to the status of Directors in the Audit Committee with the subsequent amendment of article 30 of the Company Bylaws.

- The meeting resolved to include the Appointments and Remuneration Committee in the Company Bylaws with the subsequent amendment of article 30 of the Company Bylaws.

- The meeting resolved the re-election of Ms. Agatha Echevarría Canales as Director with Other External status.

- The meeting resolved the re-election of Mr. Néstor Basterra Larroudé as Director with Other External status.

- The meeting resolved appointment of Mr. Jaime Real de Asúa y Arteche as Independent Director.

- The meeting resolved appointment of Mr. José Antonio Canales García as Executive Director.

Viscofan Group Profit and loss account ('000 €)

	Jan-Mar' 14	Jan-Mar' 13	*Change*
Revenues	**187,433**	**184,597**	**1.5%**
Other operating income	942	895	5.3%
Self-constructed assets	87	62	40.3%
Variation in stocks of finished products and work-in-progress	2,642	5,518	-52.1%
Net purchases	-62,509	-64,414	-3.0%
Personnel expenses	-39,054	-38,332	1.9%
Other operating expenses	-46,673	-46,151	1.1%
Capital grants	154	184	-16.3%
Impairment and results coming from disposals of non-current assets	14	2	600.0%
Other results	0	0	n.s.
EBITDA	**43,036**	**42,361**	**1.6%**
EBITDA margin	*23.0%*	*22.9%*	*0.1 p.p.*
Amortization and depreciation	-12,797	-11,941	7.2%
EBIT	**30,239**	**30,420**	**-0.6%**
EBIT margin	*16.1%*	*16.5%*	*-0.4 p.p.*
Financial incomes	180	65	176.9%
Financial expenditures	-858	-937	-8.4%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	-24	1,218	c.s
Impairment and results coming from disposals of financials assets	0	0	n.s.
Financial results	**-702**	**346**	**c.s**
Profit from associated companies	0	0	n.s.
Profit before taxes	**29,537**	**30,766**	**-4.0%**
Taxes	-7,122	-7,352	-3.1%
Profit after taxes	**22,415**	**23,414**	**-4.3%**
Minority interest	0	0	n.s.
Net profit	**22,415**	**23,414**	**-4.3%**

Consolidated balance sheets ('000€)

	Mar '14	Dec '13	Change
Intangible assets	15,498	16,022	-3.3%
Goodwill	0	0	n.s.
Others intangible asset	15,498	16,022	-3.3%
Tangible assets	379,004	380,607	-0.4%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	0	0	n.s.
Non-current financial assets	903	780	15.8%
Deferred tax assets	14,333	14,554	-1.5%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	**409,738**	**411,963**	**-0.5%**
Non-current assets held for sale	0	0	n.s.
Inventories	204,237	202,989	0.6%
Trade and other receivables	166,356	150,398	10.6%
Trade debtors	134,339	123,640	8.7%
Other debtors	28,254	25,561	10.5%
Current tax assets	3,763	1,197	214.4%
Other financial current assets	819	5,937	-86.2%
Other current assets	6,217	2,649	134.7%
Cash and cash equivalents	27,940	16,739	66.9%
CURRENT ASSETS	**405,569**	**378,712**	**7.1%**
TOTAL ASSETS, EQUITY AND LIABILITIES	**815,307**	**790,675**	**3.1%**
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	542,611	441,174	23.0%
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	22,415	101,520	-77.9%
Less: Interim dividend	-19,108	-19,108	0.0%
Other equity instruments	0	0	n.s.
SHAREHOLDER'S FUNDS	**578,553**	**556,221**	**4.0%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	57	217	-73.7%
Currency translation differences	-34,190	-34,821	-1.8%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**-34,133**	**-34,604**	-1.4%
SHAREHOLDERS' EQUITY	**544,420**	**521,617**	**4.4%**
Minority interest	0	0	n.s.
EQUITY	**544,420**	**521,617**	**4.4%**
Grants	3,738	3,891	-3.9%
Non-current provision	20,711	20,632	0.4%
Non-current financial liabilities	47,898	47,758	0.3%
Financial debt	35,079	35,670	-1.7%
Other financial liabilities	12,819	12,088	6.0%
Deferred tax liabilities	22,517	22,549	-0.1%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	**94,864**	**94,830**	**0.0%**
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	6,183	5,475	12.9%
Current financial liabilities	91,365	84,892	7.6%
Financial debt	74,713	65,656	13.8%
Other financial liabilities	16,652	19,236	-13.4%
Trade creditor and other payable accounts	77,919	83,279	-6.4%
Trade creditors	54,639	61,367	-11.0%
Other creditors	15,238	17,447	-12.7%
Current tax liabilities	8,042	4,465	80.1%
Other current liabilities	556	582	-4.5%
CURRENT LIABILITIES	**176,023**	**174,228**	**1.0%**
NET BANK DEBT	**81,852**	**84,587**	**-3.2%**

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€)

	1Q14	1Q13	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.370	1.320	3.8%
Canadian Dollar	1.511	1.331	13.5%
Mexican Peso	18.132	16.692	8.6%
Brazilian real	3.238	2.634	22.9%
Czech crown	27.442	25.567	7.3%
British Pound	0.828	0.852	-2.8%
Serbian Dinar	115.728	111.721	3.6%
Chinesse yuan remminbi	8.388	8.291	1.2%
Uruguayan Peso	30.400	25.273	20.3%

End period (Currency/€)

	Mar 14	Dec 13	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.379	1.379	0.0%
Canadian Dollar	1.523	1.467	3.8%
Mexican Peso	18.015	18.073	-0.3%
Brazilian real	3.120	3.231	-3.4%
Czech crown	27.442	27.427	0.1%
British Pound	0.828	0.834	-0.7%
Serbian Dinar	115.385	114.642	0.6%
Chinesse yuan remminbi	8.461	8.419	0.5%
Uruguayan Peso	31.255	29.546	5.8%

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