Viscofan
The casing company

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Results report

Main highlights of the January-June 2018 results:

- €385.7 million in revenue. Growth of 3.5% in like-for-like terms[1], and a decrease of 1.2% in consolidated revenue due to the weakness of exchange rates for the main trading currencies against the €.
- €109.3 million in EBITDA[2], 6.3% less than the previous year and 1.5% in like-for-like terms[1]. The year's non-recurring results amount to €14.5 million from compensation for using patents.
- €65.7 million in Net Profit, down 0.7% year-on-year.
- €70.0 million in net bank debt[3] at June 2018, up from the €41.1 million at December 2017 after the payment of €0.92 gross per share in June 2018, as a final dividend.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group: “We continue leading the growth in an expanding market. This commercial dynamism combines with excellent operational execution, particularly as refers to the new plant in Cáseda, Spain. These new facilities represent a historical and unique change in the market regarding production of viscose-based casings (cellulose and fibrous), where we're achieving excellent results in terms of efficiency and end-product application."

Viscofan Group. January-June 2018

Selected figures. Viscofan Group income statement ('000 €)

	Accumulated				Quarterly			
	Jan-Jun' 18	Jan-Jun' 17	*Change*	*Like-for-like (2)*	Apr-Jun' 18	Apr-Jun' 17	*Change*	*Like-for-like (2)*
Revenue	385,692	390,299	-1.2%	3.5%	197,897	195,695	1.1%	4.6%
Recurring EBITDA (1)	94,802	110,595	-14.3%	-1.5%	48,551	56,005	-13.3%	-3.4%
Recurring EBITDA Margin (1)	*24.6%*	*28.3%*	-3.7 p.p.	-1.3 p.p.	*24.5%*	*28.6%*	-4.1 p.p.	-2.2 p.p.
EBITDA	109,295	116,585	-6.3%		54,835	61,995	-11.5%	
EBITDA Margin	*28.3%*	*29.9%*	-1.6 p.p.		*27.7%*	*31.7%*	-4.0 p.p.	
Operating profit	78,528	88,455	-11.2%		39,090	47,939	-18.5%	
Net profit	65,697	66,162	-0.7%		34,046	34,568	-1.5%	

(1) Recurring results: a) In 2018, the amount excludes the impact recorded in Other operating income of €15.4 million corresponding to the compensation received in 2018 for a dispute against Mivisa Envases S.A.U. due to patent infringement, netted at €0.9 million recorded in Other operating expenses corresponding to the expenses related with this dispute and the acquisition of companies. b) In 2017, it excludes the positive impact of €6.0 million in EBITDA corresponding to the net impact of the compensation for the fire in Germany, once non-recurring costs are deducted for inventory, clearing and cleaning, inter alia.

(2) Like-for-like: Like-for-like growth excludes the impact of the variation in exchange rates, the effect of the change in the consolidation scope and the non-recurring impacts of the business.

Revenue:

In 2Q18, the Viscofan Group led market growth on the strength of greater sales volumes in all casing technologies until it reached a new all-time high in consolidated quarterly revenue with €197.9 million, which represents an increase of 1.1%, even in an environment of adverse forex.

[1] Like-for-like: Like-for-like growth excludes the impact of the variation in exchange rates, the effect of the change in the consolidation scope and the non-recurring impacts of the business.

[2] EBITDA = Operating profit (EBIT) + Depreciation of property, plant and equipment and amortization.

[3] Net bank debt = Non-current bank debt + Current bank debt - Cash and cash equivalents

Without considering the impact of foreign exchange differences, which undermine growth by -5.6 p.p in 2Q18, and the changes in the consolidation scope, which contribute +2.2 p.p. of growth in 2Q18, quarterly revenue grew by 4.6% vs. 2Q17 in like-for-like terms[1]; particular mention should be made of the volumes in Latin America, Europe and Asia and the recovery in North America.

This quarter was marked by intense commercial activity, working on prices increases for the second half of the year while improving the sales volume across all technologies, namely double-digit growth rates in collagen, fibrous and plastics.

Also, metres produced in the new Cáseda plant have been sold since May. This plant has the latest technology for viscose-based casings (cellulose and fibrous) with very satisfactory results both in terms of the productive process and customer application. However, in keeping with expectations, the volumes are still not significant or large enough to absorb the fixed costs of the new plant.

By revenue type, reported casing sales totalled €186.8 million (+0.9% vs. 2Q17) and revenue from co-generation power sales totalled €11.1 million (+5.7% vs. 2Q17).

Half-yearly revenue grew by 3.5% vs. 1H17 in like-for-like terms[1], boosted by increased volumes and improved co-generation prices. Also, foreign exchange variation undermine growth by -6.8 p.p in 1H18, which had partially recovered with the contribution of +2.1 p.p. to the consolidated scope from new additions. As such, revenue in the first half of 2018 was €385.7 million (-1.2% vs. 1H17).

By revenue type, reported casing sales totalled €364.1 million (-1.4% vs. 1H17) and revenue from co-generation power sales totalled €21.6 million (+3.2% vs. 1H17).

The breakdown and geographical performance[4] of revenue in June 2018 is as follows:

- Europe and Asia (57.2% of the total): Reported revenue totalled €220.8 million, up 5.6% compared with 1H17 and 4.1% in like-for-like terms, boosted by higher sales volumes in both Europe and Asia.
- North America (28.4% of the total): Revenue amounted to €109.4 million, down 9.9% on 1H17, caused by the weakness of the US$ against the €. In like-for-like terms, revenue remained stable (+0.1% vs. 1H17) thanks to the recovery in this quarter (+3.0 vs. 2Q17).
- Latin America (14.4% of the total): Revenue amounted to €55.5 million, a decline of 7.0% on 1H17, caused mainly by the weakness of the Brazilian Real against the €, while in like-for-like terms revenue increased 8.5%.

Other operating income

Other operating income as of June amounted to €18.3 million, including €8.5 million received in January 2018 as compensation for patent infringement and €6.9 million registered in June 2018 resulting from the agreement with Crown Food España S.A.U. to end the legal actions.

Operating expenses

The cost of consumption[5] went up by 10.2% in 1H18 vs. 1H17 to €105.7 million, resulting in a gross margin[6] of 72.6% (-2.8 p.p. vs. 1H17) due to increased costs of raw materials, mainly caustic soda and glycerine. In the second quarter, cost of consumption increased by 13.1% vs. 2Q17 to €55.1 million, resulting in a gross margin of 72.2% (-2.9 p.p. vs. 2Q17).

Personnel expenses in 1H18 grew by 1.7% vs. 1H17 to €95.1 million. The average workforce was up 3.2% to 4,659 people, owing to the inclusion of staff from the Supralon companies in Europe and the increase in personnel recruited, most notably in Spain (+10% compared to the previous year). Personnel expenses amounted to €48.0 million in 2Q18, up by 3.3% vs. 2Q17.

[4] Revenue per origin of sale.
[5] Cost of consumption = Net purchases +/- Changes in inventory of finished goods and work in progress.
[6] Gross margin = (Revenue - Consumption costs) / Revenue

Other operating expenses in 1H18 were 3.2% below the levels of 1H17 at €94.3 million, with energy supply costs decreasing by 3.4% vs. 1H17. As for the second quarter, other operating expenses decreased 0.1% year-on-year, with energy supply costs stable vs. 2Q17.

Operating profit and Net profit

The variation of exchange rates against the euro reduced the reported EBITDA in over €14 million to €109.3 million, -6.3% lower than the previous year, and to €54.8 million in 2Q18 (-11.5% vs. 2Q17).

The like-for-like EBITDA[1] in 1H18 went down by 1.5% on the previous year and by 3.4% in the second quarter. This was mostly due to the increased costs with raw materials mentioned above and to higher fixed and personnel expenses mostly associated with the commissioning of the new plant in Spain.

Consequently, the like-for-like[1] EBITDA margin went down by 1.3 p.p. when compared to 1H17 and by 2.2 p.p. when compared to 2Q17. The announced increase in prices has already been implemented in a large number of customers since the second half of the year.

Depreciation costs in the first half of 2018 went up by 9.4% vs. 1H17 to €30.8 million and by 12.0% in 2Q18 vs. 2Q17 to €15.7 million due to launch of the new production plant in Cáseda and the investments made under the current MORE TO BE strategic plan.

As a result, the Group obtained €78.5 million in cumulative operating profit, 11.2% less than 1H17, with €39.1 million in the second quarter (-18.5% vs. 2Q17).

In the first half of 2018, the net financial result was positive at +€2.3 million owing to the positive exchange differences of +€2.9 million, which compares with the net financial loss of -€5.7 million in 1H17 when foreign exchange differences were negative at -€4.9 million.

Cumulative profit before tax as of June 2018 was €80.8 million with corporate income tax totalling €15.1 million, an effective tax rate of 18.7% (20.0% for the same period in the previous year).

Lastly, the net profit in the first half of 2018 was of €65.7 million, down 0.7% year-on-year, with €34.0 million in 2Q18, -1.5% vs. 2Q17.

Investment

Having completed the first phase of construction and installation of new technology in Cáseda with results as expected, the Viscofan Group has begun the project to install new machines to increase the production volume with this technology and, as such, achieve greater critical mass to increase savings and absorb the fixed costs of this new plant.

The investment total for this first six months of 2018 was €30.2 million (€51.8 million in 1H17) and all other projects are still in progress in view of reaching €75 million in overall investment for 2018.

Financial liabilities

At the close of June 2018, the net bank debt stands at €70.0 million compared with the €41.1 million at the close of December 2017. This increase in net debt is mainly attributable to the payment of the final dividend in June 2018, giving a total amount of €42.9 million.

Dividend payment in 2018

On 22 March 2018, the Viscofan Group paid an extraordinary dividend of €0.13 per share, which corresponds to the contribution of the net profit of the year 2018 of the one-off gain from the Supreme Court ruling in the action brought by Industrias Alimentarias de Navarra S.A.U. against Mivisa Envases

S.A.U. (now Crown Food España S.A.U.) for the infringement of a patent which, according to the sale contract of Industrias Alimentarias de Navarra, S.A.U., belongs to Viscofan S.A.

Also, as per the distribution of profit from 2017 approved by the General Shareholders' Meeting, in June 2018 the final dividend of €0.92 per share was paid (total of €42.9 million). This final dividend, coupled with the interim dividend paid in December 2017 and the bonus for attending the Shareholders' Meeting, makes for €1.55 per share, 6.9% more than in the previous year.

Viscofan Group Profit and loss account. 1H18 ('000 €)

	Jan-Jun' 18	Jan-Jun' 17	*Change*
Revenues	**385,692**	**390,299**	**-1.2%**
Other operating income	18,257	12,490	46.2%
Self-constructed assets	128	132	-3.0%
Variation in stocks of finished products and work-in-progress	23,772	22,531	5.5%
Net purchases	-129,427	-118,400	9.3%
Personnel expenses	-95,092	-93,471	1.7%
Other operating expenses	-94,327	-97,422	-3.2%
Capital grants	314	320	-1.9%
Impairment and results coming from disposals of non-current assets	-22	106	c.s
Other results	0	0	n.s.
EBITDA	**109,295**	**116,585**	**-6.3%**
EBITDA margin	*28.3%*	*29.9%*	*-1.6 p.p.*
Amortization and depreciation	-30,767	-28,130	9.4%
Operating profit	**78,528**	**88,455**	**-11.2%**
Operating profit margin	*20.4%*	*22.7%*	*-2.3 p.p.*
Financial incomes	164	63	160.3%
Financial expenditures	-779	-913	-14.7%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	2,893	-4,872	c.s
Impairment and results coming from disposals of financials assets	24	0	n.s.
Financial results	**2,302**	**-5,722**	**c.s**
Profit from associated companies	0	0	n.s.
Profit before taxes	**80,830**	**82,733**	**-2.3%**
Taxes	-15,133	-16,571	-8.7%
Profit after taxes from continued operations	**65,697**	**66,162**	**-0.7%**
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	**65,697**	**66,162**	**-0.7%**
a) Net profit attributable to the parent comany	65,757	66,210	-0.7%
b) Net profit attributable to minority interests	-60	-48	25.0%

Viscofan Group Profit and loss account. 2Q18 ('000 €)

	Apr-Jun' 18	Apr-Jun' 17	*Change*
Revenues	**197,897**	**195,695**	**1.1%**
Other operating income	8,400	9,853	-14.7%
Self-constructed assets	64	63	1.6%
Variation in stocks of finished products and work-in-progress	8,544	11,875	-28.1%
Net purchases	-63,649	-60,587	5.1%
Personnel expenses	-47,954	-46,410	3.3%
Other operating expenses	-48,569	-48,603	-0.1%
Capital grants	157	160	-1.9%
Impairment and results coming from disposals of non-current assets	-55	-51	7.8%
Other results	0	0	n.s.
EBITDA	**54,835**	**61,995**	**-11.5%**
EBITDA margin	*27.7%*	*31.7%*	*-4.0 p.p.*
Amortization and depreciation	-15,745	-14,056	12.0%
Operating profit	**39,090**	**47,939**	**-18.5%**
Operating profit margin	*19.8%*	*24.5%*	*-4.7 p.p.*
Financial incomes	87	24	262.5%
Financial expenditures	-410	-405	1.2%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	4,804	-4,826	c.s
Impairment and results coming from disposals of financials assets	-1	0	n.s.
Financial results	**4,480**	**-5,207**	**c.s**
Profit from associated companies	0	0	n.s.
Profit before taxes	**43,570**	**42,732**	**2.0%**
Taxes	-9,524	-8,164	16.7%
Profit after taxes from continued operations	**34,046**	**34,568**	**-1.5%**
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	**34,046**	**34,568**	**-1.5%**
a) Net profit attributable to the parent comany	34,081	34,594	-1.5%
b) Net profit attributable to minority interests	-35	-26	34.6%

Consolidated balance sheets ('000 €)

	Jun '18	Dec '17	*Change*
Intangible assets	20,116	19,293	4.3%
Goodwill	6,637	4,906	35.3%
Others intangible asset	13,479	14,387	-6.3%
Tangible assets	466,955	469,799	-0.6%
Real state investments	0	0	n.s.
Investment accounting using the equity method	0	0	n.s.
Non-current financial assets	3,716	9,149	-59.4%
Deferred tax assets	14,282	17,472	-18.3%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	**505,069**	**515,713**	**-2.1%**
Non-current assets held for sale	0	0	n.s.
Inventories	264,801	238,530	11.0%
Trade and other receivables	193,156	172,134	12.2%
Trade debtors	153,480	141,165	8.7%
Other debtors	31,978	27,135	17.8%
Current tax assets	7,698	3,834	100.8%
Other financial current assets	5,422	3,557	52.4%
Other current assets	6,184	2,727	126.8%
Cash and cash equivalents	37,799	28,143	34.3%
CURRENT ASSETS	**507,362**	**445,091**	**14.0%**
TOTAL ASSETS= EQUITY AND LIABILITIES	**1,012,431**	**960,804**	**5.4%**
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	700,907	650,573	7.7%
Treasury shares	0	0	n.s.
Profit for previous years	0	0	n.s.
Received from associates	0	0	n.s.
Net profit of the period attributable to the parent company	65,757	122,101	-46.1%
Less: Interim dividend	-6,058	-28,894	-79.0%
Other equity instruments	0	0	n.s.
SHAREHOLDER´S FUNDS	**793,241**	**776,415**	**2.2%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	1,238	1,772	-30.1%
Currency translation differences	-60,728	-50,641	19.9%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**-59,490**	**-48,869**	21.7%
SHAREHOLDERS' EQUITY	**733,751**	**727,546**	**0.9%**
Minority interest	75	135	-44.4%
EQUITY	**733,826**	**727,681**	**0.8%**
Grants	2,177	2,482	-12.3%
Non-current provision	22,063	22,235	-0.8%
Non-current financial liabilities	77,527	74,336	4.3%
Financial debt	65,549	62,679	4.6%
Other financial liabilities	11,978	11,657	2.8%
Deferred tax liabilities	17,620	20,514	-14.1%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	**119,387**	**119,567**	**-0.2%**
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	6,135	4,999	22.7%
Current financial liabilities	51,797	19,386	167.2%
Financial debt	42,297	6,571	543.7%
Other financial liabilities	9,500	12,815	-25.9%
Trade creditor and other payable accounts	100,775	88,596	13.7%
Trade creditors	61,995	58,007	6.9%
Other creditors	29,938	24,072	24.4%
Current tax liabilities	8,842	6,517	35.7%
Other current liabilities	511	575	-11.1%
CURRENT LIABILITIES	**159,218**	**113,556**	**40.2%**
NET BANK DEBT / (NET BANK CASH)	**70,047**	**41,107**	**70.4%**

Cash flow statements ('000 €)

	Jan-Jun' 18	Jan-Jun' 17	*Change*
Cash flows from operating activities	**58,943**	**92,224**	**-36.1%**
Profit for the year before tax	**80,830**	**82,733**	**-2.3%**
Adjustments in results	**30,173**	**35,832**	**-15.8%**
Amortisation and depreciation	30,767	28,129	9.4%
Others adjustments in results(net)	-594	7,703	c.s.
Changes in working capital	**-35,234**	**-13,483**	**161.3%**
Other cash flows from operating activities	**-16,826**	**-12,858**	**30.9%**
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	-16,593	-12,536	32.4%
Proceeds/(payments) from operating activities	-233	-322	-27.6%
Cash flows from investing activities	**-33,858**	**-47,953**	**-29.4%**
Investment payments	**-34,448**	**-49,625**	**-30.6%**
Group companies, associated & business units	-1,776	0	n.s.
Acquisition of property, plant and equipment and intangible assets	-32,672	-49,625	-34.2%
Other financial assets	0	0	n.s.
Other assets	0	0	n.s.
Cash from disposals	**207**	**1,389**	**-85.1%**
Group companies, associated & business units	0	0	n.s.
Disposal of property, plant and equipment and intangible assets	207	1,389	-85.1%
Other financial assets	0	0	n.s.
Other assets	0	0	n.s.
Other cash flows from investing activities	**383**	**283**	**35.3%**
Dividends received	0	0	n.s.
Interest received	383	283	35.3%
Proceeds/(Payments) from interrupted operations	0	0	n.s.
Cash flows from financing activities	**-15,222**	**-20,920**	**-27.2%**
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	**38,959**	**24,021**	**62.2%**
Proceeds from issue of financial liabilities instruments	45,524	28,778	58.2%
Refund, cancellation and payments	-6,565	-4,757	38.0%
Dividends paid and others payments from others equities instruments	**-48,934**	**-40,545**	**20.7%**
Others cash flows from financing activities	**-5,247**	**-4,396**	**19.4%**
Interest paid	-811	-833	-2.6%
Others proceeds /(payments) from financing activities	-4,436	-3,563	24.5%
Effect of foreign exchange rate changes on collections and payments	**-207**	**-10,133**	**-98.0%**
Net increase (decrease) in cash and cash equivalents	**9,656**	**13,218**	**-26.9%**
Cash and cash equivalents at the begining of the period	**28,143**	**45,054**	**-37.5%**
Cash and cash equivalent at the end of the period	**37,799**	**58,272**	**-35.1%**

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€)

	1H18	1H17	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.211	1.082	-10.6%
Canadian Dollar	1.547	1.444	-6.6%
Mexican Peso	23.076	21.022	-8.9%
Brazilian real	4.144	3.441	-17.0%
Czech crown	25.498	26.785	5.0%
British Pound	0.880	0.860	-2.2%
Serbian Dinar	118.296	123.391	4.3%
Chinesse yuan remminbi	7.702	7.441	-3.4%
Uruguayan Peso	35.444	30.743	-13.3%

End period (Currency/€)

	Jun 18	Dec 17	% Change
Euro	1.000	1.000	0.0%
US Dollar	1.166	1.199	2.9%
Canadian Dollar	1.544	1.504	-2.6%
Mexican Peso	22.882	23.661	3.4%
Brazilian real	4.495	3.967	-11.7%
Czech crown	26.020	25.535	-1.9%
British Pound	0.886	0.887	0.1%
Serbian Dinar	118.068	118.473	0.3%
Chinesse yuan remminbi	7.652	7.802	2.0%
Uruguayan Peso	36.683	34.548	-5.8%

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All results information can be consulted on Viscofan Group website.

Disclaimer

This document is a free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

This document may contain additional non-compulsory forward-looking statements on intentions or expectations of the Company as of the date of its publication whose only purpose is to provide further information on perspectives on future performance.

Such forward-looking statements do not constitute any guarantee of future performance and involve risks and uncertainties as well as other important factors that could cause actual developments or results to differ essentially from those expressed in our forward-looking statements.

Analysts and investors in particular as well as any other persons or entities who must take decisions or give advise on investments in the Company should not place undue reliance on those forward-looking statements.

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is unaudited and, therefore, subject to potential future modifications.

Alternative Performance Measures

The Viscofan Group has included in this report various Alternative Performance Measures (hereinafter APMs), as established in APM Guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415es) and adopted by the National Securities Market Commission (the CNMV).

This involves a series of measures designed using the financial information of Viscofan, S.A. and its subsidiary companies, and they are complementary to the financial information drawn up in agreement with International Financial Reporting Standards (IFRS). Under no circumstance should they be assessed separately or considered a substitute.

They are measures used internally in decision making processes and which the Board of Directors decides to report externally as it considers they provide additional information that is useful in the analysis and assessment of the Viscofan Group's results and its financial situation.

The APMs included in this report are as follows:

- The EBITDA, or operating profit before depreciation and amortisation, is calculated excluding depreciation and amortisation costs from the operating profit. The EBITDA is a measure that is commonly reported and widespread among analysts, investors and other stakeholders in the casing industry. The Viscofan Group uses this measure to monitor the business' development and to establish operational and strategic objectives in Group companies. However, it is not a defined indicator in IFRS and, therefore, it may not be compared with other similar indicators employed by other companies in their reports.

- Cost of consumption: This is calculated as the net amount of supplies plus the change in finished and unfinished products. Management monitors cost of consumption as one of the main cost components for Viscofan. The weight of net revenue for this cost component on revenue or gross margin is also analysed to study the operating margin's development. However, it is not a defined indicator in IFRS and consumption costs must not be considered a substitute for the different items in the profit and loss account that comprise them. Furthermore, it may not be compared with other similar indicators employed by other companies in their reports.

- Net bank debt: This is calculated as non-current borrowings plus current borrowings netted from cash and cash equivalents. Management considers net bank debt to be relevant to shareholders and other stakeholders as it provides an analysis of the Group's solvency. However, net bank debt should not be considered a substitute for gross bank debt in the consolidated balance sheet, nor other liability or asset items that may affect the Group's solvency.

- Like-for-like revenue and EBITDA: This measure excludes the impact of exchange rate variations on the comparable previous period, the effect of the change in the consolidation scope, and the non-recurring impacts of the business in order to present a homogeneous comparison of the Viscofan Group's development. However, like-for-like revenue and EBITDA are not defined indicators in IFRS and, therefore, they may not be compared with other similar indicators employed by other companies in their reports, nor may they be considered a substitute for the business development indicators defined in IFRS.