H2 2018 Results

Contents

H2 Highlights

Markets

- According to estimates of the IOC from November 2018, global production of olive oil for the 2017–2018 season amounted to approximately 3.3 million tons.
- The IOC estimates for the 2018–2019 season indicate a reduction in global production, with a production of up to 3.1 million tons, due to drops in production in Italy, Greece, and Tunisia in particular, which are being offset by the expected growth in Spain.
- According to Nielsen and IRI data, consumption of olive oil on the retail channel continues to drop, mainly in Italy and the United States. In Spain, the recovery in consumption is consolidating, with consumption increasing by 2.6% over 2018, mainly as a result of passing on reductions in raw material prices at origin to consumers.
- Raw material prices at the origin dropped considerably during 2018 on all markets, and in particular Spain, with drops of approximately 30%. Nonetheless, the decreased availability of quality extra virgin olive oil has moderated the drop in prices in this type of oil.

H2 Highlights

- During the second six-month period, the drop in EBITDA observed during the first six-month period was accentuated, closing the corporate year at €15.4 million (51% less than previous corporate year).
- The majority of the reduction in EBITDA occurred in the North America Business Unit, with a drop of €15.1 million compared to the previous corporate year, mainly as a consequence of (i) the negative impact of changes in the exchange rate amounting to €8.4 million and (ii) the additional investment that it has been necessary to make to support our brands to combat the current situation on this market, in which certain competitors are opting for a volume-based strategy in opposition to a strategy based on value and quality.
- The investment in advertising and business expenses to support our brands increased by €5.6 million in 2018 compared to the previous corporate year, with a significant portion of this increase being related to the action plan undertaken to face the changes in the US market.

H2 Highlights

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deoleo

- The net loss for the six-month period is mainly due to the above-mentioned decrease in EBITDA and due to the recording of impairment in assets for the Cash Generating Units of Northern and Southern Europe, North America for an amount of €238 million in the corporate year 2018.
- This impairment requires an accounting adjustment that does not have an impact on the liquidity situation of the Group, which on December 31, 2018 reduced its net financial debt by €5 million, and which following the expansion in capital and its syndicated line of credit, had €74 million in liquidity at corporate year-end.
- As a result of these factors, the net consolidated profit/loss has been a loss of €291 million, and at the parent company of €133 million, resulting in it closing the corporate year with legal grounds to dissolve the company in conformity with the provisions of article 363.1 of the Spanish Law on Corporations.
- In accordance with legislation in effect, the Board of Directors will take decisions and will implement the necessary measures to reestablish a balance in equity. The Administrators of the Company could suggest to the Shareholders Meeting, within the time periods legally established, the adoption of the measures to restore the net worth balance reverting the current situation. Deoleo, S.A has enough amount of share capital in order to reestablish balance between share capital and the net worth.

Outcome summary

Raw Material

	31-Dec-18	31-Dec-17	YTD
	€/Tn	€/Tn	%
Extra Virgin	2.794	3.643	-23,3%
Virgin	2.432	3.512	-30,7%
Lampante	2.262	3.440	-34,3%

Source: Pool Red

- A decrease in raw materials prices at the origin of around 30% has been consolidated.
- Prices are currently being maintained stable, except for those with respect to quality extra-virgin oil, of which there is a shortage.

Profit and Loss

	31-Dec-18	31-Dec-17	YTD
	m€	m€	%
Net Sales	605.557	692.332	-12,5%
EBITDA	15.445	31.343	-50,7%
Net Results	(291.065)	(18.356)	-1485,7%

- A decrease in sales figures has been recorded due to the drop in volumes, mainly in the Southern Europe Unit (Italy), and due to lower sales prices associated with the aforementioned reduction in the price of the raw material at the origin.
- EBITDA, as mentioned, dropped by €15.9 million, mainly due to the behavior of the North America Business Unit, in relation to changes in the exchange rate and the situation of the market, as well as due to the increase in advertising investments and business expenses.
- Net profit/loss also includes the impact of the impairment of assets recorded in 2018 in the Southern Europe, North America, and Northern Europe business units for a net total of €238 million.

Other financial data

	31-Dec-18	31-Dec-17	YTD
	m€	m€	%
Net. Financ. Debt.	556.219	561.710	-1,0%
Working Capital	93.755	104.453	-10,2%

- Decreased sales volumes, the reduction in the price of the raw material at the origin, and improvements in managing working capital are resulting in a decrease of more than 10% of the amount of working capital. This effect is being applied to the balance of the Net Financial Debt, which is decreasing by 1% as of corporate year-end.

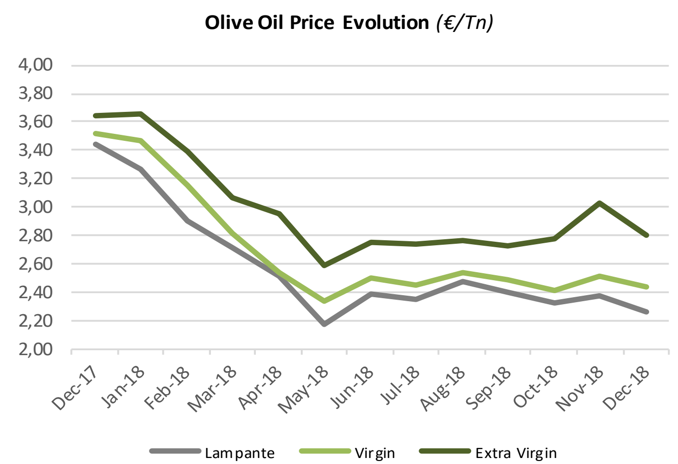
Raw materials and evolution of consumption

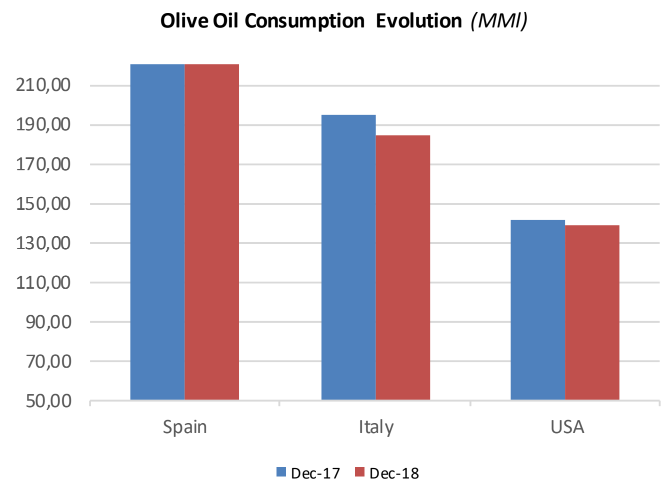
Evolution of the Raw Material

- The IOC's initial estimates for the 2018–2019 season expect a global season that is lower to the current one.
- The seasons in Italy, Greece, and Tunisia will be lower, although they will be partially offset by the harvest in Spain and the existing stock. Taking this into account, if the necessary conditions develop over the following months, it is foreseeable that we will enter into a phase of decreasing prices.
- Nonetheless, the availability of quality extra virgin olive oil is limited, and this could put upwards pressure on the prices of this type of oil.

Evolution of consumption

- Consumption continues to drop in the United States (IRI) and Italy (Nielsen), with a 2.1% and 5.4% drop compared to the previous corporate year, respectively.
- In Spain, consumption has recovered 2.6%, driven by the increase in the extra-virgin olive oil segment and the drop in prices at the origin.





Profit and loss statement

	H2 2018	H2 2017	YTD
	m€	*m€*	*%*
Net Sales	**605.557**	**692.332**	***-12,5%***
Gross Margin	90.087	101.750	*-11,5%*
OPEX	(74.643)	(70.407)	*6,0%*
EBITDA	**15.445**	**31.343**	***-50,7%***
EBITDA/Sales	*2,6%*	*4,5%*	
Net Results	**(291.065)**	**(18.356)**	***-1485,7%***

- The net results for the corporate year are a loss of €291 million, mainly due to the recording of impairment of intangible assets and goodwill recorded in June and December for a net amount of €238 million, and due to a drop in EBITDA generation compared to the previous corporate year.
- The decrease in volumes that took place during the corporate year has affected all Business Units, and in particular North America, Southern Europe (Italy), International Markets (mainly associated with the implementation of the new distribution model in India), and Northern Europe. In addition, a portion of the decrease in the price of raw materials at the origin has been passed on to consumers, with our unit sales prices decreasing by 8% compared to the previous corporate year. These facts explain the 12.5% drop in sales figures.
- Other factors that have had an effect on EBITDA have been: (i) the evolution of the exchange rate on the North America Cash Generating Unit (€8.4 million), (ii) the increase in advertising investments (€5.6 million), (iii) the temporary loss of margins in the United States combined with extraordinary investments made to react to a market situation caused by certain competitors more focused on volume than on quality, (iv) the above-mentioned delay implementing the new distribution model in India at the beginning of the corporate year, and (v) the market situation in Italy. These factors have been the main cause of a decrease of €15.9 million in EBITDA compared to the previous corporate year.
- These elements have been partially offset by improvements in gross unit margins in Spain, Italy, Northern Europe, and International Markets, as well as by the development of the efficiency measures implemented.

Results per business units

BU	Ingresos H2 2018	Ingresos H2 2017	Ingresos YTD	EBITDA H2 2018	EBITDA H2 2017	EBITDA YTD	Margin H2 2018	Margin H2 2017
	m€	m€	%	m€	m€	%	%	%
SE	**286.126**	**320.965**	*-11%*	**14.792**	**16.863**	*-12%*	*5,2%*	*5,3%*
NE	**70.566**	**80.468**	*-12%*	**1.049**	**(83)**	*1362%*	*1,5%*	*-0,1%*
NA	**129.228**	**150.436**	*-14%*	**7.022**	**22.125**	*-68%*	*5,4%*	*14,7%*
International	**106.421**	**111.838**	*-5%*	**12.357**	**13.958**	*-11%*	*11,6%*	*12,5%*
Operative, Corporate & Others	**13.216**	**28.624**	*-54%*	**(19.775)**	**(21.521)**	*8%*	*-149,6%*	*-75,2%*
Total	**605.557**	**692.332**	*-13%*	**15.445**	**31.343**	*-51%*	*2,6%*	*4,5%*

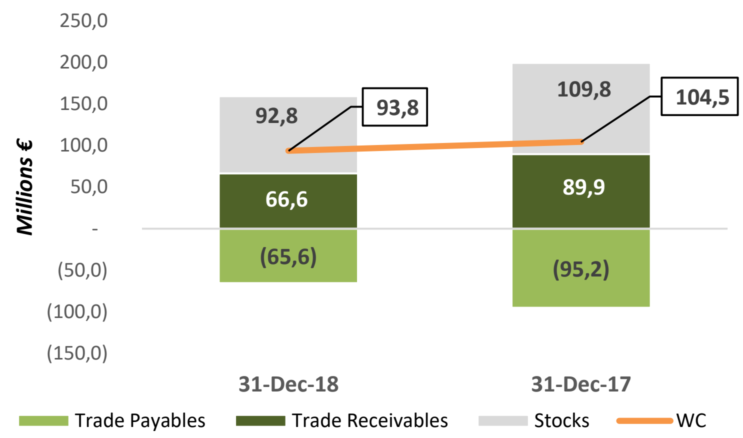
- In the Southern Europe Business Unit, Spain's performance has been positive, with improvements in volumes and market share, deriving profits from the €1.3 million increase in advertising investments. In Italy, despite an improvement in unit margins compared to the previous corporate year, the drop in volumes has had a negative effect on EBITDA in this Business Unit.
- In Northern Europe, we have registered a noticeable improvement compared to the previous corporate year achieving improved unit margins; however, a decrease in volumes compared to 2017 has resulted in an effect on sales decreasing by 12%.
- The delay implementing the new business model in India (which is now fully implemented), with an effect of €2.2 million on the level of gross margin, has affected the performance of this Business Unit. However, other countries have recorded better performance due to the increase in margins associated with decreases in raw material costs.
- In the North America Business Unit, and in particular the United States, where the market continues to be characterized by a situation of aggressive business policies implemented by competitors focusing on price and volume without quality, we have invested in promotions and advertising to support our brands and reverse the situation, which is generating, combined with changes in the exchange rate, the current negative results.

Balance Sheet

Balance Sheet data

	31-Dec-18	31-Dec-17	YTD
	m€	*m€*	*%*
Non Currents Assets	583.914	903.940	*-35,4%*
Workin Capital	93.755	104.453	*-10,2%*
Equity	35.310	299.831	*-88,2%*
Net Financial Debt	556.218	561.710	*-1,0%*

Working Capital



- The decrease in raw material prices at the origin, lower sales volumes, and the improvement in managing working capital compared to the previous corporate year have allowed us to significantly reduce our investment in working capital.
- Decreased working capital needs have resulted in lower debt levels, a line that has dropped by 1% compared to the previous corporate year.

Cash generation

Cash generation managing analysis

	31-Dec-18	31-Dec-17	YTD
	m€	*m€*	*%*
Cash at the begining	16.831	23.406	
EBITDA	15.445	31.343	*-50,7%*
Changes in WC	10.698	5.805	*-85,0%*
Interest Payment	(27.374)	(27.409)	*0,0%*
Tax income Payment	(5.166)	(2.749)	*87,9%*
NRI and others	(8.100)	(25.521)	*-68,3%*
CF Investment Activities	(2.805)	(1.638)	*71,3%*
CF Financing Activities	48.419	13.593	*-256,2%*
YTD Cash generated	**31.116**	**(6.576)**	***573,2%***
Cash at the end	47.947	16.831	

- The cash balance at corporate year end has increased, mainly due to capital expansion resources of €25 million in the month of October.
- **We are complying** with our financial covenants as of December 31, 2018.

Impairment test

- During the first six-month period of the corporate year, we carried out an impairment test that affected the North American Business Unit by €20 million and the Southern Europe Business Unit by €17 million.
- As indicated in the Prospectus dated September 28, 2018, "the Group was working to improve its sales and results during the last quarter of 2018; nonetheless, in the event that this did not work, this situation could cause the recording of impairment in assets in addition to those recorded during the first six-month period of the corporate year".
- The actions carried out during the second six-month period of the corporate year have not had the expected positive effects, demonstrating that to reverse the existing situation in certain markets/CGUs, more time and investment are necessary.
- The observation that more time and investment are necessary to implement the Group's strategy focused on value and quality in contrast with the volume and price strategy followed by certain competitors, in particular in the Southern Europe (in Italy) and North America Business Units, combined with the necessity of making additional business investments in the Northern Europe Business Unit to improve its sales and margins, have led the Group to draw up a new five-year business plan, which has been adopted as the basis to carry out a new impairment test.
- The group hired PwC to act as an independent expert to execute this impairment test, with the impairment recorded being the following:

Information in millions of €	Southern Europe	North America	Northern Europe	Total
Total net assets	**142**	**305**	**71**	**518**
Reasonable value	93	196	32	320
Cost of sale	(1)	(2)	(0)	(3)
Recoverable value	**92**	**194**	**31**	**317**
Impairment	**50**	**111**	**39**	**201**

Conclusions

- The situation of key markets for Deoleo, and namely the United States and Italy, caused negative results in terms of EBITDA during the 2018 corporate year, and have forced the company to re-estimate its five-year business plan. In 2018, additional investments were made in advertising and business actions, which have not had the expected results, resulting in a drop in sales and margins, mainly in Italy and the United States.

- The observation that more time and investment are necessary to implement the Group's strategy focused on value and quality in contrast with the volume and price strategy followed by certain competitors, in particular in the Southern Europe (in Italy) and North America Business Units, combined with the necessity of making additional business investments in the Northern Europe Business Unit to improve its sales and margins, have led the Group to draw up a new five-year business plan, which has been adopted as the basis to carry out a new impairment test.

- As a result of the recording of impairment in assets, the Group's parent company now has grounds to dissolve the company. In accordance with legislation in effect, the Board of Directors will take decisions and implement the measures necessary to reestablish a balance in equity. In accordance with legislation in effect, the Board of Directors will take decisions and will implement the necessary measures to reestablish a balance in equity. The Administrators of the Company could suggest to the Shareholders Meeting, within the time periods legally established, the adoption of the measures to restore the net worth balance reverting the current situation. Deoleo, S.A has enough amount of share capital in order to reestablish balance between share capital and the net worth.

- Deoleo trusts its business model based on the quality of its products, and is implementing actions across the value chain in its development, assuming that this is an undertaking that requires time and investment in brands.

- In Spain, which is one of the most mature olive oil markets in the world and where we started with a very unfavorable situation, we have reversed the trend, have increased our market share and profitability, and our brands are within the 10 top brands that have grown in terms of number of consumers in Spain in the food sector.

- The impairment recorded requires an accounting adjustment that does not have an impact on the liquidity situation of the Group, which on December 31, 2018 reduced its net financial debt by €5 million, and which following the expansion in capital and its syndicated line of credit, had €74 million of liquidity at corporate year-end.

Annex I: Profit and loss statement

Profit and Loss Statement
(Thousand of €)

	31-Dec-18	31-Dec-17	YTD
Net Sales	**605.557**	**692.332**	**-12,5%**
COGS	(515.470)	(590.582)	-12,7%
Gross Margin	**90.087**	**101.750**	**-11,5%**
Staff Costs	(42.879)	(41.593)	3,1%
OPEX	(31.764)	(28.814)	10,2%
Operating Expenses	**(74.643)**	**(70.407)**	**-6,0%**
Adjusted EBITDA	**15.445**	**31.343**	**-50,7%**
% Sales	***2,6%***	***4,5%***	
Amortization and Depreciation	(313.092)	(18.168)	1623,4%
EBIT before NRI	**(297.647)**	**13.175**	**-2359,1%**
NRI	(1.648)	(13.860)	-88,1%
EBIT	**(299.295)**	**(685)**	**-43584,9%**
% Sales	***-49,4%***	***-0,1%***	
Financials Results	(32.463)	(25.427)	27,7%
Profit (Loss) for the period	**(331.758)**	**(26.113)**	**-1170,5%**
Income Tx	40.693	7.756	-424,6%
Profit (Loss) before Tax	**(291.065)**	**(18.356)**	**-1485,7%**
Attributable Profit (Loss) for the period	**(291.065)**	**(18.356)**	**-1485,7%**

Annex II: Balance Sheet

Balance Sheet
(Thousand of €)

	31-Dec-18	31-Dec-17
Non-Current Assets	583.914	903.940
Stocks	92.783	109.790
Payables	66.552	89.868
Other current assets	17.475	17.508
Cash and Cash Equivalents	47.947	16.831
Total Assets	**808.671**	**1.137.937**
Equity	35.310	299.831
Financial liabilities (preferred shares)	42.453	42.453
Long term Debt	542.037	505.376
Provisions	17.420	19.594
Deferred tax liabilities	85.305	143.825
Short Term Debt	19.675	30.712
Receivables	65.580	95.205
Other current liabilities	891	941
Total Liabilities	**808.671**	**1.137.937**

Annex III: Net Financial Debt

Net Financial Debt
(Thousand of €)

	31-Dec-18	31-Dec-17	YTD
	m€	m€	%
Long Term Debt	**584.490**	**547.829**	***6,7%***
Syndicated Loan	*541.302*	*504.161*	*7,4%*
Preferred Shares	*42.453*	*42.453*	*0,0%*
Other Debt	*735*	*1.215*	*-39,5%*
Short Term Debt	**19.675**	**30.712**	***-35,9%***
Financial Debt	**604.165**	**578.541**	***4,4%***
Cash and Cash Equivalents	(47.947)	(16.831)	*-184,9%*
Net Financial Debt	**556.218**	**561.710**	***-1,0%***

Disclaimer

- *This document contains future statements on intentions, expectations and forecasts of Deoleo, S.A. or its management on the date on which it was written.*
- *These future statements or forecasts are not guarantees of future fulfilment, as they are conditioned by risks, uncertainties and other relevant factors which could cause the developments and end results to differ materially from those expressed in these intentions, expectations or forecasts.*
- *Deoleo, S.A. is not obligated to publicly divulge the result of any revision that it might make of these statements to adapt them to facts or circumstances subsequent to this presentation, including changes in the Company's business, its business development strategy or any other possible unforeseen circumstance, among others.*
- *The statements contained in this document must be borne in mind by all persons or entities that may have to adopt decisions or disseminate opinions on the shares issued by Deoleo and, in particular, by the analysts and investors who are privy to this document.*
- *The documentation and public information shared or registered by Deoleo in the supervisory organisations and in particular in the Spanish National Securities Market Commission may be viewed.*
- *This document contains unaudited financial information, so it is not definitive information and may be modified in the future.*
- *In accordance with the European Securities and Markets Authority (**ESMA**), below we include a **description of the key indicators (APMs) used in this report**. These indicators are used recurrently and consistently by the Group to explain the evolution of its activity, and their definition has not been changed:*
    - ***EBITDA:** The earnings before depreciation, amortisation and earnings due to disposals and transfers of real estate and non-current assets maintained for sale and corresponding impacts as well as other non-recurring income and expenses (the elements considered non-recurring are those primarily associated with the comprehensive redesign of the Group's global model affecting processes, systems and structures that allow a more solid company and growth to be maintained).*
    - ***Net Financial Debt:** Gross financial debt minus cash and other equivalent liquid assets.*
    - ***Working capital (rolling fund):** Part of the non-financial working capital which is financed by permanent resources. It is calculated as: Stocks + Commercial debtors and other accounts payable – Commercial creditors and other accounts due.*