



## **CORTICEIRA AMORIM POSTS A 2,4% SALES INCREASE**

**First half 2008 consolidated sales reached 248,1M€**

Mozelos, Portugal, 1<sup>st</sup> of August 2008 – **CORTICEIRA AMORIM, SGPS, S.A.** [Euronext Lisbon: **COR**; ISIN: **PTCOR0AE0006**], the world's largest cork manufacturer, today announced consolidated results for the second quarter 2008 (2Q08) and cumulative first half 2008 (1H08). Unless otherwise stated, all figures are in millions of Euros (M€). Variations are referred to comparisons with values of same period 2007.

### **HIGHLIGHTS**

- Despite economic slowdown, CORTICEIRA AMORIM registers a positive first half 2008, posting sales growth in several of its Business Units.
- Consolidated Sales reached 248,1M€ (+2,4%), tough adversely impacted by an unfavourable exchange rate impact of 6,2M€.
- Benefiting from newly acquired Oller activity, highlights for the Corkstoppers Business activity, which totalled sales of 142,1M€ (+5,6%).
- EBIT dropped 4,86% to 28,2M€, due to economic slowdown and export currencies devaluation.
- Net profit decreased to 6,89M€.
- Equity/Assets ratio stood at 41%.



**CORTICEIRA AMORIM**

**FIRST HALF 2008**

## **I – SUMMARY OF ACTIVITY (1H08)**

Continuous downward economic revisions were announced during the first half of 2008 and a consensus on a long and lasting hard landing was reached.

On top of the subprime crisis, not yet fully diluted, world economy is being hurt by a mixture of rising inflation, tough credit facilities, high energy costs and a general risk aversion. In the developed countries the situation is even more negative due to the economic stagnation and to the worsening of the business community confidence.

As for Portugal, the semester registered a sluggish economic growth, driven by a decreasing external demand to domestic companies and by tougher credit facilities. All this within a deteriorating international economic environment and the difficulties arising from a USD devaluation against the Euro and by high oil prices.

Exporting more than 90% of its sales, CORTICEIRA AMORIM was not immune to these serious economic conditions. Two negative factors have to be highlighted: the devaluation of almost all of the CORTICEIRA AMORIM export currencies, namely the 13% USD devaluation when compared to 1H07, and the negative economic environment of its two major markets (European Union and the USA). Weak USD and a fierce resistance of USA customers to price increases due to USD devaluation, hit euro converted sales and, naturally, CORTICEIRA consolidated profits. As for the economic environment, high volatility and a widespread mistrust climate have to be emphasized. Mistrust between financial institutions was already a fact in late 2007, but during the first half of 2008, it spread though all the economic tissue. These two negative factors got even worse and consequently led to delays in investments and consumers spending due to interest rate hikes and to ever more difficult credit facilities. During the semester, orders were received in the last moment, making industrial and logistical conditions more difficult due to the short time delivery requests. The change in order allocations and the tightening of delivery schedules were especially visible in multinational companies. As never seen before, the first half 2008, registered monthly sales so erratic, going from bad to record high monthly figures.

On top of this, high energy costs, mainly the power bill and transportation costs hit CORTICEIRA AMORIM results. It was within this negative economic environment that CORTICEIRA AMORIM conducted its first half 2008 business.

## **II – BUSINESS UNIT (BU) ACTIVITIES**

### **Raw Materials BU**

Raw Materials BU increased its business to the Group value chain. Sales to external customers represent now more than 6% of total sales. Sales to outside clients will be always a fact due to the need to get rid of cork that doesn't fit to the Group's requirements. Operating activities were very similar to 1H07. Total sales reached 56,1M€, of which 94% were meant to fill the Group's needs (88% in 1H07). Sales were flat (-0,9%), but the swing between Group and non Group sales

(meaning -3,5M€ sales to outside customers) impacted consolidated figures adversely. As disclosed in prior periods, the decrease in outside sales reflects a policy of prudence when it comes to local industry payment credibility. EBIT reached 3,3M€ (+3%).

## **Corkstoppers BU**

Following a tepid first quarter and an extraordinary month of April, May and June sales plummeted. Excluding Oller sales, sales for the first half were flat, meaning that the two million euro 1Q08 increase was offset during 2Q08.

This was due to the main European markets evolution and to major multinational clients.

As for markets, it seems that there was a bottling delay trend for north hemisphere countries, hurting end semester sales. Chilean wine industry is facing difficulties due to Chilean peso strength against the USD.

As said, most of these sluggish sales were due to export currencies devaluation. CORTICEIRA AMORIM estimates a 4,4M€ sales adverse impact, with minor recovery coming from price increases. This devaluation hit average prices much more than the said price increases decisions. This was particularly felt in natural corks. As for volume, TwinTop® sales kept its decreasing trend, which was offset by an increase in most of the other corkstoppers families.

Consolidate corkstoppers sales totaled 142,1M€ (+5,6%) driven by the Oller entry in the consolidation of the BU. EBIT reached 10,2M€ (-2%), affected by an exchange rate effect which amounted to 3M€.

## **Corkflooring BU**

Markets conditions during the first half of the year were significantly different from the plan. Hit by the economic environment, German retail market and contracting registered poor performances, thus preventing the leverage of sales and margins usually associated with them. Sales growth (5,8%) derives mostly from wood flooring (NCFC). Though this increase adds value to sales and profits, this line of complementary products allows for a smaller absorption of fixed costs than high value corkflooring (CFC) allows. As for markets, Central and Southern Europe came flat, while Northern and Eastern Europe registered growing sales. Total sales were 68,1M€ (+5,8%) and EBIT registered 3,8M€ (-22%).

As disclosed, Amorim Revestimentos, S.A., acquired in late June, the whole capital of German distributor Cortex Group. This acquisition is in line with the ongoing project in Amorim Revestimentos to double production capacity, bringing higher flexibility as for finished products. Started as 2007, this project is planned to be finalized at the end of 2009. During second half 2008, a partial startup is scheduled.

## **Composite Cork BU**

This new BU merged, as of January 2008, the two businesses of former Corkrubber and Agglomerated Business Units. Reasons behind this merger relate to the planned gains coming from new business generated by commercial synergies, and from a better use of the fixed assets, together with the integration of the know-how and expertise of the different teams coming from the former BU's.

On top of the usual initial difficulties, the BU suffered from the said hard economic conditions. Lack of confidence in the markets, the postponement of customers' orders and an aggressive inventory management caused highly volatile monthly sales, making production and sales logistics very difficult. All of these market changes affected sales in most of its lines, and almost all markets and customers. Besides, this new Business Unit has a high risk exposure to exchange rate, namely the USD. It is estimated that this BU registered 2M€ sales adverse impact due to this exposure, with only a small part of it offset by price increases. Apart from this gloomy scenario, the fact that the US market sales in local currency has not decreased is a clear sign of the flexibility and resistance that this BU can show even in the present hard conditions. Additionally, benefits are arising from new industrial processes and from the launching of new products lines (backing and inlay). These are some of the fruits of the I&D activity that this BU started in a formal way a few years ago.

Sales reached 40,3M€ (-9,5%) versus the 1H07 pro-forma sales. If it is taking in account the effects of the changes in the Group value chain that hurt 1H08 sales, namely 1,8M€ in sales, to Group companies, mostly granulated cork, that did not occur during 1H08, the sales decrease is only -5,5%. In this deviation is included the exchange rate devaluation effect.

Operating costs reduction was not enough to offset the effect of the sales decrease and, mainly, the effect of the USD devaluation. Consequently, EBIT reach a negative value of 0,4M€, which includes an estimated 1,6M€ negative USD devaluation effect.

## **Insulation BU**

During the semester, sales continued to perform positively, reaching 5,0M€ (+8,5%). Second quarter showed a slowdown in growth when compared to the first quarter (+9,9%). Due to the use of fuel capacity, black agglomerated cork from other producers was traded. This contributed to a little less than half of the said growth. Gross margin, in value and in percentage, was hurt by sales of trade black agglomerated cork and by the consumption of raw materials bought during 2007. Due to the full utilization of the production capacity and higher energy and transportation cost, operating costs increased by 3,8%, leading to a decrease of 12% in EBIT values (0,7M€).

### **III – CONSOLIDATED RESULTS**

Consolidated activity, seen largely as the sum of the different BU activities, suffered from the same negative conditions as the BU's did. Consolidated sales for the first half of 2008 totalled 248,1M€ (+2,4%). In a vast universe as CORTICEIRA AMORIM, such an increase came from several factors. An explanation summary follows. The first major factor for such an increase comes from the Oller entry in the consolidation perimeter, meaning a positive 3% effect. One negative factor offsetting that positive variation relates with the planned reduction of non-transformed cork sales (as referred to in the Raw Materials analysis chapter). This justifies an adverse effect of 1,5% in consolidated sales. But, above all and on top of the effects of the economic slowdown, is the effect of the export currencies devaluation. CORTICEIRA AMORIM estimates an adverse effect of around 6,2M€ in consolidated sales. Only a fraction of this value was recovered through price increases. A negative 2% effect on consolidated sales was calculated as the result of the said devaluations.

All in all it can be said that CORTICEIRA AMORIM registered a weak sales growth, in line with its main market unfavourable economic conditions.

Sales for Corkstoppers (+5,6%), Corkflooring (+5,8%) and for Insulation (8,5%) impacted positively. Negative impact came from Raw Materials BU (decrease in cork sales to outside customers) and from the new BU Cork Composites.

Percentual Gross Margin decreased approximately 10% (47,7% vs 46,7%). This variation was mostly due to the devaluation effect, namely in the Corkstoppers and Cork Composites BU, by far the most exposed to the exchange rate risk. Corkflooring BU also contributed to the Gross Margin reduction (-0,5%), due to the increase of the wood flooring (NCFC) in the overall business of the BU. As it is known, percentual Gross Margin for the trade products, which is the case for NCFC, is well below the Gross Margin of the Group's own finished products. Additionally, Insulation Gross Margin registered a decrease, caused by trade sales and by the consumption of raw materials acquired during 2007 with an unfavourable price/quality ratio to be noted that this BU is increasing its sales to the Gulf region (20%), and because these countries' currencies are pegged to the USD, the effect of the devaluation is hurting its results.

Raw Material BU was the only BU to register a good showing (+3,2%) in its percentual Gross Margin. This was due to the consumption cheaper 2007 cork, and to a better factory yields in Coruche plant.

Operating costs totalled 102,7M€ (+2,8%), in line with sales growth. Oller entry in the consolidation perimeter justified an increase of 3% in those costs. This means that for the same universe, operating costs levelled when compared to 1H07. As for staff costs, excluding the Oller effect, the increase was a mere 0,7%. This corresponds to the increase registered in the severance costs. This stabilization was possible, as in recent years, because productivity gains offset annual increases in salaries.

EBIT reached 16,0M€ (-9,6%). Operating costs reductions were not enough to offset the 1% percentual Gross Margin decrease. The same explanation can be used for the EBITDA value (28,2M€), though in this case the variation is softened by a higher comparable value. Interest costs increased by some 25% of which two thirds are directly related to interest rate increase. Half of the remaining part of the increase is explained by higher bank debt. The other half is explained by the register of interest costs associated with the fair value of debts related with past financial acquisitions and by subsidies. After the proper register of the income tax estimation and of minority interests, net profit attributable to the CORTICEIRA AMORIM shareholders reached 6 890K€, decreasing 24,7% from 1H07.

#### **IV – CONSOLIDATED BALANCE SHEET**

No material changes from December 2007 total amount were registered in the consolidated Balance of CORTICEIRA AMORIM as of June 30, 2008 (599M€ versus 596M€). Current and Non Current Assets allocation was virtually the same. As for the liabilities, the Non Current caption was reduced by 30M€, due to a 40M€ reclassification to Current of a bank loan due during the first half of 2009 and to a 10M€ Commercial Paper issue.

To be noted, in the Assets side, the stabilization of the Fixed Asset value. This was due to the fact that CAPEX was very similar to depreciations.

Interest bearing Net Debt reached 238,9M€, rising 7M€ since December 2007.

Dividends amounting to 7,8M€ were paid as of end of April 2008 (6 cents versus 5,5 cents per share).

Equity/Total Assets ratio stood at a sound 41%.

#### **V – SUSTAINABILITY REPORT**

For the second year in a row CORTICEIRA AMORIM disclosed its Sustainability Report 2008, available from:

[www.corticeiraamorim.com/en](http://www.corticeiraamorim.com/en)

In this second issue, CORTICEIRA AMORIM gives an account of its sustainability-related policies and practices as well as the main initiatives and objectives achieved so far in this area, highlighting:

- a number of analysis carried out by independent entities have confirmed the environmental benefits of using cork stoppers and cork floor and wall coverings;
- applications for ten patents were submitted;
- the protocol “Enhancing the Value and Sustainability of the Cork Oak and its Associated Biodiversity”;
- 8400 new hectares of cork oak forest were certified by FSC;
- Employees training increased 43 percent in 2007;

- a 4.6 percent reduction in CO2 emissions per kilo of consumed cork;
- the cork contribution to a reduction in greenhouse gas emissions.

## VI.- KEY INDICATORS

### Audited indicators as of June, 30

(Thousand euros)

	2Q08	2Q07	Variation	1H08	1H07	Variation
Sales	124.504	124.669	- 0,13%	248.124	242.230	+ 2,43%
Gross Margin – Value	59.227	59.954	- 1,21%	118.635	117.461	+ 1,00%
%	46,70	47,34	-0,64 p.p.	46,68	47,73	-1,05 p.p.
Operating Costs	50.420	49.372	+ 2,12%	102.680	99.801	+ 2,88%
EBITDA	15.004	16.550	- 9,34%	28.177	29.616	- 4,86%
EBIT	8.807	10.582	- 16,77%	15.955	17.660	- 9,65%
Net Income	3.510	5.271	- 33,41%	6.890	9.145	- 24,66%
Earnings per share	0,0269	0,0404	- 33,39%	0,0528	0,0701	- 24,63%
EBITDA/Net Interest (x)	4,31	5,62	- 1,31 X	4,33	5,67	- 1,34 X
Equity /Net Assets	-	-	-	40,77%	40,90%	-0,130 p.p.
Net Bank Debt	-	-	-	238.931	223.821	+ 6,75%

1) Related to Production

2) Includes financial costs and revenues other than interest, and extraordinary items

3) Net Income / Average outstanding shares (euros/share)

### Consolidated audited Balance Sheet

(Thousand euros)

	30.06.08	31.12.07	30.06.07
<b>Non-current assets</b>	216 521	214 171	198 361
<b>Current assets</b>			
Inventories	214 952	227 415	196 515
Other current assets	165 989	154 428	169 009
Total current assets	<b>380 942</b>	<b>381 843</b>	<b>365 524</b>
<b>Total Assets</b>	<b>597 463</b>	<b>596 014</b>	<b>563 886</b>
<b>Equity (M. I. included)</b>	<b>243 592</b>	<b>245 390</b>	<b>230 433</b>
<b>Non-current liabilities</b>			
Bank borrowings	132 520	162 994	163 319
Other non-current liabilities	16 377	16 550	10 804
Total non-current liabilities	<b>148 898</b>	<b>179 544</b>	<b>174 123</b>
<b>Current liabilities</b>			
Bank borrowings	112 729	75 180	65 976
Other current liabilities	92 246	95 901	93 353
Total current liabilities	<b>204 974</b>	<b>171 081</b>	<b>159 329</b>
<b>Total Liabilities and Equity</b>	<b>597 463</b>	<b>596 014</b>	<b>563 886</b>

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*About Corticeira Amorim, SGPS, SA:*

*While tracing its roots to the XIX Century, Corticeira Amorim SGPS has become the world's largest cork and cork-derived company in the world, generating over Euro 440 million in sales throughout 103 countries. Corticeira Amorim SGPS and its subsidiaries are an integral part of a conservationist effort to guarantee the survival of hundreds of thousand of cork trees throughout the Mediterranean Basin. We are proud of our contribution to the correct utilisation of these important forests that represents a key role in the CO<sub>2</sub> retention, contributing this way to preserve biodiversity and preventing desertification. We encourage you to learn more by visiting informative websites such as [corkfacts.com](http://corkfacts.com) or [www.apcor.pt](http://www.apcor.pt).*