

January – June 2016 Results



(Free translation from the original in Spanish, in event of discrepancy, the Spanish-language version prevails)

Management report

Main highlights of the April-June 2016 results

- €32.6 million in net profit from continuing operations, up 8.6% compared with the second quarter of 2015.
- Quarterly EBITDA¹ of €51.5 million, down 4.6% year on year and 0.1% in like-for-like² terms stripping out the impact of currencies.
- The like-for-like EBITDA margin advanced by 0.1 p.p. to 28.4%.
- Revenue amounted to €182.4 million, down 4.4% year-on-year and down 0.6% in like-for-like terms.
- Net bank debt³ of €13.0 million compared with a net cash position of €3.2 million in December 2015 as a result of the payment of a final gross dividend of €0.82 per share in June 2016.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group “Global presence and better production footprint help us to achieve again organic growth in main casings markets with the exception of Latin America. In an environment of weak performance in Latin America and forex headwinds, we reiterate our initial guidance on Net profit growth, but we lower our outlook for Revenue and EBITDA growth. In operating terms, investment plans are progressing well, in line the growth prospects for the midterm set out in our strategic plan ‘MORE TO BE 2016-2020’ ”.

¹ EBITDA = Operating profit (EBIT) + depreciation of property, plant and equipment.

² 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.

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

Consolidated results January-June 2016

Viscofan Group 1H16 income statement ('000 €)

	Jan-Jun' 16	Jan-Jun' 15	Change	Like-for-like
Revenue	356,876	370,818	-3.8%	-0.5%
Recurring EBITDA *	100,650	105,521	-4.6%	0.6%
<i>Recurring EBITDA Margin*</i>	<i>28.2%</i>	<i>28.5%</i>	-0.3 p.p.	0.3 p.p.
Non recurring result *	0	2,412	n.s.	
EBITDA	100,650	107,933	-6.7%	
<i>EBITDA Margin</i>	<i>28.2%</i>	<i>29.1%</i>	-0.9 p.p.	
EBIT	76,375	81,442	-6.2%	
Net profit from continuing operations	59,894	60,060	-0.3%	

Viscofan Group 2Q16 income statement ('000 €)

	Apr-Jun' 16	Apr-Jun' 15	Change	Like-for-like
Revenue	182,448	190,772	-4.4%	-0.6%
Recurring EBITDA *	51,525	54,010	-4.6%	-0.1%
<i>Recurring EBITDA Margin*</i>	<i>28.2%</i>	<i>28.3%</i>	-0.1 p.p.	0.1 p.p.
Non recurring result *	0	0	n.s.	
EBITDA	51,525	54,010	-4.6%	
<i>EBITDA Margin</i>	<i>28.2%</i>	<i>28.3%</i>	-0.1 p.p.	
EBIT	39,379	40,653	-3.1%	
Net profit from continuing operations	32,609	30,025	8.6%	

* 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.

Revenue

Revenue amounted to €356.9 million, down 3.8% year on year due to the weakness of the market in Latin America, the decline in co-generation revenue due to the lower energy price and an unfavourable currency backdrop, contrasting with the volume growth achieved in North America, Europe and Asia.

Casing sales amounted to €336.5 million (-3.5% vs. 1H15) and co-generation sales to €20.4 million (-8.4% vs. 1H15).

Stripping out the impact of currencies, which reduced net revenue by 3.3 p.p., like-for-like² revenues in the first half fell by 0.5% vs. 1H15.

In the second quarter the Viscofan Group maintained the trend noted since the start of the year, with a solid volume performance driving revenue growth in North America, Europe and Asia, offsetting the impact of the weak Latin American market, especially Brazil, with a double-digit decline in revenue. Against this backdrop, revenue in the quarter amounted to €182.4 million (-4.4% vs. 2Q15).

Like-for-like growth in casing sales was insufficient to offset the weakening of trading currencies in the quarter, with casing revenue amounting to €172.3 million (-3.5% vs. 2Q15), while co-generation revenue totalled €10.1MM (down 16.8% vs. 2Q15).

The geographical breakdown of revenue⁴ in 1H16 is as follows:

⁴ Revenue per origin of sales.

- In Europe and Asia revenue totalled €200.7 million, up 1.1% in like-for-like terms and 0.2% in reported terms.
- In North America the improvement achieved in the first quarter was consolidated and revenue totalled €109.1 million, up 3.0% in like-for-like terms compared with the 1.2% decline in consolidated revenue as a result of the depreciation of the CAD/€ (7.8%) and the MXP/€ (19.4%) against the Euro.
- In Latin America revenue totalled €47.0 million, down 12.5% in like-for-like terms, which coupled with the depreciation of currencies, in particular the decline of the Brazilian real against the Euro (25.0%), left the segment's revenue 21.6% lower than in the same period a year earlier, and eroded the growth obtained in other regions.

Operating expenses

The lower costs of the main raw materials in constant currency, along with operating efficiencies, reduced the cost of consumption⁵ in 2Q16 by 7.5% vs. 2Q15 to €49.3 million, in the first half this figure was down 4.7% vs. 1H15 to €93.2 million. Commercial discipline and the lower cost of consumption were behind a quarterly improvement of 1.0 p.p. vs. 2Q15 in the gross margin⁶ to 73.0% resulting in a cumulative gross margin of 73.9% (+0.3 p.p. vs. 1H15).

The average headcount at the end of June 2016 was 4,309 persons, up 2.8% year on year. This reflects the strengthening of the workforce including, among others, the recruitment of personnel for the start-up of plastics production in Mexico, and the work to initiate production of fibrous and plastic casings in Spain. As a result, personnel expenses in 1H16 grew by 2.6% vs. 1H15 in recurring terms.

In reported terms, i.e. including the accounting savings from the outsourcing of pension plans in the United States in 1Q15, personnel expenses advanced by 5.8% vs. 1H15 to €82.2 million, of which €41.1 million corresponds to 2Q16, 2.2% more than in 2Q15.

Other operating expenses fell 6.5% in 1H16 vs. 1H15 to €83.8 million and 3.9% in 2Q16 vs. 2Q15 to €42.5 million thanks to lower energy supply costs, which fell by 17.0% and 17.3% respectively.

Operating profit

The Viscofan Group continues to combine cost control with plans for operational improvement and future growth, in line with the goals for consolidating leadership set out in the "MORE TO BE 2016-2020" strategic plan.

Accordingly, the organic EBITDA margin continued to improve in the quarter (+0.1 p.p. vs. 2Q15) and in the first half (+0.3 p.p. vs. 1H15).

In turn, the marked weakening of the Group's main trading currencies left the consolidated recurring EBITDA margin at 28.2% vs. 28.5% in the first half of 2015, while in the quarter this margin stood at 28.2% compared with 28.3% in 2Q15.

Consolidated EBITDA in the period amounted to €100.7 million, down 6.7% year on year, of which €51.5 million correspond to 2Q16 (-4.6% vs. 2Q15).

Depreciation costs in the first half of 2016 amounted to €24.3 million (-8.4% vs. 1H15) and to €12.1 million in 2Q16 (-9.1% vs. 2Q15).

EBIT amounted to €76.4 million in the first half, down 6.2% year on year, and to €39.4 million in the second quarter, a decline of 3.1% compared with 2Q15.

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

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

Financial result

In the first half of 2016 the Group achieved a net finance gain of €0.8 million compared with the losses of €2.4 million reported in 1H15.

The lower debt level enabled the Group to reduce financial expense to -€0.8 million in 1H16 (-€2.0 million in 1H15). The Group also registered positive exchange differences of €1.3 million compared with negative exchange differences of -€0.6 million in 1H15 as a result of the currency fluctuations in balance sheet balances expressed in foreign currency.

Net profit and tax

Profit before tax in 1H16 stood at €77.2 million, with corporate income tax totalling €17.3 million. This reflects an effective tax rate of 22.4%, compared to the rate of 24.0% in 1H15.

Cost control, lower finance expenses, positive exchange differences and tax savings all contributed to the 8.6% growth in quarterly net profit from continuing operations to €32.6 million.

In cumulative terms, net profit from continuing operations amounted to €59.9 million compared with €60.1 million in 1H15. Stripping out the impact of non-recurring results from the outsourcing of pensions, net profit from operations grew by 2.3% compared with 1H15.

Capital Expenditures

In 2016 the Group has invested €37.3 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 plastic and fibrous casing production technologies. Work on the construction of new plastic and fibrous casings plants in Cáteda (Spain) is proceeding according to schedule and they are expected to start up by the end of 2016 and in the second half of 2017, respectively.

Financial liabilities

Net bank debt stood at €13.0 million compared with a net cash position of €3.2 million in December 2015. This increase in net debt is mainly attributable to the payment of the final dividend in June 2016, giving a total amount of €38.2 million, and the increased investment under the MORE TO BE 2016-2020 strategic plan.

Viscofan Group Profit and loss account. 1H16 ('000 €)

	Jan-Jun' 16	Jan-Jun' 15	Change
Revenues	356,876	370,818	-3.8%
Other operating income	2,512	1,699	47.9%
Self-constructed assets	130	155	-16.1%
Variation in stocks of finished products and work-in-progress	9,906	20,298	-51.2%
Net purchases	-103,103	-118,084	-12.7%
Personnel expenses	-82,208	-77,703	5.8%
Other operating expenses	-83,766	-89,595	-6.5%
Capital grants	336	326	3.1%
Impairment and results coming from disposals of non-current assets	-33	19	c.s
Other results	0	0	n.s.
Recurring EBITDA *	100,650	105,521	-4.6%
<i>Recurring EBITDA margin *</i>	28.2%	28.5%	-0.3 p.p.
Non recurring*	0	2,412	n.s.
EBITDA	100,650	107,933	-6.7%
<i>EBITDA margin</i>	28.2%	29.1%	-0.9 p.p.
Amortization and depreciation	-24,275	-26,491	-8.4%
EBIT	76,375	81,442	-6.2%
<i>EBIT margin</i>	21.4%	22.0%	-0.6 p.p.
Financial incomes	275	126	118.3%
Financial expenditures	-779	-1,963	-60.3%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	1,325	-596	c.s
Impairment and results coming from disposals of financial assets	0	0	n.s.
Financial results	821	-2,433	c.s
Profit from associated companies	0	0	n.s.
Profit before taxes	77,196	79,009	-2.3%
Taxes	-17,302	-18,949	-8.7%
Profit after taxes from continued operations	59,894	60,060	-0.3%
Profit after taxes from interrupted operations	0	411	n.s.
Net profit	59,894	60,471	-1.0%
a) Net profit attributable to the parent company	59,919	60,476	-0.9%
b) Net profit attributable to minority interests	-25	-5	400.0%

* 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.

Viscofan Group Profit and loss account. 2Q16 ('000 €)

	Apr-Jun' 16	Apr-Jun' 15	Change
Revenues	182,448	190,772	-4.4%
Other operating income	1,869	729	156.4%
Self-constructed assets	66	85	-22.4%
Variation in stocks of finished products and work-in-progress	-350	-1,668	-79.0%
Net purchases	-48,989	-51,660	-5.2%
Personnel expenses	-41,088	-40,186	2.2%
Other operating expenses	-42,526	-44,259	-3.9%
Capital grants	167	173	-3.5%
Impairment and results coming from disposals of non-current assets	-72	24	c.s
Other results	0	0	n.s.
Recurring EBITDA *	51,525	54,010	-4.6%
<i>Recurring EBITDA margin *</i>	28.2%	28.3%	-0.1 p.p.
Non recurring*	0	0	n.s.
EBITDA	51,525	54,010	-4.6%
<i>EBITDA margin</i>	28.2%	28.3%	-0.1 p.p.
Amortization and depreciation	-12,146	-13,357	-9.1%
EBIT	39,379	40,653	-3.1%
<i>EBIT margin</i>	21.6%	21.3%	0.3 p.p.
Financial incomes	156	75	108.0%
Financial expenditures	-373	-924	-59.6%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	1,973	-432	c.s
Impairment and results coming from disposals of financial assets	0	0	n.s.
Financial results	1,756	-1,281	c.s
Profit from associated companies	0	0	n.s.
Profit before taxes	41,135	39,372	4.5%
Taxes	-8,526	-9,347	-8.8%
Profit after taxes from continued operations	32,609	30,025	8.6%
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	32,609	30,025	8.6%
a) Net profit attributable to the parent company	32,618	30,030	8.6%
b) Net profit attributable to minority interests	-9	-5	80.0%

Consolidated balance sheets ('000 €)

	Jun '16	Dec '15	Change
Intangible assets	17,892	18,334	-2.4%
Goodwill	3,520	3,520	0.0%
Others intangible asset	14,372	14,814	-3.0%
Tangible assets	393,003	382,025	2.9%
Real state investments	0	0	n.s.
Investment accounting using the equity method	0	0	n.s.
Non-current financial assets	3,628	1,311	176.7%
Deferred tax assets	10,957	14,518	-24.5%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	425,480	416,188	2.2%
Non-current assets held for sale	0	0	n.s.
Inventories	219,013	208,637	5.0%
Trade and other receivables	177,769	159,296	11.6%
Trade debtors	138,544	128,974	7.4%
Other debtors	31,851	26,089	22.1%
Current tax assets	7,374	4,233	74.2%
Other financial current assets	2,418	1,214	99.2%
Other current assets	6,381	2,133	199.2%
Cash and cash equivalents	37,344	44,453	-16.0%
CURRENT ASSETS	442,925	415,733	6.5%
TOTAL ASSETS= EQUITY AND LIABILITIES	868,405	831,921	4.4%
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	593,851	536,278	10.7%
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	59,919	120,022	-50.1%
Less: Interim dividend	0	-24,234	n.s.
Other equity instruments	0	0	n.s.
SHAREHOLDER'S FUNDS	686,405	664,701	3.3%
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	365	-2,861	c.s.
Currency translation differences	-26,309	-28,931	-9.1%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	-25,944	-31,792	-18.4%
SHAREHOLDERS' EQUITY	660,461	632,909	4.4%
Minority interest	265	290	-8.6%
EQUITY	660,726	633,199	4.3%
Grants	3,499	3,578	-2.2%
Non-current provision	20,683	20,718	-0.2%
Non-current financial liabilities	36,308	37,616	-3.5%
Financial debt	25,124	26,130	-3.8%
Other financial liabilities	11,184	11,486	-2.6%
Deferred tax liabilities	19,411	20,627	-5.9%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	79,901	82,539	-3.2%
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	6,805	5,097	33.5%
Current financial liabilities	36,255	29,837	21.5%
Financial debt	25,249	15,078	67.5%
Other financial liabilities	11,006	14,759	-25.4%
Trade creditor and other payable accounts	84,346	80,818	4.4%
Trade creditors	51,732	51,615	0.2%
Other creditors	23,819	21,132	12.7%
Current tax liabilities	8,795	8,071	9.0%
Other current liabilities	372	431	-13.7%
CURRENT LIABILITIES	127,778	116,183	10.0%
NET BANK DEBT / (NET BANK CASH)	13,029	-3,245	c.s.

Cash flow statements ('000 €)

	Jan-Jun' 16	Jan-Jun' 15	Change
Cash flows from operating activities	65,697	51,864	26.7%
Profit for the year before tax	77,196	79,009	-2.3%
Adjustments in results	22,159	33,664	-34.2%
Amortisation and depreciation	24,275	26,491	-8.4%
Others adjustments in results(net)	-2,116	7,173	c.s.
Changes in working capital	-16,042	-44,166	-63.7%
Other cash flows from operating activities	-17,616	-16,643	5.8%
Interest paid	0	0	n.s.
Dividend paid and other payments from others equity instruments	0	0	n.s.
Dividends received	0	0	n.s.
Interests received	0	0	n.s.
Proceeds/ (payments) from income tax	-17,176	-9,081	89.1%
Proceeds/(payments) from operating activities	-440	-7,562	-94.2%
Cash flows from investing activities	-37,763	24,940	c.s.
Investment payments	-38,038	-32,040	18.7%
Group companies, associated & business units	0	-4,000	n.s.
Acquisition of property, plant and equipment and intangible assets	-38,038	-27,250	39.6%
Other financial assets	0	-790	n.s.
Other assets	0	0	n.s.
Cash from disposals	0	56,854	n.s.
Group companies, associated & business units	0	55,803	n.s.
Disposal of property, plant and equipment and intangible assets	0	323	n.s.
Other financial assets	0	728	n.s.
Other assets	0	0	n.s.
Other cash flows from investing activities	275	126	118.3%
Dividends received	0	0	n.s.
Interest received	275	126	118.3%
Proceeds/(Payments) from interrupted operations	0	0	n.s.
Cash flows from financing activities	-33,804	-45,424	-25.6%
Proceeds and payments from equity instruments	0	0	n.s.
Proceeds from issue of stock	0	0	n.s.
Cancellation and payments	0	0	n.s.
Acquisition	0	0	n.s.
Disposal	0	0	n.s.
Proceeds and payments from financial liabilities instruments	9,263	-12,933	c.s.
Proceeds from issue of financial liabilities instruments	24,341	23,280	4.6%
Refund, cancellation and payments	-15,078	-36,213	-58.4%
Dividends paid and others payments from others equities instruments	-38,215	-33,741	13.3%
Others cash flows from financing activities	-4,852	1,250	c.s.
Interest paid	-493	-1,769	-72.1%
Others proceeds /(payments) from financing activities	-4,359	3,019	c.s.
Effect of foreign exchange rate changes on collections and payments	-1,239	495	c.s.
Net increase (decrease) in cash and cash equivalents	-7,109	31,875	c.s.
Cash and cash equivalents at the begining of the period	44,453	25,601	73.6%
Cash and cash equivalent at the end of the period	37,344	57,476	-35.0%

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€)

	1H16	1H15	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.116	1.116	0.0%
Canadian Dollar	1.486	1.378	7.8%
Mexican Peso	20.162	16.885	19.4%
Brazilian real	4.134	3.309	25.0%
Czech crown	27.040	27.506	-1.7%
British Pound	0.779	0.733	6.3%
Serbian Dinar	122.922	120.977	1.6%
Chinese yuan renminbi	7.246	6.859	5.6%
Uruguayan Peso	34.784	28.650	21.4%

End period (Currency/€)

	Jun 16	Dec 15	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.110	1.089	2.0%
Canadian Dollar	1.438	1.512	-4.8%
Mexican Peso	20.635	18.915	9.1%
Brazilian real	3.564	4.251	-16.2%
Czech crown	27.131	27.023	0.4%
British Pound	0.827	0.734	12.6%
Serbian Dinar	123.312	121.626	1.4%
Chinese yuan renminbi	7.375	7.095	3.9%
Uruguayan Peso	33.991	32.604	4.3%

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