



LETTER FROM THE CHAIRMAN



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A handwritten signature in black ink, reading "José D. Ampuero y Osma".

José Domingo de Ampuero y Osma
Chairman

DEAR SHAREHOLDER

In 2019 we completed the main transformation initiatives designed in the “MORE TO BE 2016-2020” strategic plan with the aim of making the company more sustainable in the long term. A shared challenge that inspires the more than 4,900 people who build Viscofan to work with the conviction that it is possible to improve day by day in every one of our business dimensions and become the leader in our market for all our stakeholders.

Viscofan is today a more sustainable company than at the beginning of our strategic plan. Since 2016 we have invested more than 32 million euros, nearly 10% of the total investments of the plan, in projects to improve our environmental and safety impact in our facilities. As signatories to the United Nations Global Compact since 2015, we will continue to advance in our commitment to achieving the Sustainable Development Goals through initiatives on the most significant issues identified in the dialogue with our stakeholders reported on in this integrated annual report. In this regard, the Board of Directors has approved a new sustainability action plan that contributes to the company’s greater robustness.

This strength and sustainability was put to the test in 2019, a particularly turbulent year for the packaging market, reflecting a world in which adverse and favourable scenarios follow one after the other with increasing swiftness.

In these circumstances we have been faithful to the major commercial and operational initiatives designed in our MORE TO BE plan guided by the purpose of leadership in service, technology and cost. The results obtained show the importance of having a diversified and solid company that can withstand the tensions of an unfavourable environment, and at the same time have enough flexibility to quickly take advantage of opportunities that arise when the scenario changes.

Thus, coinciding with the IFFA in Frankfurt, the largest meat fair in the world, last May we made the biggest commercial launch in our history. Some examples of these innovations are the new references of traditional products, such as the Marathon line in cellulose or the Natur casing in collagen, new concepts within what we have called “functional solutions” that save work and time for our customers, the Vispice line with a new technology of ingredient transfer, or the Veggie casings, a new technology of edible wrapping based on vegetables where we have contributed a pioneering concept that adapts very well to new consumption habits for those who want to enjoy a 100% vegetable sausage.

On an operational level, the latest modules of the new plant in Cáseda, Spain, have been put into operation with cellulose and fibrous casings production technology that opens up new horizons for future improvement and competitiveness. As the most significant project in our strategic plan, it should not be overlooked that it is complemented by other improvements that have been made in the Group’s other plants.



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I was saying that 2019 was a particularly turbulent year. In the first months of the year the market environment was more adverse than expected due to doubts about the impact of swine fever in Asia - both on the meat market and on the availability of casings - and the slowdown in consumption in Europe. We continued to grow, but with sales volumes below our expectations while cost inflation - especially energy costs - eroded our margins and those of other companies in the sector. On the other hand, in the second half of the year, when the market has shown greater dynamism, especially in the Asian region and China, Viscofan had all the elements to take advantage of this new growth context, partly due to the replacement of animal casings, with a strong recovery in volumes and margins, well above other companies in the sector.

We have also been active in pursuing growth opportunities outside our perimeter. Last December we acquired the collagen casing companies in the United States and Canada from Nitta Gelatin Inc. This acquisition is a giant step in strengthening our business in North America, the world's largest market for casings. Strategically, we have our own productive presence of collagen in this continent, which will allow us to improve our customer service and support, and we have significant room for operational improvements. In this sense, in these first months we are working to transfer knowledge that will allow a quick integration of the people and improve the profitability of the acquired companies. Lastly, I would like to add that, apart from the strategic fit, financial discipline and protection of shareholder value is first and foremost reflected in the positive results that have

emerged from the consolidation of net assets and liabilities.

We are stronger in the casings market, but we are also making significant achievements in diversifying our revenue streams, of which I would like to highlight the commercial deployment of collagen hydrolysates; partnerships with companies that are developing new collagen-based applications; and of course the progress of the bioengineering project "Cardiomesh" which last July reached a historical milestone when the first intervention was successfully performed on a person who has implanted our collagen membrane enriched with stem cells for the recovery of a heart from a heart attack. There is still a long way to go, but the steps taken so far are exciting.

I will never tire of acknowledging the excellent work of an exceptional team, their enthusiasm, creativity, commitment. They are the engine that drives the progress of Viscofan and they achieve results far superior to those of other companies in the sector. Together with this recognition, I am very saddened by the terrible accident that took place last September in which one of our workers died, an accident that has left us even more emotionally affected as it was the first in the history of our plant in Cáseda since it was founded in 1975.



We will continue to share the strength of Viscofan with our shareholders. The Board of Directors has proposed for approval by the General Shareholders' Meeting a shareholder remuneration of 1.62 euros per share against 2019 results, 1.3% higher than the previous year.

In 2019 we reached a new record high in revenue, gained market share and completed the major transformation initiatives of the strategic plan. In order to achieve this, more than 327 million euros have been invested and we have acquired companies for a value of 44 million euros, the largest investments in our history. This great transformation has been combined with a strategy of financial discipline that places the financial leverage below 0.4 times EBITDA, and increasing dividends, which have resulted in a distribution of nearly 289 million euros in these years. We will continue to share the strength of Viscofan with our shareholders. The Board of Directors has proposed for approval by the General Shareholders' Meeting a shareholder remuneration of 1.62 euros per share against 2019 results, 1.3% higher than the previous year.

I would like to thank you for your contribution to making Viscofan a more sustainable company and share our optimism as we head into the last year of the strategic plan. We are certain that the improvements made in these years will be reflected in 2020 in a new drive to create value for our shareholders, driven by the greater cash flow from our operations and growth in the main financial figures for revenues, EBITDA and net profit, while we also push forward with environmental and social improvements in our activities.

