



## Consolidated Financial Results

# Q1 2011

Korres S.A. Natural Products

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](mailto:athina.lagou@korres.com)

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

W [www.korres.com](http://www.korres.com)

## KORRES/Q1 2011 FINANCIAL RESULTS

- POSITIVE TREND IN SALES IN GREECE
- MAINTENANCE OF OPERATING PROFITABILITY

Q1 2011 for Korres Group closed with positive trend in sales in the Greek market and the maintenance of significant operating profitability. In particular sales in Greece, presented an increase of 0,6%, despite the aggravating circumstances, in the pharmacy channel effected by the strikes that happen in the first two months of the year. As far as the operating profitability, earnings before interest, tax, depreciation and amortization (EBITDA) reached 2,2m euro.

Analytically, the Group on a consolidated basis achieved sales of 10,3m euro in Q1 2011. For the correct comparison of sales with the corresponding period of 2010, we should mention the change in the consolidation way of the 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 start of the official period of the Korres brand use in the particular market by Johnson & Johnson in Q2 2011 as it has been initially estimated. Thus, if we exclude the effect of the transition period concerning the US market from the turnover of Q1 2010, in order to be comparable to the Q1 2011, the decrease in consolidated sales is reduced to 4,7% (if we do not take under consideration this factor, the comparison with the corresponding previous period-total sales €12,2m euro-will not be accurate)

At the level of operating profitability, earnings before interest, tax, depreciation and amortization (EBITDA) amounted to 2,2m euro in Q1 2011 from 2,9m euro in the corresponding period of 2010, due to the initial revenue of 0,9m euro, recognized by Korres Group in Q1 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 South America. In the line of this particular agreement, royalties will be paid and incorporated in Group's earnings from Q2 2011 that the activity of Johnson & Johnson will start.

Earnings after taxes and minority rights, reached 0,5m euro in Q1 2011 from 1,5m euro in the corresponding period of 2010, as a result of the above mentioned impact, recognized in Q1 2010, the increased depreciation due to the capital expenditures, realized by the Group in the previous years, as well as the enhanced financial expenses.

In Q1 2011, despite the significant pressures that affected the pharmacies-major distribution channel of the Group's products, the Group succeeded a development in the particular market, through the following actions:

- Maintenance of the advertising (TV & press) focused on the strategic categories of face and hair colorants.
- Addition of new stands, renewing further the brand image in the particular pharmacy channel.
- Significant promo actions in the pharmacy (the major distribution channel).
- Launch of new codes in the existing categories, such as the new colors in the range of nail colorants.
- Position of the new completed range of sun care protection.

Assuming that corresponding facts will not be repeated in Q2 2011, Group's management estimates that the positive effect of the above actions will be more obvious in Q2 2011, influencing the first six months of 2011.

In US, the Group in the line with the agreement that has signed with Johnson & Johnson for the offer of the license to distribute its products (North and South America), completed successfully the transition period including the efforts to support the brand in the existing distribution channels in North America and the smooth transition of knowledge in both regions. Thus in Q2 2011, the distribution will be realized by the subsidiaries of Johnson and Johnson in the particular markets. In Europe, Group, focusing its interest in the strategic markets such as Germany and Spain, continued to enhance its presence in the semi selective point of sales and in pharmacies.

## INCOME STATEMENT

- **Revenues** reduced by **15, 0%** to €10,3m in Q1 2011 (from €12,2m in Q1 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 has initially expected. .
- **Gross profit** reached to €6,4m, decreasing by **14, 2%** (from €7, 4m in Q1 2010). **Gross margin** reached **61, 5%** (from 60, 9 % in Q1 2010) due to the increased contribution of Greek sales to the total sales that are operating at higher GM% compared to exports.
- **EBITDA** decreased by **21, 8%** to €2,2m (from €2,9m in Q1 2010). The **EBITDA margin** decreased by 1,9pp to 21, 7% (from 23, 6% in Q1 2010) due to the initial revenue of €0,9m recognized by Korres Group in Q1 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 South America. In the line of this particular agreement, royalties will be paid and incorporated in Group's earnings from Q2 2011 that the activity of Johnson & Johnson will start
- **Earnings after taxes and minority rights** amounted to €0,5m from €1,5m in Q1 2010, reduced by 66, 6%, being affected by the above mentioned event that happen in Q1 2010, the increased depreciation as well as the enhanced net interest expenses

Income statement (€ m)	Q1 2011	Q1 2010	Change (%)
<b>Revenues</b>	<b>10,3</b>	<b>12,2</b>	<b>-15,0%</b>
Cost of goods sold	-4,0	-4,8	-16,4%
<b>Gross profit</b>	<b>6,4</b>	<b>7,4</b>	<b>-14,2%</b>
Gross margin (%)	61,5%	60,9%	0,6%
Operating expenses	<b>-5,0</b>	<b>-5,3</b>	-5,5%
<b>EBITDA</b>	<b>2,2</b>	<b>2,9</b>	<b>-21,8%</b>
EBITDA margin (%)	21,7%	23,6%	-1,9%
Depreciation and amortization	0,88	0,75	17,8%
<b>EBIT</b>	<b>1,4</b>	<b>2,1</b>	<b>-35,7%</b>
Operating margin (%)	13,2%	17,5%	-4,3%
Net Interest Income/Expenses	-0,66	-0,47	40,2%
Results from related companies	-0,11	-0,06	80,7%
<b>Earnings before tax (EBT)</b>	<b>0,6</b>	<b>1,6</b>	<b>-62,3%</b>
EBT Margin (%)	5,8%	13,2%	-7,3%
Tax	-0,1	-0,4	-64,0%
<b>Earnings after taxes (EAT)</b>	<b>0,5</b>	<b>1,2</b>	<b>-61,8%</b>
<b>Extraordinary expense of Law 3845/2010</b>			
<b>Earnings after taxes and Extraordinary expenses</b>	<b>0,5</b>	<b>1,2</b>	<b>-61,8%</b>
<b>Before Extraordinary expense</b>			
<b>Earnings after taxes and minorities (EATAM)</b>	<b>0,5</b>	<b>1,5</b>	<b>-66,6%</b>
Minority rights	-0,02	-0,2	-91,4%
<b>Net EATAM margin (%)</b>	<b>4,7%</b>	<b>12,0%</b>	<b>-7,3%</b>
<b>After Extraordinary expense</b>			
<b>Earnings after taxes and minorities (EATAM)</b>	<b>0,5</b>	<b>1,5</b>	<b>-66,6%</b>
<b>Net EATAM margin (%)</b>	<b>4,7%</b>	<b>12,0%</b>	<b>-7,3%</b>
<b>EPS</b>	<b>0,04</b>	<b>0,13</b>	<b>-66,6%</b>

## BALANCE SHEET

- **Customers** and other receivables amounted to €24,0m (from €24,5m, in FY 2010). This is driven by the prioritization of improving AR situation.
- **Inventories** increased by 12, 7%, due to the production of certain products on behalf of Johnson & Johnson, the new 50ml Korres fragrances and the promo products concerning face. It is expected to be smoothed in the Q2 2011.
- **Total Net Debt amounted** to €39,8m (from €38,7m in Q1 2010), increasing by €1,1m due to temporary increase in WC needs which will be smoothed in the balance of the year.

(€ m)	Q1 2011	FY 2010	Change (%)
<b>Assets</b>			
Property, plant and equipment	22,0	22,0	-0,2%
Intangible assets	9,3	9,0	3,3%
Investments in subsidiary & associated companies	2,8	2,9	-3,7%
Financial assets for sale	0,7	0,7	-10,0%
Good will	9,1	9,1	0,0%
Deferred Taxation	1,1	1,1	-1,4%
Other long-term receivables	0,1	0,1	14,6%
<b>Total non-current assets</b>	<b>45,0</b>	<b>44,9</b>	<b>0,2%</b>
Inventories	17,9	15,9	12,7%
Customers and other receivables	24,0	24,5	-2,2%
Cash and equivalent	5,4	4,6	16,0%
<b>Total current assets</b>	<b>47,3</b>	<b>45,1</b>	<b>4,9%</b>
<b>Total assets</b>	<b>92,3</b>	<b>90,0</b>	<b>2,6%</b>
<b>Shareholder's equity and liabilities</b>			
Share capital	4,5	4,5	0,0%
Paid up Capital	7,9	7,9	0,0%
Reserves	1,5	1,5	-3,9%
Retained Earnings	10,7	10,2	4,8%
<b>Shareholders Equity to the shareholders of the company</b>	<b>24,6</b>	<b>24,2</b>	<b>1,8%</b>
Non audit participations	0,0	0,1	
<b>Total Shareholders Equity</b>	<b>24,6</b>	<b>24,2</b>	<b>1,7%</b>
Long-term loans	31,9	32,0	-0,3%
Deferred tax liabilities	1,7	1,6	6,6%
Retirement benefit obligations	0,6	0,6	0,5%
<b>Total long-term liabilities</b>	<b>34,2</b>	<b>34,2</b>	<b>0,1%</b>
Suppliers and other liabilities	20,1	20,2	-0,4%
Short-term loans	13,2	11,3	16,8%
Current tax liabilities	0,1	0,1	61,8%
<b>Total current liabilities</b>	<b>33,5</b>	<b>31,6</b>	<b>5,9%</b>
<b>Total liabilities</b>	<b>67,7</b>	<b>65,8</b>	<b>2,9%</b>
<b>Total shareholder's equity and liabilities</b>	<b>92,3</b>	<b>90,0</b>	<b>2,6%</b>

## CASH FLOW

- **Operating cash flow** reached €0,1m (from €1,3m in Q1 2010), coming from the increased WC needs and the reduced earnings before taxes which will be corrected in the balance of the year.
- **Investment cash flow** reached €-1,1m (from €-1,2m in Q1 2010) due to the increased Capital Expenditures coming from the extended supporting actions in order to improve and harmonise the brand image in the POS.
- **Financing cash flow closed** positive €1, 8 m (from €-0,3m in Q1 2010), mainly due to increased debt needs.

Cash flow (€ m)	Q1 2011	Q1 2010	Change (%)
Operating cash flow	0,1	1,3	-92%
Investment cash flow	-1,1	-1,2	-2%
Financing cash flow	1,8	-0,3	-667%
Net change in cash	0,7	-0,2	-587%
Cash and cash equivalents, beginning of the period	4,6	3,4	37%
Cash and cash equivalents, end of the period	5,4	3,2	66%

## APPENDIX: TURNOVER ANALYSIS

Turnover by category (€ m)	Q1 2011	Q1 2010	%
<b>Face</b>	<b>4,0</b>	<b>5,4</b>	<b>-25,7%</b>
Of Total (%)	38,9	44,5	-5,6pp
<b>Hair</b>	<b>1,9</b>	<b>2,0</b>	<b>-1,0%</b>
Of Total (%)	18,7	16,1	2,7pp
<b>Body</b>	<b>3,1</b>	<b>2,9</b>	<b>7,1%</b>
Of Total (%)	29,8	23,6	6,2pp
<b>Pharmaceuticals &amp; Others</b>	<b>1,3</b>	<b>1,9</b>	<b>-32,4%</b>
Of Total (%)	12,5	15,7	-3,2pp
<b>Total</b>	<b>10,3</b>	<b>12,2</b>	<b>-15,0%</b>

**Face products**, amounted to €4,0m in Q1 2011 from €5,4m in Q1 2010, losing in total 25,7% 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. **Hair products**, losing only 1, 0%, reached €1,9m in Q1 2011 from €2,0m in Q1 2010. This shortfall came from the exports while in Greece, there was a positive trend, confirming successfully the advertising actions on TV. **Body products** increased by 7,1%, reaching €3,1m in Q1 2011 from €2,9m in Q1 2010, incorporating the positive effect of promo actions and the position of sun care products. **Pharmaceutical & others** presented a decrease of 32, 4%, amounting to €1,3m in Q1 2011 from €1,9m in Q1 2010 driven by the lower sales of the whole category.

Gross Profit (€ m)	Q1 2011	Q1 2010	%
<b>Face</b>	<b>2,6</b>	<b>3,8</b>	<b>-31,9%</b>
Gross Margin (%)	63,9	69,6	-5,7pp
Of total gross profit (%)	40,4	50,9	-10,5pp
<b>Hair</b>	<b>1,4</b>	<b>1,4</b>	<b>2,8%</b>
Gross Margin (%)	<b>73,7</b>	<b>71,0</b>	<b>2,7pp</b>
Of total gross profit (%)	<b>22,4</b>	<b>18,7</b>	<b>3,7pp</b>
<b>Body</b>	<b>1,7</b>	<b>1,6</b>	<b>9,2%</b>
Gross Margin (%)	55,9	54,9	1,1pp
Of total gross profit (%)	27,1	21,3	5,8pp
<b>Pharmaceuticals &amp; Others</b>	<b>0,6</b>	<b>0,7</b>	<b>-5,1%</b>
Gross Margin (%)	49,2	35,1	14,2pp
Of total gross profit (%)	10,0	9,1	1,0pp
<b>Total</b>	<b>6,4</b>	<b>7,4</b>	<b>-14,2%</b>
<b>Gross Margin (%)</b>	<b>61,5</b>	<b>60,9</b>	<b>0,6pp</b>

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 Greece we continue to maintain our GM% level. As far as body care and hair categories they presented an increase in GM% due to the favorable product and country mix. The increase in the total GM% based on the enhanced participation of sales in Greece that are operating at higher GM.

Turnover by channel (€ m)	Q1 2011	Q1 2010	%
<b>Pharmacies - Selective</b>	<b>10,2</b>	<b>11,8</b>	<b>-13,8%</b>
Of Total (%)	98,4	97,0	1,4pp
<b>Mass - semi Selective</b>	<b>0,2</b>	<b>0,4</b>	<b>-55,7%</b>
Of Total (%)	1,6	3,0	-1,4pp
<b>Total</b>	<b>10,3</b>	<b>12,2</b>	<b>-15,0%</b>

**Sales in pharmacies** and selective points of sales, fell by 13, 8% in Q1 2011, reaching €10,2m from €11,8m, attributed to the US business effect as we mentioned above. In the Greek market, there was a positive trend in sales, despite the aggravating circumstances coming from the strikes, being realized by pharmacists at the beginning of the year. **Mass-semi selective**, decreased by 55,7%, reaching €0,2m from €0, 4m since we have decided to focus on our core distribution channel especially in Greece.

Turnover by region (€ m)	Q1 2011	Q1 2010	%
<b>Greece</b>	<b>7,7</b>	<b>7,6</b>	<b>0,6%</b>
Of Total (%)	74,4	62,8	11,6pp
<b>Export</b>	<b>2,6</b>	<b>4,5</b>	<b>-41,5%</b>
Of Total (%)	25,6	37,2	-11,6pp
<b>Total</b>	<b>10,3</b>	<b>12,2</b>	<b>-15,0%</b>

**Sales in Greece** reached €7,7m in Q1 2011 from €7,6m in Q1 2010, incorporating the positive effect all the promo actions being realized in 2010 and also the beginning of 2011. Thus they increased their participation to the total sales at 74, 4% from 62, 8%. **International sales**, decreased by 41, 5%, amounting to €2,6m in Q1 2011 from €4,5m in the corresponding quarter of 2010. This fall based mainly to the change in the consolidation way of Group's activity in US (as mentioned above in details). Among the other countries, Germany, Russia and UK presented significant performance in Q1 2011.

Gross Profit (€ m)	Q1 2011	Q1 2010	%
<b>Greece</b>	<b>5,1</b>	<b>5,2</b>	<b>-1,6%</b>
Gross Margin (%)	66,8	68,3	-1,5pp
Of total gross profit (%)	80,8	70,5	10,3pp
<b>Export</b>	<b>1,2</b>	<b>2,2</b>	<b>-44%</b>
Gross Margin (%)	46,2	48,4	-2,2pp
Of total gross profit (%)	19,2	29,5	-10,3pp
<b>Total</b>	<b>6,4</b>	<b>7,4</b>	<b>-14,2%</b>
<b>Gross Margin (%)</b>	<b>61,5</b>	<b>60,9</b>	<b>0,6pp</b>

Group's GM reached 61, 5% from 60, 9%, increasing by 0,6pp, due to the increased participation of the sales in Greece, operating at higher GM%. In particular, **in Greece**, the decrease of 1,5pp in Gross margin to 66, 8% in Q1 2011 from 68, 3% in Q1 2010, came from combination of both the product mix as well as the promotional activities/sales that the Group has executed in order to continue to attract consumption. **In international markets**, gross profits decreased by 44%, having a Gross margin of 46, 2% from 48, 4%, as a result of the change in the consolidation way of the activity in US.