

January – March 2016 Results



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Management report

Main highlights of the January-March 2016 results

- Revenue amounted to €174.4 million, down 0.4% year-on-year in like-for-like¹ terms and 3.1% in reported terms.
- EBITDA² totalled €49.1 million, up 1.3% in like-for-like¹ terms and down 8.9% including non-recurring results and currency fluctuations.
- The like-for-like EBITDA margin advanced 0.5 p.p. to 29.1%.
- Net profit from continuing operations amounted to €27.3 million, down 9.1% year-on-year and 4.4% stripping out non-recurring results.
- A net cash position³ of €8.4 million. A robust balance sheet structure thanks to the strength of operating cash flow.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group: "The Viscofan Group is making good progress in the deployment of the strategy 'MORE TO BE 2016-2020' striving to take advantage of market growth opportunities in the years to come. In the short term, first-quarter results reflect the forecast weakness of the casings market in the first half of the year, contrasting with Viscofan Group operational strength, which continues to improve like-for-like margins, and stands out in a position to drive up results throughout 2016".

¹ Like-for-like: For the purposes of comparison, like-for-like growth excludes the impact of exchange rate fluctuations and the non-recurring result in 2015 from the outsourcing of pensions in the US.

² EBITDA = Operating profit (EBIT) + depreciation of property, plant and equipment.

³ Net bank debt = Non-current bank borrowings + Current bank borrowings – Cash and equivalents.

Consolidated results January-March 2016

Viscofan Group income statement ('000 €)

	Jan-Mar' 16	Jan-Mar' 15	Change	Like-for-like
Revenue	174,428	180,046	-3.1%	-0.4%
Recurring EBITDA *	49,125	51,533	-4.7%	1.3%
Recurring EBITDA Margin*	28.2%	28.6%	-0.4 p.p.	0.5 p.p.
Non recurring result *	0	2,389	n.s	
EBITDA	49,125	53,922	-8.9%	
EBITDA Margin	28.2%	29.9%	-1.7 p.p.	
EBIT	36,997	40,788	-9.3%	
Net profit from continuing operations	27,286	30,034	-9.1%	

* The recurring figure in 2015 excludes the non-recurring impact of €2.4 million on operating profit and €1.5 million on net profit from the outsourcing of the "Hourly Employees" and "Salaried Employees" pensions in the US.
Like-for-like: For the purposes of comparison, like-for-like growth excludes the impact of exchange rate fluctuations.

Revenue

Over the first three months of 2016 the Viscofan Group revenue grew in North America, Europe and Asia. This contrasts with the decline in sales in Latin America, in particular Brazil. In this area, the market declined as a consequence of the rise in the cost of raw material for meat processors due to the Brazilian real weakness and the loss of purchasing power from customers.

As a result, consolidated revenue in 1Q16 amounted to €174.4 million, down 3.1% year-on-year.

In like-for-like terms, i.e. stripping out the impact of non-recurring results and currency fluctuations, revenue in the quarter fell by 0.4% compared with 1Q15.

The geographical breakdown⁴ of revenue in 1Q16 is as follows:

- In Europe and Asia revenue advanced by 1.9% to €98.5 million, spearheaded by sales volumes in Asia.
- In North America, revenue grew 0.2% year-on-year to €53.4million. This is the area of higher like-for-like growth driven mainly by the recovery of sales volumes in the US.
- In Latin America, consolidated revenue fell by 25.3% vs. 1Q15 to €22.5 million, reflecting both the depreciation of the Brazilian real against the euro (-33.6%) and the decline in the market's volumes.

Casing sales declined by 3.4% compared with 1Q15 to €164.1 million while energy sales increased by 1.9% to €10.3 million.

Operating expenses

Cost of consumption⁵ amounted to €43.9 million in 1Q16, 1.3% lower than in 1Q15, with the cost of the main raw materials and energy for co-generation remaining positive in constant currency. The gross margin over sales⁶ stood at 74.9% in 1Q16, down 0.4 p.p. compared with the same period in 2015.

In addition, the Viscofan Group is also continuing to strengthen its human team ahead of the expected growth in the strategic period "MORE TO BE 2016-2020" in order to develop plastic casing production capacity in Mexico, capacity increases in Uruguay and Serbia, and the works to start plastic and fibrous production in Spain. As a result, the average workforce increased by 3.4% to 4,295 employees in the first

⁴ Revenue by origin of sales.

⁵ Cost of consumption = Supplies +/- Change in inventories of finished and unfinished products.

⁶ Gross margin = (Revenue - cost of consumption) / Revenue

quarter and personnel expenses totalled €41.1 million, an increase of 3.0% year-on-year in recurring terms and of 9.6% including the accounting savings from the outsourcing of pension plans in the United States recorded in 1Q15.

"Other operating expenses" in 1Q16 fell by 9.0% year-on-year to €41.2 million driven by lower energy supply costs, which fell by 16.6% year-on-year.

Operating profit

In a context of lower revenue, effective operating cost control and production efficiencies achieved by Viscofan Group were behind the improvement in the like-for-like EBITDA margin to 29.1% (+0.5 p.p. year-on-year).

This organic improvement is reflected in the growth in operating profit whilst the Viscofan Group continues to strengthen its team ahead of the expected higher sales volume in the second half of 2016 and the start-up of new plants in the second half of 2017.

Like-for-like EBITDA grew by 1.3% year-on-year in the quarter, down 8.9% year-on-year if the impact of exchange rates and non-recurring positive results of €2.4 million recorded in 1Q15 due to the outsourcing of risk related to pension plans in the US are included.

Depreciation costs in the first three months of 2016 amounted to €12.1 million (-7.7% vs. 1Q15). As a result, EBIT in the quarter stood at €37.0 million, down 9.3% year-on-year.

Financial result

The net finance loss in the quarter of €0.9 million was 18.9% lower than in 1Q15 thanks to the strength of the balance sheet, while exchange losses of -€0.6 million were reported vs. -€0.2 million in 1Q15 as a result of the currency fluctuations in balance sheet balances expressed in foreign currency.

Net profit and tax

Profit before tax in 1Q16 stood at €36.1 million, with corporate income tax totalling €8.8 million, an effective tax rate of 24.3%, similar to the rate of 24.2% in 1Q15.

As a result, net profit from continuing operations amounted to €27.3 million in 1Q16, down 9.1% year-on-year. Stripping out the impact of non-recurring results from the outsourcing of pension plans, net profit from continuing operations is 4.4% lower than in 1Q15.

Capital Expenditures

In 1Q16 the Group invested €10.9 million, as part of the planned outlay of €80 million this year. Under the MORE TO BE 2016-2020 Strategic Plan, Viscofan will invest in improving its competitive position in fibrous and plastic casing production technologies. For this purpose, work on this facility has already commenced to build new fibrous and plastic casings plants in Cáseda (Spain), which are expected to start operations in the second half of 2017.

Financial liabilities

Thanks to its robust organic growth, Viscofan is able to finance growth projects thanks to operating cash flows and strengthen its balance sheet. At the end of the first quarter the net cash position stood at €8.4 million compared with €3.2 million in December 2015.

Viscofan Group Profit and loss account. 1Q16 ('000 €)

	Jan-Mar' 16	Jan-Mar' 15	Change
Revenues	174,428	180,046	-3.1%
Other operating income	643	970	-33.7%
Self-constructed assets	64	69	-7.2%
Variation in stocks of finished products and work-in-progress	-10,455	21,966	c.s
Net purchases	-33,404	-66,424	-49.7%
Personnel expenses	-41,119	-37,517	9.6%
Other operating expenses	-41,240	-45,335	-9.0%
Capital grants	169	152	11.2%
Impairment and results coming from disposals of non-current assets	39	-5	c.s
Other results	0	0	n.s.
Recurring EBITDA *	49,125	51,533	-4.7%
<i>Recurring EBITDA margin *</i>	<i>28.2%</i>	<i>28.6%</i>	<i>-0.4 p.p.</i>
Non recurring*	0	2,389	n.s.
EBITDA	49,125	53,922	-8.9%
<i>EBITDA margin</i>	<i>28.2%</i>	<i>29.9%</i>	<i>-1.7 p.p.</i>
Amortization and depreciation	-12,128	-13,134	-7.7%
EBIT	36,997	40,788	-9.3%
<i>EBIT margin</i>	<i>21.2%</i>	<i>22.7%</i>	<i>-1.5 p.p.</i>
Financial incomes	119	52	128.8%
Financial expenditures	-406	-1,039	-60.9%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	-647	-164	294.5%
Impairment and results coming from disposals of financial assets	0	0	n.s.
Financial results	-934	-1,151	-18.9%
Profit from associated companies	0	0	n.s.
Profit before taxes	36,063	39,637	-9.0%
Taxes	-8,777	-9,603	-8.6%
Profit after taxes from continued operations	27,286	30,034	-9.1%
Profit after taxes from interrupted operations	0	411	n.s.
Net profit	27,286	30,445	-10.4%
a) Net profit attributable to the parent company	27,302	30,445	-10.3%
b) Net profit attributable to minority interests	-16	0	n.s.

* The recurring figure in 2015 excludes the non-recurring impact of €2.4 million on operating profit and €1.5 million on net profit from the outsourcing of the "Hourly Employees" and "Salaried Employees" pensions in the USA.

Consolidated balance sheets ('000 €)

	Mar '16	Dec '15	Change
Intangible assets	19,333	18,334	5.4%
Goodwill	3,520	3,520	0.0%
Others intangible asset	15,813	14,814	6.7%
Tangible assets	374,118	382,025	-2.1%
Real state investments	0	0	n.s.
Investment accounting using the equity method	0	0	n.s.
Non-current financial assets	813	1,311	-38.0%
Deferred tax assets	10,772	14,518	-25.8%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	405,036	416,188	-2.7%
Non-current assets held for sale	0	0	n.s.
Inventories	218,730	208,637	4.8%
Trade and other receivables	156,272	159,296	-1.9%
Trade debtors	125,333	128,974	-2.8%
Other debtors	28,447	26,089	9.0%
Current tax assets	2,492	4,233	-41.1%
Other financial current assets	2,835	1,214	133.5%
Other current assets	5,890	2,133	176.1%
Cash and cash equivalents	45,682	44,453	2.8%
CURRENT ASSETS	429,409	415,733	3.3%
TOTAL ASSETS= EQUITY AND LIABILITIES	834,445	831,921	0.3%
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	656,300	536,278	22.4%
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	27,300	120,022	-77.3%
Less: Interim dividend	-24,234	-24,234	0.0%
Other equity instruments	0	0	n.s.
SHAREHOLDER'S FUNDS	692,001	664,701	4.1%
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	-1,914	-2,861	-33.1%
Currency translation differences	-36,444	-28,931	26.0%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	-38,358	-31,792	20.7%
SHAREHOLDERS' EQUITY	653,643	632,909	3.3%
Minority interest	274	290	-5.5%
EQUITY	653,917	633,199	3.3%
Grants	3,391	3,578	-5.2%
Non-current provision	20,615	20,718	-0.5%
Non-current financial liabilities	37,260	37,616	-0.9%
Financial debt	25,576	26,130	-2.1%
Other financial liabilities	11,684	11,486	1.7%
Deferred tax liabilities	18,193	20,627	-11.8%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	79,459	82,539	-3.7%
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	6,829	5,097	34.0%
Current financial liabilities	22,087	29,837	-26.0%
Financial debt	11,656	15,078	-22.7%
Other financial liabilities	10,431	14,759	-29.3%
Trade creditor and other payable accounts	71,748	80,818	-11.2%
Trade creditors	49,825	51,615	-3.5%
Other creditors	15,647	21,132	-26.0%
Current tax liabilities	6,276	8,071	-22.2%
Other current liabilities	405	431	-6.0%
CURRENT LIABILITIES	101,069	116,183	-13.0%
NET BANK DEBT / (NET BANK CASH)	-8,450	-3,245	160.4%

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€)

End period (Currency/€)

	1Q16	1Q15	% Change	Mar 16	Dec 15	% Change
Euro	1.000	1.000	0.0%	1.000	1.000	0.0%
US Dollar	1.102	1.127	-2.2%	1.139	1.089	4.6%
Canadian Dollar	1.516	1.397	8.5%	1.474	1.512	-2.5%
Mexican Peso	19.897	16.834	18.2%	19.590	18.915	3.6%
Brazilian real	4.304	3.221	33.6%	4.052	4.251	-4.7%
Czech crown	27.040	27.627	-2.1%	27.051	27.023	0.1%
British Pound	0.770	0.744	3.6%	0.792	0.734	7.8%
Serbian Dinar	122.842	121.518	1.1%	122.925	121.626	1.1%
Chinese yuan renminbi	7.116	6.942	2.5%	7.331	7.095	3.3%
Uruguayan Peso	34.775	27.907	24.6%	36.138	32.604	10.8%

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