



Consolidated Financial Results

H1 2011

KORRES NATURAL PRODUCTS S.A.

Drosini 3 & Tatoiou

144 52 Metamorfosi-Attiki

Contact person: Athina Lagou, Head of Investor & Shareholders Relations

T +30 213 018 8905

F +30 213 018 8999

E athina.lagou@korres.com

Ir W <http://ir.korres.com>

W www.korres.com

KORRES/H1 2011 FINANCIAL RESULTS

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- POSITIVE TREND IN SALES IN GREECE
- INCREASE IN MARKET SHARE IN THE PHARMACY CHANNEL
- INCREASE IN OPERATIONAL CASH FLOW
- MAINTENANCE OF OPERATING PROFITABILITY

Korres Group closed H1 2011 with a significant increase in sales in the Greek market, contributing to the enhancement of market share in the pharmacy channel, the maintenance of the operating profitability as well as the increase in operational cash flow. In particular, the positive trend in sales in Q2 2011, contributing to the growth of 6% of sales in Greece, and to the total increase in the Group's market share by 0,7basis points in the pharmacy channel to 9,6% in H1 2011, from 8,9% in H1 2010. Concerning the operating profitability, earnings before interest, tax, depreciation and amortization (EBITDA) it reached 5,1m euro, with the operational cash flow to increasing by 2,5m euro, to 4,4m euro.

Analytically, the Group on a consolidated basis achieved sales of 21,6m euro in H1 2011. For the correct comparison of sales with the corresponding period of H1 2010, we should have in mind the change in the consolidation way of the Group's activity in US, as a result of the end of the transition period in accordance with the agreement with Johnson & Johnson and the beginning of the distribution of Group's products by Johnson&Johnson in the particular market. Thus if we exclude the effect of the transition period concerning the US market from the turnover of H1 2010, in order to be comparable to the H1 2011, the consolidated sales presented an increase of 5% .

At the level of operating profitability, excluding the consolidation effect of the Group's activity in US from H1 2010, Korres Group reduced its operational expenses by 2% (administrative and distribution expenses), achieving earnings before interest, tax, depreciation and amortization (EBITDA) 5,1m euro in H1 2011 from 5,3m euro in the corresponding H1 2010. The difference between the two semesters is the result of the analogical lower income, recognized by the Group in H1 2011, that being 2,3m from the royalties, received from Johnson&Johnson for the distribution of Group's products in North and South America, vs to the initial income of 3,3m euro in H1 2010, regarding the royalty, received from Johnson&Johnson for the particular reason. In line with the particular agreement, royalties will be paid from this activity in the following years, with positive effect in the Group's earnings.

Earnings after taxes and minority rights reached 1,4m euro in H1 2011 from 2,0m euro in the corresponding period of 2010, as a result of the above mentioned difference of the income as well as the increased cost of debt, coming from the general rise in the Euribor interest base.

The operating cash flow reached 4,4m euro in H1 2011 from 1,9m euro in the corresponding period of 2010, as a result of the management efforts for Working Capital management in the most efficient way.

In H1 2011, in Greece, Korres Group, despite the significant pressures that affected the pharmacies-major distribution channel of the Group's products in the particular market-from the strikes, realized in the first two months of 2011, achieved a significant growth of 6% in sales.

In the international markets, in the countries that the Group is focusing its interest, the developments that characterized H1 2011, are the following:

- In US, with the completion of the transition period, including the efforts to support brand in the existing distribution channels (North America) and the smooth transition of knowledge (North and South America), as part of the agreement with Johnson & Johnson for the offer of the license to distribute its products to these markets, from June 2011, Johnson&Johnson undertook totally the distribution. At the same time, Johnson&Johnson begun direct co operation with the channel Shoppers Drugmart in Canada in 400 distribution points. From June 2011, TV advertising of 25 second duration has started, presenting the brand history from its beginning, offering the opportunity of buying Korres products through TV channel.

- In Spain, Korres Group is operating with a new distributor that enhanced further the brand's presence in the existing points of sales while at the same time contributed to the significant penetration to new semi selective points of sales and new pharmacies.
- In Germany, in 2011, Group continued TV advertising, which begun in the H2 2010, contributing positive to the sales growth
- In Russia, the Group completed the position of its KORRES products to 550 stores of the channel L'Etoile.

Finally, with target the enhancement of capital structure, Group with the 30.6.2011 General Assembly of shareholders, decided the increase of its capital by 741thousand euro, with the payment of the amount of 9,5m euro in cash and the issue of 1.900.000 new shares, at the price of 5,00 euro per share. The particular capital, covered by Arneta which a company of special purpose and is operating on behalf of Ms Alexia David, obtaining 14,1% participation in the company's share capital.

INCOME STATEMENT

- **Revenues** reduced by **6, 2%** to €21,6m in H1 2011 (from €23,0m in H1 2010), due to the change in the consolidation way of Group's activity in the US, as a result of the end of the transition period in accordance with the agreement with Johnson & Johnson and the beginning of the official period of having Johnson & Johnson handling the Korres brand in the territory as of Q2 2011, as it has initially estimated. Thus, on a comparable basis if we exclude the effect of this transition period from H1 2010 revenues, the consolidated sales enhanced by 5%.
- **Gross profit** reached to €12,9m, decreasing by **8, 4%** (from €14, 0m in H1 2010). **Gross margin** reached **59, 6%** (from 61, 0 % in H1 2010) due to the different product mix having a higher contribution of Body care products driven by the seasonal sales of suncare range that has a lower GM% compared to the rest product categories. This will be corrected in the balance of the year
- **EBITDA** decreased by **3, 7%** to €5,1m (from €5,3m in Q1 2010), due to the lower revenue of €2,3m recognized by Korres Group in H1 2011, coming from the royalties received by Johnson & Johnson, compared to the initial revenue of €3,3m in H1 2010, related to the transfer of the KORRES brand use, to the subsidiaries of Johnson & Johnson for the sale and distribution of its products in North and South America. The **EBITDA margin** increased by 0,6pp to 23, 5% (from 22, 9% in H1 2010), reflecting the management's efforts to retain the operational expenses at the level of H1 2010.
- **Earnings after tax and minority rights** reached €1,4m in H1 2011, from €2,0m in H1 2010, reduced by 30, 5%, being affected by the lower Other Revenue Income from J&J recognised in H1 2011 compared to H1 2010 mentioned above, the increased depreciation as well as the enhanced net interest expenses, as a result of the general rise in Euribor interest.

Income statement (€ m)	H1 2011	H1 2010	Change (%)
Revenues	21,6	23,0	-6,2%
Cost of goods sold	-8,7	-9,0	-2,9%
Gross profit	12,9	14,0	-8,4%
Gross margin (%)	59,6%	61,0%	-1,4%
Operating expenses	-9,6	-10,3	-7,3%
EBITDA	5,08	5,3	-3,7%
EBITDA margin (%)	23,5%	22,9%	0,6%
Depreciation and amortization	1,77	1,55	14,4%
EBIT	3,3	3,7	-11,2%
Operating margin (%)	15,3%	16,2%	-0,9%
Net Interest Income/Expenses	-1,32	-0,97	36,5%
Results from related companies	-0,32	-0,12	163,4%
Earnings before tax (EBT)	1,7	2,64	-36,8%
EBT Margin (%)	7,7%	11,5%	-3,7%
Tax	-0,4	-0,9	-59,9%
Earnings after taxes (EAT)	1,3	1,7	-24,0%
Minority rights	-0,10	-0,3	-66,5%
Earnings after taxes and minorities (EATAM)	1,4	2,0	-30,5%
Net EATAM margin (%)	6,4%	8,7%	-2,3%
EPS	0,12	0,17	-30,5%

BALANCE SHEET

- **Customers** and other receivables amounted to €22,7m (from €24,5m in FY 2010). This is driven by the prioritization of improving AR situation.
- **Inventories** increased by 12, 4%, due to the significant volume that needed to be produced on behalf of Johnson & Johnson to ensure that they have the inventory needed to support the launch in the US Market, the new 50ml Korres fragrances and the promo products concerning face that will be launched in the 2nd Half of the year and will absorb this production.
- **Total Net Debt amounted** to €27,0m (from €38,7m in FY 2010), decreasing by 11,7 mainly effected by the €9,5m which has been already deposited by the Investor to cover the capital increase, being decided by the 30.6.2011 General Assembly of shareholders

(€ m)	H1 2011	FY 2010	Change (%)
Assets			
Property, plant and equipment	21,8	22,0	-1,0%
Intangible assets	12,0	9,0	34,3%
Investments in subsidiary & associated companies	2,7	2,9	-7,3%
Financial assets for sale	0,6	0,7	-25,0%
Good will	9,1	9,1	0,0%
Deferred Taxation	1,1	1,1	1,0%
Other long-term receivables	0,1	0,1	14,9%
Total non-current assets	47,4	44,9	5,5%
Inventories	17,9	15,9	12,4%
Customers and other receivables	22,7	24,5	-7,5%
Cash and equivalent	16,9	4,6	263,8%
Total current assets	57,5	45,1	27,5%
Total assets	104,9	90,0	16,5%
Shareholder's equity and liabilities			
Share capital	4,5	4,5	0,0%
Paid up Capital	7,8	7,9	-0,5%
Amounts adjusted for the capital increase and paid up capital	9,5	0,0	
Reserves	1,4	1,5	-9,4%
Retained Earnings	11,6	10,2	13,6%
Shareholders' Equity to the shareholders of the company	34,9	24,2	44,3%
Non audit participations	-0,1	0,1	
Total Shareholders Equity	34,8	24,2	43,6%
Long-term loans	29,5	32,0	-8,0%
Deferred tax liabilities	1,8	1,6	16,3%
Retirement benefit obligations	0,6	0,6	0,5%
Total long-term liabilities	31,9	34,2	-6,6%
Suppliers and other liabilities	23,6	20,2	16,9%
Short-term loans	14,5	11,3	27,8%
Current tax liabilities	0,1	0,1	-1,9%
Total current liabilities	38,2	31,6	20,8%
Total liabilities	70,1	65,8	6,5%
Total shareholder's equity and liabilities	104,9	90,0	16,5%

CASH FLOW

- **Operating cash flow** reached €4,4m (from €1,9m in H1 2010), reflecting the efforts of the WC management in a more efficient way.
- **Investment cash flow** reached €-2,1m at marginally lower level than €-2,4m in H1 2010. Group continued to invest in R&D and in new stands related to the renewal of the brand in pharmacies as well as in the renewal of software and hardware systems to support the changing needs of the business.
- **Financing cash flow closed** positive €10,0 m (from €0,8m in H1 2010), mainly due to the amount of €9,5m, coming from capital increase, decided by General Assembly of shareholders on June 30th 2011.

Cash flow (€ m)	H1 2011	H1 2010	Change (%)
Operating cash flow	4,4	1,9	133%
Investment cash flow	-2,1	-2,4	-11%
Financing cash flow	10,0	0,8	1204%
Net change in cash	12,3	0,3	4223%
Cash and cash equivalents, beginning of the period	4,6	3,4	37%
Cash and cash equivalents, end of the period	16,9	3,7	359%

APPENDIX: TURNOVER ANALYSIS

Turnover by category (€ m)	H1 2011	H1 2010	%
Face	9,3	10,6	-12,1%
Of Total (%)	43,3	46,1	-2,9pp
Hair	4,1	4,2	-2,7%
Of Total (%)	19,1	18,4	0,7pp
Body	5,3	4,5	17,8%
Of Total (%)	24,7	19,6	5,0pp
Pharmaceuticals & Others	2,8	3,6	-23,1%
Of Total (%)	13,0	15,8	-2,8pp
Total	21,6	23,0	-6,2%

Face products, amounted to €9,3m in H1 2011 from €10,6m in H1 2010, losing in total 12,1% mainly due to the change in the consolidation way of Group's activity in US, resulting from the completion of transition period as part of the agreement with Johnson & Johnson, to support its brand in US during this period. On the other side, in Greece, the category presented significant increase of 8, 7%, reflecting all the positive effect of all the promotion actions and tv advertising, realized in H1 2011. **Hair products**, losing only 2, 7%, reached €4,1m in H1 2011 from €4,2m in H1 2010. Marginal decline compared to last year due to increased initial orders from new selling points that were implemented LY related to hair colorants. On an organic base we have a positive trend, confirming successfully the advertising actions on TV. **Body products** increased by 17,8%, reaching €5,3m in H1 2011 from €4,5m in H1 2010, incorporating the positive effect of promo actions and the successful re-launch of sun care products. **Pharmaceutical & others** presented a decrease of 23, 1%, amounting to €2,8m in H1 2011 from €3,6m in H1 2010 driven by the lower sales of the whole category.

Gross Profit (€ m)	H1 2011	H1 2010	%
Face	5,9	7,4	-19,5%
Gross Margin (%)	63,5	69,4	-5,9pp
Of total gross profit (%)	46,1	52,5	-6,4pp
Hair	2,9	3,0	-2,5%
Gross Margin (%)	71,5	71,4	0,1pp
Of total gross profit (%)	22,9	21,5	1,4pp
Body	2,8	2,5	10,5%
Gross Margin (%)	52,3	55,8	-3,5pp
Of total gross profit (%)	21,6	17,9	3,7pp
Pharmaceuticals & Others	1,2	1,1	6,5%
Gross Margin (%)	42,8	30,9	11,9pp
Of total gross profit (%)	9,3	8,0	1,3pp
Total	12,9	14,0	-8,4%
Gross Margin (%)	59,6	61,0	-1,4pp

The major product category of Face shows a decline in GM%, driven by the change in the consolidation way of the Group's sales in the US, because on the other side in Greece we continue to maintain our GM% level. As far as hair category, presented an increase in GM% due to the favorable product and country mix. The decrease in body category came from the promo actions realized in the sun care range to support the re-launch of the category. Finally the decline in the total GM% based on the increased participation of body products and hair products that are operating at lower GM%, as well as the change in the consolidation of US activity.

Turnover by channel (€ m)	H1 2011	H1 2010	%
Pharmacies - Selective	21,3	22,4	-5,1%
Of Total (%)	98,6	97,4	1,2pp
Mass - semi Selective	0,3	0,6	-50,4%
Of Total (%)	1,4	2,6	-1,2pp
Total	21,6	23,0	-6,2%

Sales in pharmacies and selective points of sales, fell by 5, 1% in H1 2011, reaching €21,3m from €22,4m, attributed to the US business effect as we mentioned above. In the Greek market, there was a positive trend in sales of 8,2%, despite the challenging 1st half of the year that was effected by the strikes, being realized by pharmacists at the beginning of the year. **Mass-semi selective**, decreased by 50,4%, reaching €0,3m from €0, 6m since the Group has decided to focus on our core distribution channel especially in Greece since the mass market is mostly effected by the recession when on the other hand the Pharmacy sector is maintaining it's Total market share.

Turnover by region (€ m)	H1 2011	H1 2010	%
Greece	15,6	14,8	5,9%
Of Total (%)	72,5	64,2	8,3pp
Export	5,9	8,3	-28,0%
Of Total (%)	27,5	35,8	-8,3pp
Total	21,6	23,0	-6,2%

Sales in Greece reached €15,6m in H1 2011 from €14,8m in H1 2010, incorporating the positive effect of the focus we have on the market re establishing our position, improving our product offering and the continuous advertising communication of our strategic categories. Thus they increased their participation to the total sales at 72, 5% from 64, 2%. **International sales**, decreased by 28, 0%, amounting to €5,9m in H1 2011 from €8,3m in the corresponding period of 2010. This fall based mainly to the change in the consolidation way of Group's activity in US (as mentioned above in details). If we exclude the above effect the export business is showing a positive sales growth with key markets being Germany, Spain, Russia and UK presenting a healthy growth in H1 2011.

Gross Profit (€ m)	H1 2011	H1 2010	%
Greece	10,4	10,0	4,7%
Gross Margin (%)	66,7	67,5	-0,8pp
Of total gross profit (%)	81,2	71,1	10,1pp
Export	2,4	4,1	-40%
Gross Margin (%)	40,7	49,2	-8,5pp
Of total gross profit (%)	18,8	28,9	-10,1pp
Total	12,9	14,0	-8,4%
Gross Margin (%)	59,6	61,0	-1,4pp

Group's GM reached 59, 6% from 61, 0%, decreasing by 1,4pp, due to the change in the product mix and the change in the consolidation way of the activity in US. In particular, **in Greece**, the decrease of 0,8pp in Gross margin to 66, 7% in H1 2011 from 67, 5% in H1 2010, came from body products lower GM% due to the promo actions realized in the sun care range. **In international markets**, gross profits decreased by 40%, having a Gross margin of 40, 7% from 49, 2%, as a result of the change in the consolidation way of the activity in US.