RESULTS

"These results clearly show our operational and financial strength. In spite of the difficulties during the first few months of the year we have continued to grow, increasing our market share, diversifying the source of growth, incorporating new assets and optimising our industrial base, all of which means that our company is stronger than when we initiated our MORE TO BE plan. We have undertaken a transformation that has left the Group's future in a unique position without turning our back on a solid balance sheet or increased remuneration for our shareholder".

MATERIAL ASPECTS

- *Creating value for investors and shareholders*

SELECTED FINANCIAL DATA

2019. Selected figures. Viscofan Group income statement ('000 €)

	Recurring			Like- for -like	Reported		
	Jan-Dec' 19	Jan-Dec' 18	Change		Jan-Dec' 19	Jan-Dec' 18	Change
Revenue	849,697	786,049	8.1%	5.9%	849,697	786,049	8.1%
EBITDA	198,046	189,708	4.4%	0.5%	200,957	208,759	-3.7%
EBITDA Margin	*23.3%*	*24.1%*	*-0.8 p,p,*	*-1.2 p,p,*	*23.7%*	*26.6%*	*-2.9 p,p,*
Operating profit	127,372	127,270	0.1%		130,283	146,321	-11.0%
Net profit	101,502	108,458	-6.4%		105,577	123,711	-14.7%

BUSINESS EVOLUTION

Casings volume remained flat in the first half of the year due to slower than expected replacement of animal gut in Europe and Asia, in contrast to the strong behaviour experienced in North America and Latin America.

Viscofan's performance in the 2019 financial year has been in two clearly different phases. Firstly, casings volume remained flat in the first half of the year due to slower than expected replacement of animal gut in Europe and Asia, in contrast to the strong behaviour experienced in North America and Latin America. However, in the second half of the year there was an acceleration in the growth of the volume of casings as a result of the replacement of animal gut casings in Asia whilst there was still positive growth in the other regions.

Viscofan has faced and adverse environment of energy costs inflation in 2019, which together with a less favourable geographical and product mix in the first half of the financial year had an impact on the margins.

In this context, the Viscofan Group continued to make progress in the MORE TO BE (2016-2020) strategy, with the aim of achieving triple leadership in Service, Technology and Costs in the main families of casings

SERVICE

In 2019 the offer to customers was broadened with the launch of new products as a result of the research, development and innovation undertaken in recent years. The products launched include the Natur collagen casing for fresh sausages; the Marathon cellulose line with extra-long sticks to improve our customers' profitability: Veggie, a vegetable-based edible casing specially designed for vegans, vegetarians and flexitarians; Vispice Products, that provide spices and aromas to meat products; and added value casings such as the families of functional solutions that include plastic casings with the transfer of colours and aromas, among others.

TECHNOLOGY

The construction and start-up project of the plant with the latest technology in the market for the production of viscose-based casings (cellulose and fibrous) in Cáseda (Spain) has been completed, that involved a total investment of €86.5 million (€15.3 million in 2019). This plant enables the manufacture of a high-quality product, and also provides significantly improved productive efficiency, as well as the best available environmental and ergonomic solutions. We can also include in this axis the 4.0 industry projects undertaken in the Czech Republic and Spain, and the development of new technology for large-calibre collagen casings in Serbia.

COST

2019 saw the ongoing promotion of projects focussing on increased efficiency and automation in the production plants that have seen increased productivity per employee within our Group. Special mention should go to the expected savings from our new plant in Cáseda (Spain) where the investment plan has been finalised, an increase in production speed in the collagen extrusion plant in Pando (Uruguay) and the stability of the fibrous plant in Danville (U.S.).

OTHER MORE TO BE

After the expansion plan with new implementations and the acquisition of companies, in 2019 the Group promoted measures focussing on the optimisation of working capital that has led to new savings in cash flows. At the same time, Viscofan has continued to strengthen its geographical positioning with the purchase of the collagen casing companies in the U.S. and Canada from Nitta Gelatin Inc in 2019 for an enterprise value of €12.8 million. With this acquisition, Viscofan is now a leader in this region, it has improved customer proximity and added to its productive portfolio with collagen technology in North America.

DIVERSIFICATION

Viscofan continues to look for growth opportunities beyond the casings market. There has been significant progress in business diversification. In the biomedical field with the Cardiomesh project, a device based on a collagen membrane enriched with stem cells, which in July was successfully implanted in a patient with heart failure due to a myocardial infarction. Furthermore, in the nutrition market the Group has made progress with the commercial expansion of COLLinstant®, a high quality collagen hydrolysate that has been very well received in the market.

MAIN FINANCIAL RESULTS

All this whilst the Group's remuneration to shareholders continue to grow with a total dividend proposal on account of the results of 2019 of €1.62 per share, 1.3% higher than the total ordinary remuneration for the 2018 financial year.

Viscofan closed 2019 with all-time high in revenue at €849.7 million, 8.1% above 2018 level, which gives a recurring[4] EBITDA[5] of €198.0 million, an increase of 4.4% over 2018, while recurring Net Profit fell by -6.4% due to the increased cost of amortisation and depreciation resulting from the MORE TO BE investment plan, lower contribution of positive exchange differences and increased tax expenses.

In 2019 the Group invested €62.1 million, 13.3% lower than the €71.6 invested in 2018. After making such important investments in the first phase (2016-2018) of the MORE TO BE strategic plan, there is much less need for investment in absolute terms in the final phase (2019-2020).

Less investment together with the strength of cash generation and a reduction in inventories during the year helped Viscofan to strengthen the balance sheet at the close of December 2019 with a net bank debt of €42.5 million, a decrease of 46.6% compared with the €79.6 million as of December 2018.

All this whilst the Group's remuneration to shareholders continue to grow with a total dividend proposal on account of the results of 2019 of €1.62 per share, 1.3% higher than the total ordinary remuneration for the 2018 financial year. To this we should add €5.3 million as a result of the amortisation of treasury stock performed in January 2019.

4. Recurring results: They exclude non-recurring impacts for the business on operating results of +€2.9 million euros for the 2019 financial year coming from the net amount for the combination of businesses from the acquisition of Nitta Casings Inc. (USA) and Nitta Casings (Canada) Inc., the impairment of goodwill for Nanopack Technology & Packaging S.L. and the impact of the strike in the U.S. In 2018, +€19.1 million from the combination of businesses from the acquisition of the Globus companies in Australia and New Zealand, and the lawsuit with Mivisa.

5. EBITDA = Resultado de Explotación (EBIT) + Amortización de inmovilizado

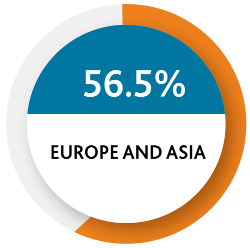
Revenue

Accumulated revenue reached a record high of €849.7 million, an increase of 8.1% over 2018 as a result of higher casings volume, improvement in the price mix, the incorporation of Globus and the strength of the main trading currencies.

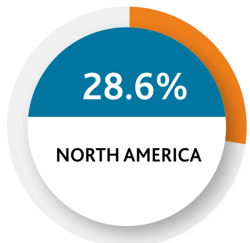
Of this amount, €804.5 million relate to casing sales (+8.5% vs. 2018) and €45.2 million to revenue from co-generation power sales (+1.1% vs. 2018).

Stripping out the impact of variations in foreign exchange that contributed +2.2 p.p. of growth, like-for-like[6] revenue in 2019 was up 5.9% vs. 2018.

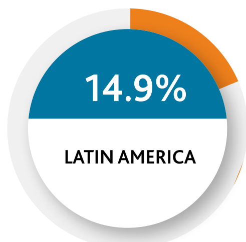
The strength of the growth in revenue can be seen in the geographical breakdown[7] with all areas showing growth both in reported and like-for-like terms. The accumulated breakdown as of December 2019 is as follows:



Reported revenue reached €480.1 million, up 7.3% on 2018 and up 6.3% excluding the impact of currencies. In this growth special mention should go to the higher volumes in China and other countries in Asia, especially in new products designed to replace pig gut.



Revenue amounted to €243.1 million, a growth of 8.6% over 2018 and 3.2% in like-for-like terms, thanks to the improvement in competitive positioning in the snack, sliced meat and special plastic markets.



Revenue amounted to €126.4 million, up 10.3% over 2018 and up 9.7% excluding the currency impact, with volume growth in all the casing families.

6. Like-for-like: Like-for-like growth excludes the impact of the variation in exchange rates and the non-recurring results of the business.

7. Revenue by origin of sale.

Other operating income

Other operating income in 2019 came to €5.4 million, significantly lower than the €21.0 million for 2018 that included €8.5 million arising from a decision of the Supreme Court for patent infringement against Mivisa Envases S.A.U. and a further €6.9 million in June 2018 resulting from the agreement reached with Crown Food España S.A.U. to end the legal action between the two companies.

Consumption costs

Cumulative consumption[8] costs were up 19.4% in 2019 vs. 2018 reaching €271.7 million driven by the increased volume of casings, a change in consumption costs mix, higher co-generation energy and CO2 emission allowance costs in Europe, and the incorporation in the consolidation perimeter of the Globus distribution company in Australia and New Zealand.

Negotiations towards the signature of a new collective agreement at the Danville plant (US) have been done in the first months of the year. The new collective agreement signed, in force until 2022, includes broader work flexibility and economic terms that help the US plant recover competitiveness in line with the demands of the North American market. In the course of the negotiations of the current collective agreement, the workers at the Danville plant went on strike in the month of June, with a non-recurring impact of €2.3 million.

Altogether, the gross margin for the year reached 68.0% (-3.1 p.p. vs. 2018).

Personnel expenses

In the year to date, personnel costs have amounted to €201.3 million, a growth of 6.4% vs. 2018 due to increased wage costs, the incorporation of Globus personnel in Australia and New Zealand and the appreciation of currencies against the €.

The average workforce headcount as of December 2019 was 4,628 employees, down -0.3% over the previous year, and -2.3% in terms of constant scope, i.e. not taking into account the Globus employees in Australia and New Zealand who joined the workforce in December 2018.

Other operating expenses

In cumulative terms, other operating expenses grew by 0.4% over 2018, reaching €190.0 million. Cost-saving measures offset higher energy supply costs (+3.0% vs. 2018).

8. Consumption costs = Net purchases +/- Changes in inventory of finished goods and work in progress.

9. Gross margin = (Revenue - Consumption costs) / Revenue.

Operating profit

Weak growth in the first half of the year was countered in the second half of the year with a recovery in volumes and activity bringing the recurring EBITDA to €198.0 million, +4.4% higher than 2018 with a growth of 0.5% if the impact from the variation in interest rates is excluded. Higher volumes of casings and the cost savings measures introduced were able to offset the decrease in gross margin.

In reporting terms, EBITDA is €201.0 million, 3.7% less than in 2018.

In 2019 depreciation costs were up by 13.2% vs. 2018 reaching €70.7 million as a result of the start-up of the new production modules in Cáseda and the investments made under the current MORE TO BE strategic plan, especially in the first phase (2016-2018). Likewise, the adoption of IFRS 16 has led to €4.5 million expense for the amortization of right-of-use assets.

Operating Profit for the fourth quarter was €40.5 million, up 4.5% over 4Q18. Although this shows robust performance, it is still insufficient to offset the results obtained in the early months of the year. Thus, in 2019 the Operating Profit was €130.3 million (-11.0% vs. 2018).

Financial result

In 2019, net financial result was negative with -€0.2 million compared with a net financial gain of +€1.0 million in 2018. This decrease is essentially due to lower positive differences in exchange, +€1.1 million in 2019 against +2.8 million in 2018.

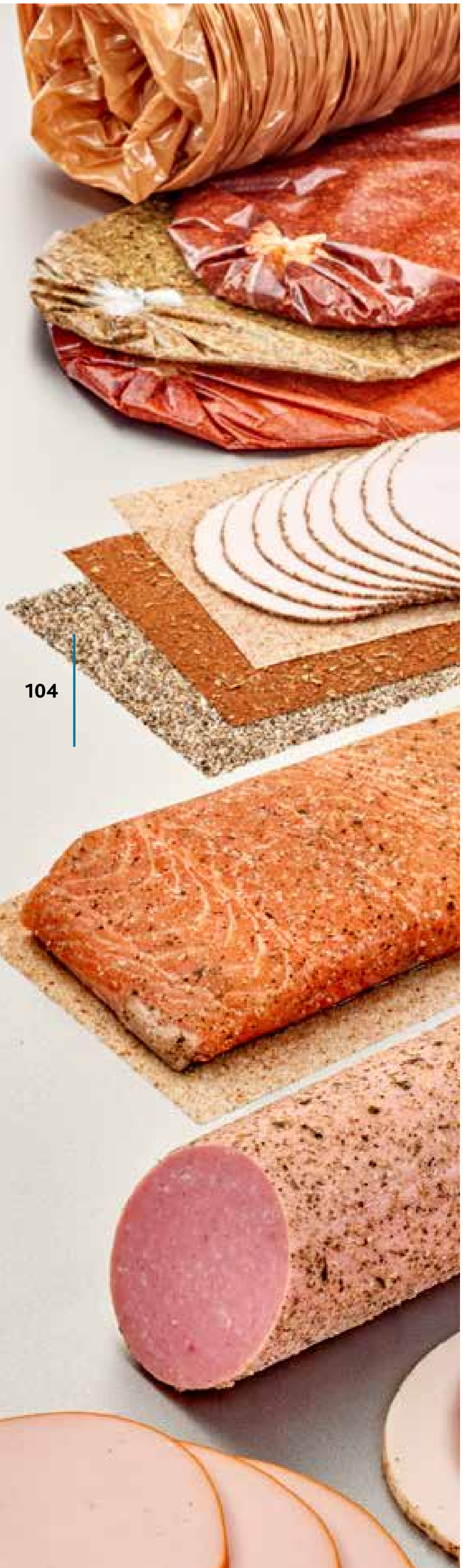
Net proft

Profit before tax amounted to €130.1 million as of December 2019 while income corporate tax totalled €24.5 million (an increase of 3.8% vs. 2018) placing the cumulative effective tax rate at 18.8% (compared with 16.0% in the same period of last year).

The difference between the theoretical tax rate for 2019 (28%) and the effective tax rate (18.8%) is basically due to the different taxes paid by non-resident subsidiaries in Navarre (Viscofan S.A. tax domicile) which pay tax in all countries in which they operate, applying the corporate (or similar) tax rate in force on profits for the period and tax allowances for investments by various Group subsidiaries.

This gives a reported cumulative Net Profit of €105.6 million, down 14.7% over the same period in the last financial year, which is equivalent to a decrease of 6.4% in recurring terms.

Weak growth in the first half of the year was countered in the second half of the year with a recovery in volumes and activity bringing the recurring EBITDA to €198.0 million, +4.4% higher than 2018



Non-recurring results

For a better comparison of the information, details are given below of non-recurring business impacts recorded in the 2019 and 2018 financial years.

Recorded in 2019:

- **Combination of businesses:** In 2019 a gain in operating profit of €10.9 million was recorded corresponding to the negative goodwill from the lower cost of business combination over the corresponding value of the identifiable assets less that for the liabilities assumed from the acquisition of the Nitta Casings Inc. (USA) and Nitta Casings (Canada) Inc. Also, the purchase of these companies involved non-recurring expenses for integration, advisors and lawyers amounting to €2.2 million.

- In 2019 an impairment of €3.5 million was recorded in Nanopack Technology & Packaging S.L. goodwill due to a delay in the growth plans expected in this Cash Generating Unit.

- An impact of €2.3 million in non-recurring costs related to the strike at the Danville plant (US) in June.

- The net impact of non-recurring results once the tax effect is included is a positive net result of €4.1 million.

Recorded in 2018:

- **Combination of businesses:** In 2018 a gain of €5.5 million was recorded corresponding to the negative goodwill resulting from the lower cost of business combination over the corresponding value of the identifiable assets acquired less that of the liabilities assumed from the acquisition of the Globus companies in Australia and New Zealand.

- **Mivisa Envases S.A. law suit:** In 2018, €15.4 million were recorded in Other Operating Income corresponding to the conclusion of the law suit against Mivisa Envases S.A., and non-recurring costs that include advisors and lawyers corresponding to the law suit against Mivisa Envases S.A. and the purchase of companies, amounting to €1.8 million.

- The net impact of non-recurring results once the tax effect is included is a positive net result of €15.3 million.

Investment

€62.1 million was invested over the year, 13.3% less than the €71.6 million invested in 2018. Special mention should be made of the start-up of new modules using new cellulose technology in the Cáseda plant (Spain) to finalise the project for this family. The new modules are producing and giving very positive results, enabling the first savings to be made in the second half of this year.

In 2019 investments also highlight the installation and start-up of new edible collagen capacity in Cáseda and improved production speed in the collagen extrusion plant in Pando (Uruguay), among others.

Also, within the environment, health and safety (EHS) axis, there are the wastewater treatment plants in Cáseda and Uruguay; the implementation of fire protection systems in Germany, Brazil and Mexico; improvements in machine safety; and more efficient evaporation systems.

The breakdown by type of the €62.1 million invested in 2019 is as follows:

- Around 41% of investment (€25.3 million) was in process improvements and new technology.
- Around 23% of investment (€14.3 million) was in capacity and machinery.
- Around 17% of investment (€10.6 million) was in sustainability improvements, including energy equipment, and plant safety, hygiene and environmental improvements.
- Ordinary investments (€11.9 million) accounted for the remaining 19%.

At the close of 2019, investment commitments amounted to €1.6 million (€4.9 million at the close of 2018).

Total shareholder remuneration for the 2019 financial year will stand at €1.62 per share, equivalent to a distribution of 71.1% of net profit.

Dividend and shareholders' remuneration

The Board of Directors of the Viscofan Group has agreed to propose to the General Shareholders' Meeting the distribution of a final dividend of €0.96 per share, with an amount of €44.5 million to be paid out on 4 June 2020.

This will mean total shareholder remuneration for the 2019 financial year will stand at €1.62 per share, equivalent to a distribution of 71.1% of net profit. This can be broken down as follows:

- An interim dividend of €0.65 per share (paid on 19 December, 2019).
- A proposed final dividend of €0.96 per share (to be paid on 4 June, 2020).
- A bonus for attending the General Meeting of €0.01 per share.

This proposed remuneration is 1.3% higher than the ordinary remuneration of €1.60 per share approved in the previous financial year, implying a total distribution of €75.1 million.

Also, in January 2019 the redemption of shares in treasury stock that had been purchased for €5.3 million was approved.

Equity

The Group's Equity at the close of the 2019 financial year stood at €784.4 million, up 3.5% year-on-year due to the booking of a Net profit of €105.6 million from which €30.1 million is deducted as an interim dividend for the 2019 financial year.

Treasury shares

At a meeting on 24 January 2019, the Board of Directors of Viscofan S.A. approved the execution of a capital reduction for a nominal amount of €72,577.40, through the amortisation of the 103,682 existing treasury shares.

In 2019, within the framework of the Incentives Plan, the Company proceeded to acquire 150,000 treasury shares under the protection of the authorisation granted by the General Shareholders' Meeting of 25 May 2018.

Movement in treasury shares was as follows:

Movement in treasury shares

	Number of shares	% on the Share Capital	Nominal value in €	Cost of acquisition in ´000 €
On 31 December 2018	103,682	0.22%	0.70	5,289
Redemption *	-103,682	-0.22%	0.70	-5,289
Acquisition	150,000	0.32%	0.70	6,487
On 31 December 2019	**150,000**	**0.32%**	**0.70**	**6,487**

* Capital Reduction executed on January 24, 2019

Financial liabilities

At the close of December 2019 net bank debt[10] amounted to €42.5 million, 46.6% less than the December 2018 figure of €79.6 million. The strength of the results, improved working capital management and reduced investment needs this year have led to a solid generation of cash flows.

IFRS 16 came into force on 1 January of 2019, and stated that the majority of non-cancellable minimum operating leases should be recorded in the balance sheet as a right-of-use asset and a liability for future payments to be made.

The Net Financial Debt is 11.4% of the Equity, this indebtedness is sufficient to meet Viscofan´s liquidity requirements.

Net Bank Debt (`000 €)

	Dic 2019	Dic 2018	Variación
Net Bank Debt *	42,546	79,615	-46.6%
Debts related to right-of-use assets	*19,295*	*63*	*30527.0%*
*Other net financial liabilities***	*27,606*	*15,762*	*75.1%*
Net Financial Debt	89,447	95,440	-6.3%

* Net bank debt = Non-current bank borrowings + Current bank borrowings – Cash and equivalent forms of liquidity.
** Other net financial liabilities consisting mainly of loans with an interest rate subsidised by entities like the CDTI and the Ministry of Economy, as well as fixed asset suppliers netted for other financial assets.

10. Net bank debt = Debts with non-current credit institutions + Debts with current credit institutions - Cash and other equivalent liquid means

Outlook for 2020

The Viscofan Group closes 2019 with a better value proposition in service, technology and costs than when the MORE TO BE strategy began in 2016. From a position of reinforced leadership, it has a better industrial base, a better geographical presence and a broader, more diversified range of products on offer as a result of an ambitious investment plan both in organic and inorganic terms, for a market in which there are still opportunities for growth.

The Viscofan Group faces the last year of the MORE TO BE strategic plan expecting growth in the main financial figures in 2020 driven by higher volumes, commercial discipline, production savings, efficiency improvements the integration of Nitta Casings companies, and with lower capex requirements. As such, the Viscofan Group expects to increase revenue by between 6% and 8%, EBITDA by between 7% and 9%, and Net Profit by between 6% and 9%, based on an investment of €54 million and considering an average exchange rate of US$/€1.13.

EVENTS AFTER THE BALANCE SHEET DATE

The events after the balance sheet date are described in note 27 of the Viscofan, S.A. and subsidiaries financial statements.