

## January – September 2016 Results



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

## Management report

### Main highlights of the July-September 2016 results

- €28.2 million in net profit from continuing operations, up 6.5% compared with the third quarter of the previous year.
- €48.2 million in quarterly EBITDA<sup>1</sup>, representing a 1.2% growth in like-for-like<sup>2</sup> terms, and a 5.3% year-on-year drop in reported numbers.
- The like-for-like<sup>2</sup> EBITDA margin advanced by +0.6 p.p. to 27.8%.
- Revenue amounted to €180.5 million, down 2.5% year-on-year.
- €7.5 million net cash position<sup>3</sup>. A solid balance sheet structure thanks to the strength of cash generated from operations while capex grew by 66.0% y-o-y to €56.9 million in the first nine months of 2016.
- In October 2016, the Viscofan Group signed the purchase of 100% of the share capital of the Vector companies in the USA and Europe. The operation reinforces the value proposal, product portfolio and the position of the Viscofan Group in the plastics technology sector.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group "We are demonstrating our capacity to adapt to a lower growth environment, by improving internal efficiency and accelerating upgrade and expansion projects to take advantage of the organic growth of the industry".

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<sup>1</sup> EBITDA = Operating profit (EBIT) + depreciation of property, plant and equipment and intangible assets.

<sup>2</sup> Like-for-like: For the purposes of comparison, like-for-like growth excludes the impact of exchange rate fluctuations, and the non-recurring results in 2016 due to management costs associated with the purchase of Vector companies in the EEUU and Europe and in 2015 from the outsourcing of pensions in the EEUU.

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

## Consolidated results January-September 2016

### Viscofan Group 9M16 income statement ('000 €)

	Nine months			Like-for-like
	Jan-Sep' 16	Jan-Sep' 15	Change	
Revenue	537,357	555,920	-3.3%	-0.7%
Recurring EBITDA *	149,410	155,807	-4.1%	0.8%
Recurring EBITDA Margin*	27.8%	28.0%	-0.2 p.p.	0.4 p.p.
Non recurring result *	-600	2,989	c.s.	
EBITDA	148,810	158,796	-6.3%	
EBITDA Margin	27.7%	28.6%	-0.9 p.p.	
EBIT	112,262	119,162	-5.8%	
Net profit from continuing operations	88,130	86,578	1.8%	
Recurring Net profit from continuing operations *	88,562	84,695	4.6%	

### Viscofan Group 3Q16 income statement ('000 €)

	Third quarter			Like-for-like
	Jul-Sep' 16	Jul-Sep' 15	Change	
Revenue	180,481	185,102	-2.5%	-1.1%
Recurring EBITDA *	48,763	50,289	-3.0%	1.2%
Recurring EBITDA Margin*	27.0%	27.2%	-0.2 p.p.	0.6 p.p.
Non recurring result *	-600	574	c.s.	
EBITDA	48,163	50,863	-5.3%	
EBITDA Margin	26.7%	27.5%	-0.8 p.p.	
EBIT	35,889	37,719	-4.9%	
Recurring Net profit from continuing operations *	28,237	26,517	6.5%	
Recurring Net profit from continuing operations *	28,669	26,135	9.7%	

\* Recurring figures exclude: 1) In 3Q16, management costs associated with the purchase of Vector companies in the EEUU and Europe totaling €0.6 million on operational result and €0.4 million on net profit. 2) In 2015 excludes the positive non-recurring impact of €3.0 million on operating profit (€0.6MM in 3Q15) and €1.5 million on net profit (€0.4MM in 3Q15) from the outsourcing of the "Hourly Employees" and "Salaried Employees" pensions in the EEUU.

### Revenue

In a market environment characterised by weak demand, mainly in the USA and Europe, the Viscofan Group continued to benefit from its geographical and product diversification and reinforced its market share thanks to the greater strength shown by collagen and plastic casing volumes in the main worldwide markets.

Consolidated revenue of the Viscofan Group in 3Q16 amounted to €180.5 million, down 2.5% year-on-year. By type of revenue, casing sales amounted to €170.8 million, down 1.6% year-on-year and co-generation sales were €9.7 million, down 15.7% from 3Q15, due to lower electricity prices.

Cumulatively, Viscofan Group revenue totalled €537.4 million, down 3.3% from 9M15. Of this amount, casing sales amounted to €507.3 million (-2.9% vs. 9M15) and co-generation sales to €30.1 million (-10.9% vs. 9M15).

The geographical breakdown of revenue<sup>4</sup> in 9M16 is as follows:

- Positive like-for-like growth of casing sales continues in Europe and Asia. Like-for-like revenue was up 0.7% year-on-year, led by the performance of the Asian market. Nonetheless, the downturn in the main commercial currencies, especially the CNY/€ (6.0%) and the GBP/€ (10.3%) and the drop in co-generation revenue placed net revenue at €302.1 million, a 0.5% drop from 9M15.
- Revenue in North America totalled €161.9 million, up 1.9% year-on-year in like-for-like terms which contrasts with a 1.6% decline in reported terms.
- Revenue in Latin America totalled €73.3 million, down 10.3% in like-for-like terms, caused by volumes weakness in Brazil, and down 16.6% in reported terms if the depreciation of the Brazilian real versus the € is considered (12.6%).

### **Operating expenses**

The Viscofan Group is carrying out projects intended to enhance its foothold within the new MORE TO BE 2016-2020 strategic plan. These projects include work starting up plastics production in Nanopack in Spain for the third quarter, as well as the installation of a new collagen line in Uruguay, which will be available before the end of 2016. The estimated expenses associated with the start-up for the third quarter totalled €0.6 million.

### **Cost of consumption**

Cumulative cost of consumption<sup>5</sup> dropped by 4.6% vs. 9M15 to €147.6 million, of which €54.4 million corresponds to 3Q16, 4.6% less than in 3Q15.

During the first nine months of the year, in an environment marked by lower reported revenue and lower raw material costs in local currency, the Viscofan Group has used its operational strength and commercial discipline to improve its gross margin<sup>6</sup> by +0.4 p.p. for 9M16 vs. 9M15 to 72.5% and +0.6 p.p in the quarter vs. 3Q15 to 69.8%.

### **Personnel**

The average headcount at the end of September 2016 was 4.331 persons, up 2.5% year-on-year, mainly due to strengthening the workforce by recruiting personnel for the new plastics production operations in Mexico and the production of fibrous and plastic casings in Spain, among others.

Personnel expenses in 9M16 grew by 2.9% vs. 9M15 and by 3.6% in 3Q16 vs. 3Q15 in recurring terms, i.e. excluding the accounting savings from the outsourcing of pension plans in the United States carried out in 2015. In reported terms, personnel expenses registered growth of 5.6% vs. 9M15 to €123.1 million, of which €40.9 million corresponds to 3Q16, up 5.1% from 3Q15.

### **Other operating expenses**

"Other operating expenses" for the first nine months totalled €124.3 million, down 3.6% vs. 9M15 thanks to lower energy supply costs, which fell by 12.0% in 9M16 vs. 9M15. In the third quarter, "Other operating expenses" rose 3.1% vs. 3Q15, to €40.5 million with energy supply costs down by 1.1% vs. 3Q15. The third quarter figure was also impacted by greater plant costs related with the start-up of new production capacity and by €0.6 million in non-recurring costs associated with the purchase of the Vector companies in the United States and Europe that took place in October 2016.

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<sup>4</sup> Revenue per origin of sales.

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

<sup>6</sup> Gross margin = (Revenue – cost of consumption) / Revenue.

## Operating profit

In sum, cost control and operational strength, combined with the implementation of expansion plans and production upgrades, which involve a short-term effort in operational costs, investment and persons, but set the stage to continue making progress in service, technology and costs.

This performance places the like-for-like cumulative EBITDA at 28.4%, +0.4 p.p. improvement year-on-year. Over the quarter the like-for-like margin reached 27.8%, up by +0.6 p.p. versus 3Q15.

If the exchange rate effect impact is included, the reported EBITDA margin for 9M16 totals 27.7% versus 28.6% for 9M15 and 26.7% for 3Q16 vs. 27.5% for 3Q15.

Cumulative EBITDA amounted to €148.8 million, down 6.3% year-on-year, of which €48.2 million correspond to 3Q16 (-5.3% vs. 3Q15). The Viscofan Group continues to achieve and consolidate improvements in operations and efficiency that leads to like-for-like growth in both, cumulative EBITDA (+0.8% vs. 9M15) and quarterly EBITDA (1.2% vs. 3Q15), even in a context of less operational leverage.

Cumulative depreciation costs in 2016 amounted to €36.5 million (-7.8% vs. 9M15) and to €12.3 million in 3Q16 (-6.6% vs. 3Q15).

The Viscofan Group EBIT amounted to €112.3 million in 9M16, down 5.8% year-on-year, and to €35.9 million in the third quarter, a decline of 4.9% compared with 3Q15.

## Financial result

The average lower debt level enabled the Group to reduce financial expense to -€1.2 million in 9M16 (-€2.7 million in 9M15). In 9M16, the Group also registered positive exchange differences of €0.8 million compared with negative exchange differences of -€3.8 million in 9M15 as a result of the currency fluctuations in balance sheet balances expressed in foreign currency. As a result, in the cumulative period of 2016 the Group achieved a net finance loss of -€0.1 million compared with the losses of -€6.2 million reported in 9M15.

## Net profit and tax

Cumulative profit before taxes in September 2016 stood at €112.2 million, with corporate income tax totalling €24.1 million. This reflects an effective tax rate of 21.5% in 9M16, compared to the rate of 23.3% in 9M15.

Net profit from continuing operations accelerated for another quarter yet, it was up 6.5% vs. 3Q15 to €28.2 million and 9.7% in recurring terms<sup>7</sup>.

To sum up, the improvements in efficiency, commercial discipline, cost control, lower financial expenses, positive exchange differences and lower tax rate all contributed to the 1.8% growth in cumulative net profit from continuing operations vs. 9M15 to €88.1 million and 4.6% in recurring terms<sup>7</sup>.

## Capital Expenditures

Within the MORE TO BE 2016-2020 strategic plan, Viscofan will invest in improving its competitive position, especially in fibrous and plastic casing production technologies.

With this regard, the work for the construction of new plants is therefore advancing as planned: The plastics plant in Cáseda (Spain) began production in the third quarter, and the construction work for the

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<sup>7</sup> Recurring figures exclude: 1) In 3Q16, management costs associated with the purchase of Vector companies in the EEUU and Europe totaling €0.6 million on operational result and €0.4 million on net profit. 2) In 2015 excludes the positive non-recurring impact of €3.0 million on operating profit (€0.6MM in 3Q15) and €1.5 million on net profit (€0.4MM in 3Q15) from the outsourcing of the "Hourly Employees" and "Salaried Employees" pensions in the EEUU.

new fibrous casing production plant in Cáseda (Spain) is ongoing, with the aim of starting production in the second semester of 2017. The installation of the second collagen line in Uruguay, is also well underway.

In 2016 the Group has invested €56.9 million (€34.2 million in 9M15) as part of the planned outlay of €80 million this year.

### **Financial liabilities**

Strong organic performance makes it possible to finance expansion operations with operational cash flows, remunerate shareholders and strengthen the balance sheet, which at the close of September 2016 showed net cash position of €7.5 million versus €3.2 million registered in December 2015.

### **Subsequent events**

Viscofan Group has signed the SPA to acquire the 100% of the shares of Vector USA and Vector Europe including its subsidiaries in Europe (Vector Packaging Europe and Vector UK) for a total cash value of 3.4 million of US\$ to a group of private investors.

After this acquisition, Viscofan Group mainstreams all the assets of these companies and assumes the net bank debt amounting 10.3 million US\$.

Viscofan Group Profit and loss account. 9M16 ('000 €)

	Jan-Sep' 16	Jan-Sep' 15	Change
<b>Revenues</b>	<b>537,357</b>	<b>555,920</b>	<b>-3.3%</b>
Other operating income	5,693	2,609	118.2%
Self-constructed assets	390	218	78.9%
Variation in stocks of finished products and work-in-progress	4,403	21,221	-79.3%
Net purchases	-152,050	-176,058	-13.6%
Personnel expenses	-123,146	-116,644	5.6%
Other operating expenses	-124,302	-128,926	-3.6%
Capital grants	504	498	1.2%
Impairment and results coming from disposals of non-current assets	-39	-42	-7.1%
Other results	0	0	n.s.
<b>Recurring EBITDA *</b>	<b>149,410</b>	<b>155,807</b>	<b>-4.1%</b>
<i>Recurring EBITDA margin *</i>	<i>27.8%</i>	<i>28.0%</i>	<i>-0.2 p.p.</i>
Non recurring*	-600	2,989	c.s.
<b>EBITDA</b>	<b>148,810</b>	<b>158,796</b>	<b>-6.3%</b>
<i>EBITDA margin</i>	<i>27.7%</i>	<i>28.6%</i>	<i>-0.9 p.p.</i>
Amortization and depreciation	-36,548	-39,634	-7.8%
<b>EBIT</b>	<b>112,262</b>	<b>119,162</b>	<b>-5.8%</b>
<i>EBIT margin</i>	<i>20.9%</i>	<i>21.4%</i>	<i>-0.5 p.p.</i>
Financial incomes	346	216	60.2%
Financial expenditures	-1,169	-2,663	-56.1%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	766	-3,795	c.s.
Impairment and results coming from disposals of financial assets	0	0	n.s.
<b>Financial results</b>	<b>-57</b>	<b>-6,242</b>	<b>-99.1%</b>
Profit from associated companies	0	0	n.s.
<b>Profit before taxes</b>	<b>112,205</b>	<b>112,920</b>	<b>-0.6%</b>
Taxes	-24,075	-26,342	-8.6%
<b>Profit after taxes from continued operations</b>	<b>88,130</b>	<b>86,578</b>	<b>1.8%</b>
Profit after taxes from interrupted operations	0	411	n.s.
<b>Net profit</b>	<b>88,130</b>	<b>86,989</b>	<b>1.3%</b>
a) Net profit attributable to the parent company	88,170	87,016	1.3%
b) Net profit attributable to minority interests	-40	-27	48.1%
<b>Recurring Profit after taxes from continued operations *</b>	<b>88,562</b>	<b>84,695</b>	<b>4.6%</b>

\* Recurring figures exclude: 1) In 3Q16, management costs associated with the purchase of Vector companies in the EEUU and Europe totaling €0.6 million on operational result and €0.4 million on net profit. 2) In 2015 excludes the positive non-recurring impact of €3.0 million on operating profit (€0.6MM in 3Q15) and €1.5 million on net profit (€0.4MM in 3Q15) from the outsourcing of the "Hourly Employees" and "Salaried Employees" pensions in the EEUU.

**Viscofan Group Profit and loss account. 3Q16 ('000 €)**

	Jul-Sep' 16	Jul-Sep' 15	Change
<b>Revenues</b>	<b>180,481</b>	<b>185,102</b>	<b>-2.5%</b>
Other operating income	3,182	910	249.7%
Self-constructed assets	261	63	314.3%
Variation in stocks of finished products and work-in-progress	-5,502	923	c.s.
Net purchases	-48,947	-57,974	-15.6%
Personnel expenses	-40,938	-38,941	5.1%
Other operating expenses	-40,535	-39,331	3.1%
Capital grants	167	172	-2.9%
Impairment and results coming from disposals of non-current assets	-6	-61	-90.2%
Other results	0	0	n.s.
<b>Recurring EBITDA *</b>	<b>48,763</b>	<b>50,289</b>	<b>-3.0%</b>
<i>Recurring EBITDA margin *</i>	<i>27.0%</i>	<i>27.2%</i>	<i>-0.2 p.p.</i>
Non recurring*	-600	574	c.s.
<b>EBITDA</b>	<b>48,163</b>	<b>50,863</b>	<b>-5.3%</b>
<i>EBITDA margin</i>	<i>26.7%</i>	<i>27.5%</i>	<i>-0.8 p.p.</i>
Amortization and depreciation	-12,274	-13,144	-6.6%
<b>EBIT</b>	<b>35,889</b>	<b>37,719</b>	<b>-4.9%</b>
<i>EBIT margin</i>	<i>19.9%</i>	<i>20.4%</i>	<i>-0.5 p.p.</i>
Financial incomes	71	90	-21.1%
Financial expenditures	-391	-700	-44.1%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	-560	-3,199	-82.5%
Impairment and results coming from disposals of financial assets	0	0	n.s.
<b>Financial results</b>	<b>-880</b>	<b>-3,809</b>	<b>-76.9%</b>
Profit from associated companies	0	0	n.s.
<b>Profit before taxes</b>	<b>35,009</b>	<b>33,910</b>	<b>3.2%</b>
Taxes	-6,772	-7,393	-8.4%
<b>Profit after taxes from continued operations</b>	<b>28,237</b>	<b>26,517</b>	<b>6.5%</b>
Profit after taxes from interrupted operations	0	0	n.s.
<b>Net profit</b>	<b>28,237</b>	<b>26,517</b>	<b>6.5%</b>
a) Net profit attributable to the parent company	28,252	26,539	6.5%
b) Net profit attributable to minority interests	-15	-22	-31.8%
<b>Recurring Profit after taxes from continued operations *</b>	<b>28,669</b>	<b>26,135</b>	<b>9.7%</b>

\* Recurring figures exclude: 1) In 3Q16, management costs associated with the purchase of Vector companies in the EEUU and Europe totaling €0.6 million on operational result and €0.4 million on net profit. 2) In 2015 excludes the positive non-recurring impact of €3.0 million on operating profit (€0.6MM in 3Q15) and €1.5 million on net profit (€0.4MM in 3Q15) from the outsourcing of the "Hourly Employees" and "Salaried Employees" pensions in the EEUU.

Consolidated balance sheets ('000 €)

	Sep '16	Dec '15	Change
Intangible assets	17,943	18,334	-2.1%
Goodwill	3,520	3,520	0.0%
Others intangible asset	14,423	14,814	-2.6%
Tangible assets	399,874	382,025	4.7%
Real state investments	0	0	n.s.
Investment accounting using the equity method	0	0	n.s.
Non-current financial assets	3,227	1,311	146.1%
Deferred tax assets	10,464	14,518	-27.9%
Other non-current assets	0	0	n.s.
<b>NON-CURRENT ASSETS</b>	<b>431,508</b>	<b>416,188</b>	<b>3.7%</b>
Non-current assets held for sale	0	0	n.s.
Inventories	210,523	208,637	0.9%
Trade and other receivables	176,564	159,296	10.8%
Trade debtors	137,239	128,974	6.4%
Other debtors	31,476	26,089	20.6%
Current tax assets	7,849	4,233	85.4%
Other financial current assets	2,394	1,214	97.2%
Other current assets	5,015	2,133	135.1%
Cash and cash equivalents	41,483	44,453	-6.7%
<b>CURRENT ASSETS</b>	<b>435,979</b>	<b>415,733</b>	<b>4.9%</b>
<b>TOTAL ASSETS= EQUITY AND LIABILITIES</b>	<b>867,487</b>	<b>831,921</b>	<b>4.3%</b>
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	593,852	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	88,170	120,022	-26.5%
Less: Interim dividend	0	-24,234	n.s.
Other equity instruments	0	0	n.s.
<b>SHAREHOLDER'S FUNDS</b>	<b>714,657</b>	<b>664,701</b>	<b>7.5%</b>
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	856	-2,861	c.s.
Currency translation differences	-29,980	-28,931	3.6%
Others	0	0	n.s.
<b>ADJUSTMENTS DUE TO CHANGE IN VALUE</b>	<b>-29,124</b>	<b>-31,792</b>	<b>-8.4%</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>685,533</b>	<b>632,909</b>	<b>8.3%</b>
Minority interest	250	290	-13.8%
<b>EQUITY</b>	<b>685,783</b>	<b>633,199</b>	<b>8.3%</b>
Grants	3,328	3,578	-7.0%
Non-current provision	20,601	20,718	-0.6%
Non-current financial liabilities	38,495	37,616	2.3%
Financial debt	25,636	26,130	-1.9%
Other financial liabilities	12,859	11,486	12.0%
Deferred tax liabilities	19,169	20,627	-7.1%
Other non-current liabilities	0	0	n.s.
<b>NON-CURRENT LIABILITIES</b>	<b>81,593</b>	<b>82,539</b>	<b>-1.1%</b>
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	5,194	5,097	1.9%
Current financial liabilities	17,330	29,837	-41.9%
Financial debt	8,317	15,078	-44.8%
Other financial liabilities	9,013	14,759	-38.9%
Trade creditor and other payable accounts	77,245	80,818	-4.4%
Trade creditors	47,376	51,615	-8.2%
Other creditors	20,179	21,132	-4.5%
Current tax liabilities	9,690	8,071	20.1%
Other current liabilities	342	431	-20.6%
<b>CURRENT LIABILITIES</b>	<b>100,111</b>	<b>116,183</b>	<b>-13.8%</b>
<b>NET BANK DEBT / (NET BANK CASH)</b>	<b>-7,530</b>	<b>-3,245</b>	<b>132.0%</b>

## Reporting exchange rates (Currency/€)

### Average exchange rates (Currency/€)

### End period (Currency/€)

	9M16	9M15	% Change	Sep 16	Dec 15	% Change
Euro	1.000	1.000	0.0%	1.000	1.000	0.0%
US Dollar	1.116	1.115	0.1%	1.116	1.089	2.5%
Canadian Dollar	1.476	1.404	5.1%	1.469	1.512	-2.8%
Mexican Peso	20.415	17.351	17.7%	21.739	18.915	14.9%
Brazilian real	3.964	3.521	12.6%	3.623	4.251	-14.8%
Czech crown	27.036	27.362	-1.2%	27.021	27.023	0.0%
British Pound	0.802	0.728	10.3%	0.861	0.734	17.3%
Serbian Dinar	123.046	120.721	1.9%	123.293	121.626	1.4%
Chinese yuan renminbi	7.310	6.898	6.0%	7.488	7.095	5.5%
Uruguayan Peso	34.079	29.613	15.1%	31.739	32.604	-2.7%

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