

Campofrio Food Group 1H 2013 Earnings Call



31st July 2013

Table of Contents

- Highlights
- Business environment
 - a) The market
 - b) Raw materials - Meat
- Specific conditions and actions taken in 1H13
- Top line evolution
- Profit and Loss Account
- Cash flow generation
- Net financial debt
- Outlook 2013



Highlights

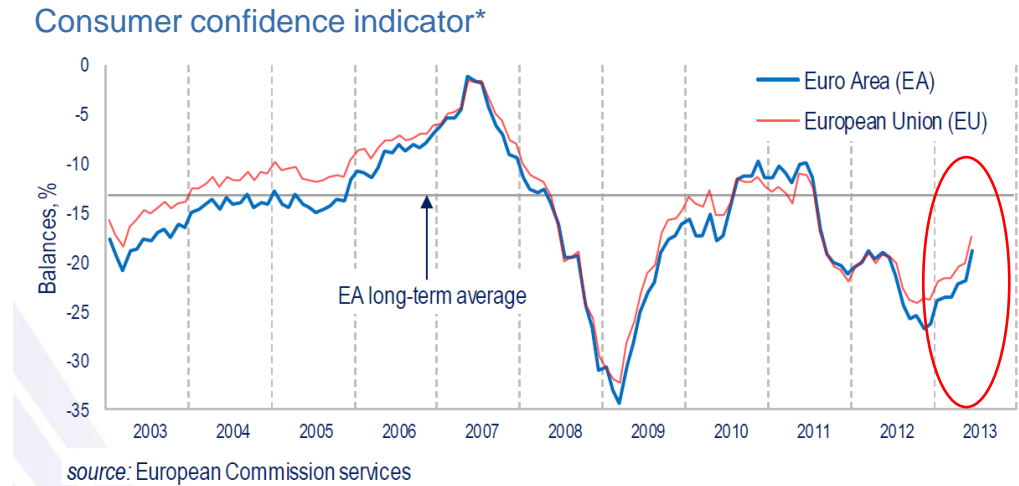
- Net sales Value: € 903.1 M => - 0.8 % showing stability in strategic markets and reflecting the value enhancing efforts via our brands, which grow 0.6% in a decreasing branded market environment
- Gross margin/kg +1.0%, thanks to a net sales/kg increase of +2.4% while raw material inflation persists
- EBITDA norm: € 61.8 M => 2Q13 €36.1 M } => Growth of + €10.4 M vs.1Q13
=> Growth of + €4.5 M vs. 1Q12
- Net profit € 1.1 M => +12.9% vs. 1H12
- Cash position € 112.8 M
- Total Liquidity € 348 M
- Net Financial Debt: € 490.4 M below 1H12; Leverage ratio 3.3x

A better 2nd quarter, with cost cutting measures having a positive impact on EBITDA
Strong cash and liquidity position maintained

Business environment

Challenging consumption environment

- Consumer confidence indicator* showing a slow improvement, nevertheless, still well below the long term average



- Weak market conditions in Europe with South European economies suffering the most
- The recovery in GDP growth, domestic demand and private consumption is forecasted for 2014 in all European countries except Spain (+0% in 2014)**

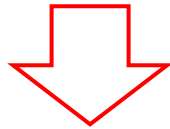
World Economic Outlook, July 2013. International Monetary Fund

	Real GDP		Total Domestic Demand		Private Consumption	
	Annual % Change		Annual % Change		Annual % Change	
	2012	2013E	2012	2013E	2012	2013E
United States	2,2	1,7	2,1	1,7	1,9	2,0
Euro Area	-0,6	-0,6	-2,2	-1,2	-1,3	-1,0
Germany	0,9	0,3	-0,4	0,3	0,6	0,5
France	0,0	-0,2	-0,7	-0,5	-0,1	-0,1
Italy	-2,4	-1,8	-5,3	-2,9	-4,3	-2,6
Spain	-1,4	-1,6	-3,8	-4,1	-2,2	-3,4

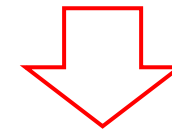
Business environment

Consumers changing its consumption behaviour

- **Switching to cheaper grocery brands** as price has a stronger influence on purchase
- **Self service** growing, although in some countries (Spain) deli counter also increasing
- Fewer opportunities to get shoppers to impulse purchasing
- Cutting down on out-of-home entertainment
- Preference for healthier and more natural products, value for money and convenience



- **Loyalty to brands is decreasing**
- Success only if brands have a strong emotional bond with consumers and top innovation



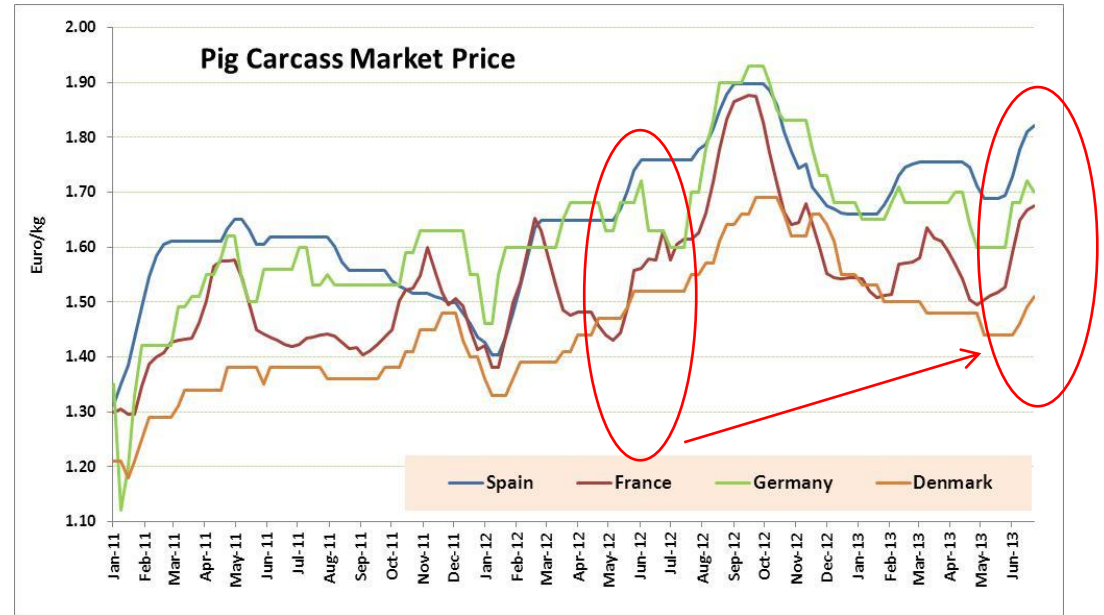
- **Processed meat market flat in 2013**
- **Increased price competition** among leading brands
- **Accelerated growth of private label** in countries most affected by the crisis (Southern Europe).



A very challenging consumption environment which demands a solid commercial strategy focused on changing consumers needs

The meat market

- Meat prices impacted by lower pig production and high grain prices. Farmers have decreased the pig population as expected profitability in farms has decreased
- Lower reduction in pork production in 1H13 (EU27 -1.3%) and soft demand from export has led to lower than expected inflation in some markets
- However, pig prices still high, with above average inflation in Southern Europe

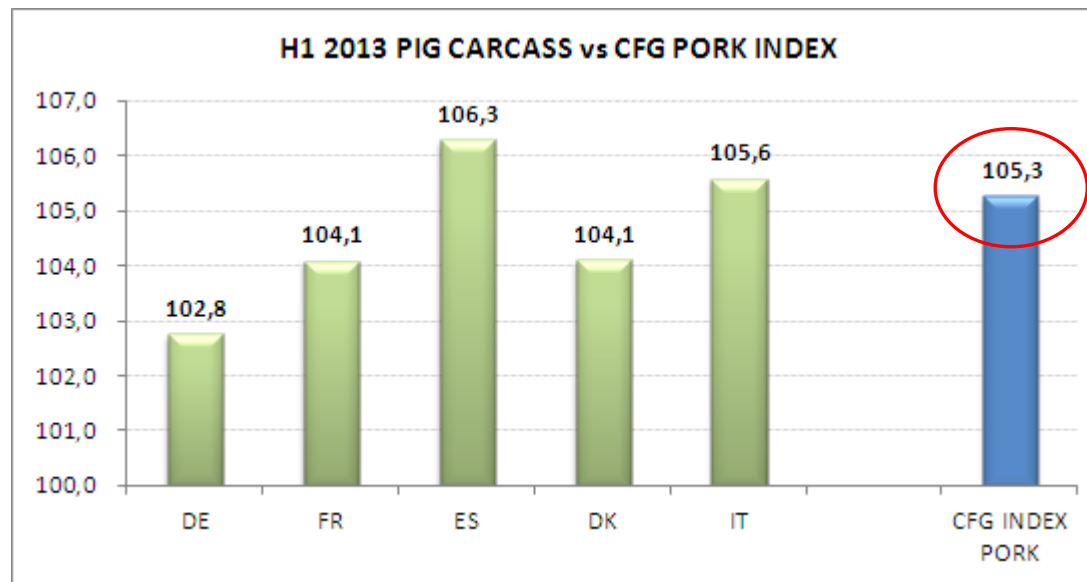


Pig Carcass Average Price (euro/kg)

	2011	2012	2012/11	Jan-Jun 2012	Jan-Jun 2013	YTD 2013/12
Spain Mercolleida	1.57	1.72	9.5%	1.62	1.73	6.4%
France MPB	1.45	1.60	10.1%	1.51	1.56	3.6%
Netherlands Monfoort	1.48	1.67	13.0%	1.59	1.62	1.8%
Belgium Danis	1.37	1.55	13.4%	1.47	1.47	-0.3%
Germany AIM	1.52	1.71	12.2%	1.62	1.66	2.4%
Denmark DC	1.36	1.52	11.9%	1.43	1.49	4.0%
Italy	1.32	1.40	5.7%	1.25	1.33	6.0%

Specific conditions and actions taken in 1H13

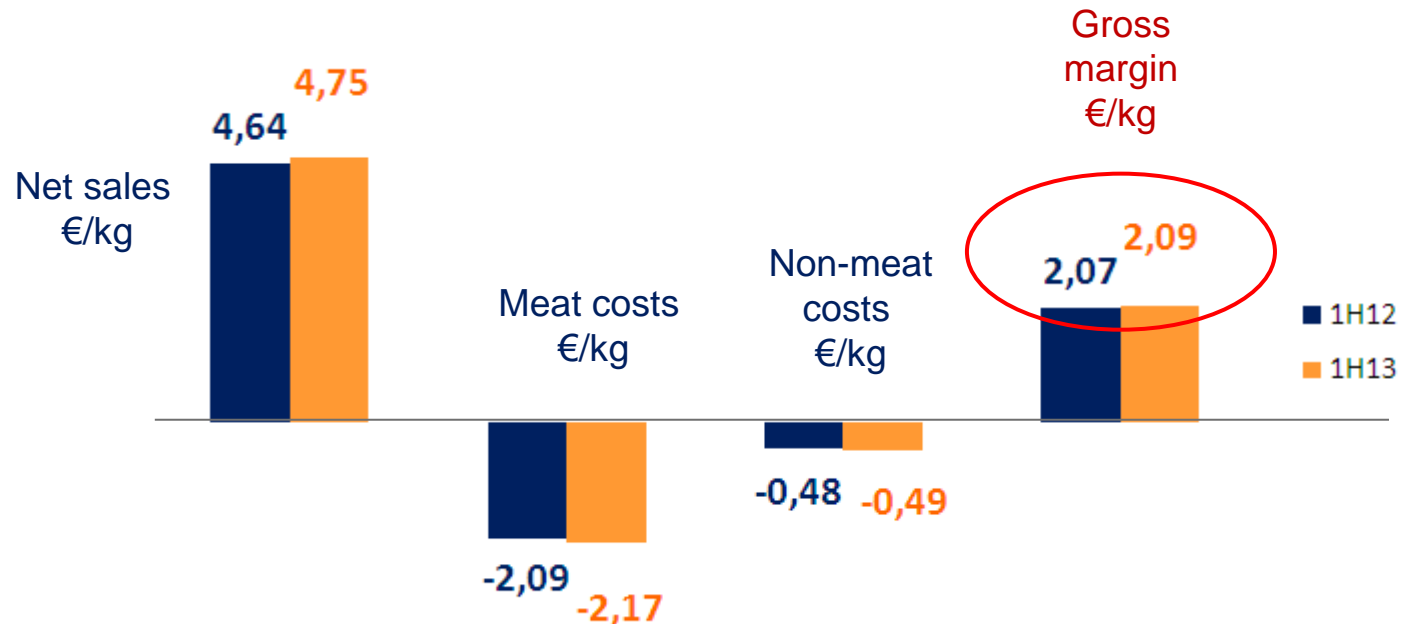
- The inflationary scenario in 2013 continues affecting Spain and Italy the most, while in 1H12 the countries with the highest prices were Belgium, The Netherlands and France. Unfavourable comparison in hams and shoulders as they traded at exceptional lower prices in 1H12
- Poultry: significant mitigation of price increases with forward contracts (savings 15-20%)



Specific conditions and actions taken in 1H13

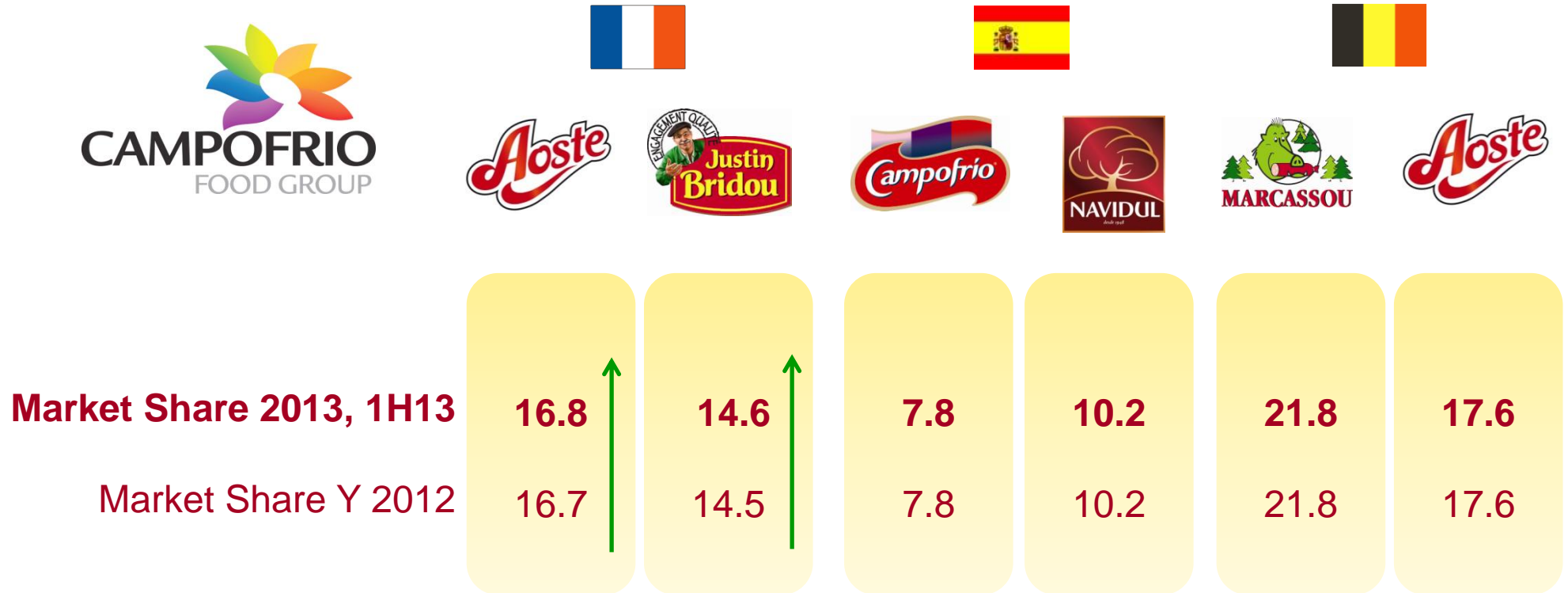
- Increase in product prices all across categories and channels. CFG Net Sales Value per kg increases by 2.4%. Price increases bearing fruit in Northern Europe (average +7%), USA (+6%) and in Southern Europe (average +4%)
- Cost cutting measures have led to a reduction of 2.2% in “other operating expenses”. In 2Q13 the positive impact on costs is higher than in 1Q13 as cost cutting initiatives related to the investment plan are gaining momentum.

Results: Gross margin €/kg improvement



Top line evolution

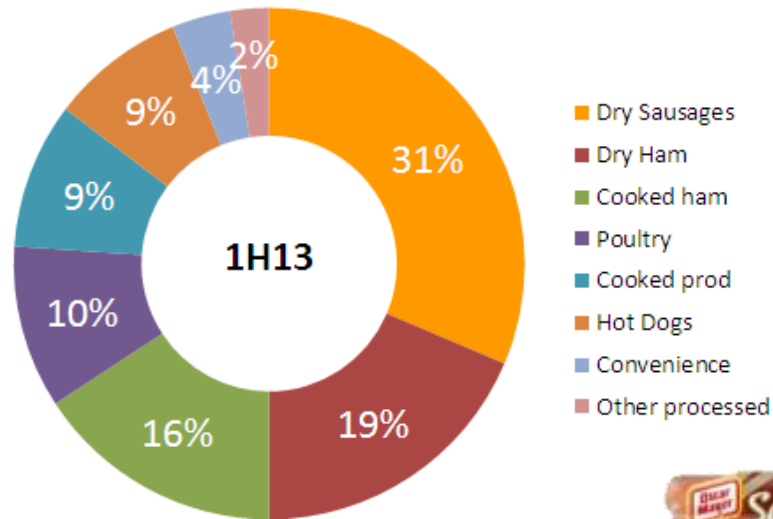
Strength of strategic brands: Stable leadership



Market shares of our strategic brands remained stable in 1H13, despite the aggressive growth strategies in private label

Top line evolution

CFG Net Sales Value 1H2013: € 903.1 million , -0.8%



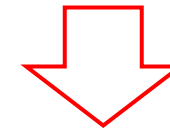
- Lower sales in dry ham, cooked ham, and hotdogs of between 2-4%
- Growth platforms – health, snacking and heritage – have grown together by 16%



Introducing innovation to recover sales



- Dry sausages, poultry and “convenience” products (pizzas, ready meals) outperforming the market with growth of 1.5%, 3.2% and 7.4% respectively in NSV



High growth in Revilla and Navidul
Other brands maintain market positioning



Growth platforms

Health +25%

The platform with the strongest growth potential in all our markets



New well being range, CUIDA -t launched in Spain



Snacking +19%

Growing in all markets, Spain, France and USA outperforming!



Heritage +6%

Stabilizing after an outstanding performance in 2012 (+30%)



The growth platforms continue having a solid performance
Innovation continues being a key pillar of future profitable growth

Profit and Loss Account 1H13

Profit & Loss Account CFG

€ M	1H13	1H12	Var. %
Net Sales Value	903.142	910.363	-0,8%
Other operating revenues	6.576	4.851	35,6%
Consumption of goods	-495.774	-489.521	1,3%
Total other operating expenses	-352.132	-360.213	-2,2%
EBITDA reported	61.812	65.480	-5,6%
Depreciation & amortization	-26.460	-29.995	-11,8%
Operating profit EBIT	35.352	35.485	-0,4%
Financial results	-26.338	-28.172	-6,5%
Other results	-5.839	-2.685	n.a.
Profit before tax	3.175	4.628	-31,4%
Income taxes	-2.085	-756	175,8%
Profit from continuing operations	1.090	3.872	-71,8%
Results from discontinued operations	-10	-2.915	-99,7%
Profit / (Loss) for the year	1.080	957	12,9%
One-off charges	-46	-40	15,0%
EBITDA normalized	61.858	65.520	-5,6%
EBITDA normalized / Net Sales	6,8%	7,2%	

- Stable top line despite poor market conditions affecting mostly sales in Portugal and Italy. Outperformers: Netherlands, Germany and USA. Spain and France relatively stable
- Softened meat costs inflation in 2Q13, Nevertheless Spain and Portugal still impacted by higher inflation in raw materials
- Costs reduction measures with stronger positive impact on margins as in 1Q13: “Other operating expenses” lower by €8 M
- Gross Margin /kg increases by 1%. Absolute margins fall due to lower volumes
- Lower financial costs, with lower debt (amortization of €15M club deal in 1H13) and reinforced measures to optimise financial management

Profit and Loss Account 1H13

Sales by segments

- Volumes mostly affected by tough market conditions in Southern Europe. Italy and Portugal with important declines, whilst Spain stable
- Lower impact of difficult business environment in Northern Europe, leading to a NSV growth of 0.7%
- Price increases more difficult in Southern Europe as consumption remains weak
- USA continues outperforming with strong growth in volumes and NSV

YTD Tons (Thousand)	1H13	1H12	% Var.
Southern Europe	137.015	144.434	-5,1%
Northern Europe	54.295	55.370	-1,9%
Other	3.859	3.616	6,7%
Eliminations	-5.090	-7.402	
Total Sales (Tns)	190.079	196.018	-3,0%

YTD Net Sales (€ Million)	1H13	1H12	% Var.
Southern Europe	512.031	532.680	-3,9%
Northern Europe	390.892	388.357	0,7%
Other	27.722	24.520	13,1%
Eliminations	-27.503	-35.194	
Total Net Sales	903.142	910.363	-0,8%

Note: Southern Europe includes Campofrio processed meats, Carnes Selectas, Portugal and Italy. Northern Europe includes France, Belgium, Holland and Germany. Other is mostly US Business. Intra-segment intercompany sales are eliminated from each segment

Profit and Loss Account 1H13

Operating expenses

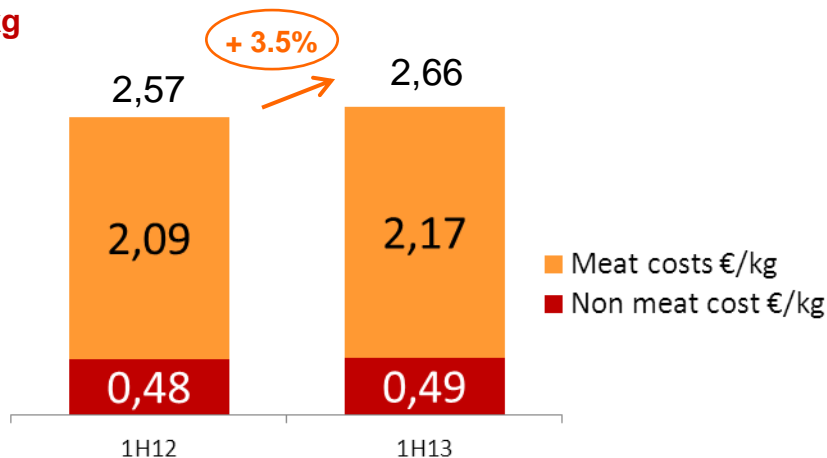
Operating expenses CFG

€ M	1H13	1H12	Var. %	var €M
Consumption of goods	-495.774	-489.521	1,3%	-6.253
Employee benefits expense	-165.369	-175.053	-5,5%	9.684
Other operating expenses	-186.763	-185.160	0,9%	-1.603
Total other operating expenses	-352.132	-360.213	-2,2%	8.081



- Higher meat costs due to lower pig production and higher grain prices in 2012. Non-meat costs affected by mix

Material costs €/kg



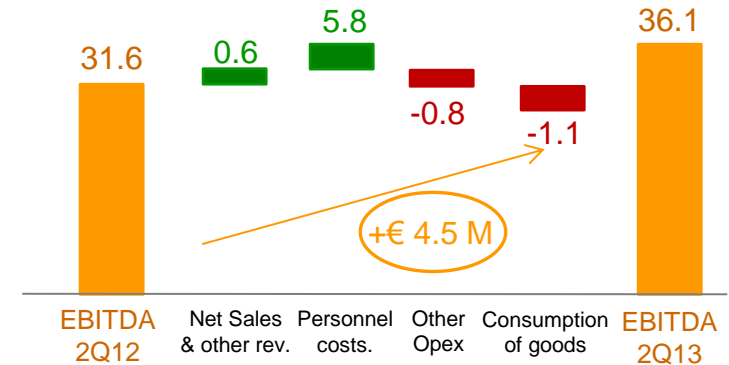
- Reduction in “total other operating expenses”:
 - Lower personnel costs in all business units as a result of our cost cuttings measures undertaken to improve margins
 - Other operating costs grow slightly with higher manufacturing overheads, mostly energy and external services costs
 - MAP of € 23.9 million, below PY (€ 26.4 million in 1H12)

Cost cutting

Cost cutting measures driving EBITDA growth in 2Q13

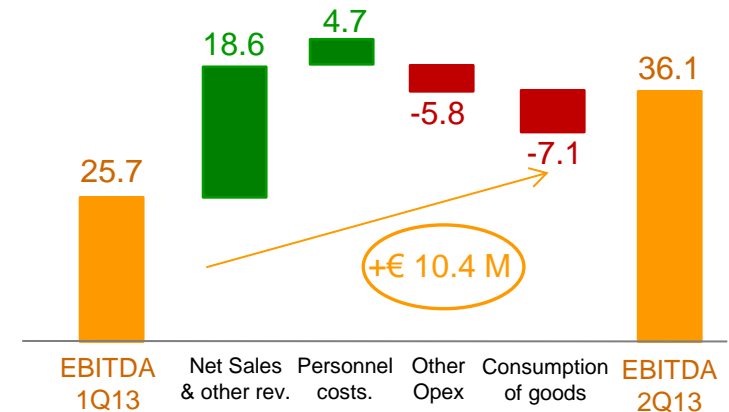
Profit & Loss Account CFG

€ M	2Q13	2Q12	Var. %	var €M
Net Sales Value	461.553	462.950	-0,3%	-1.397
EBITDA reported	36.392	31.563	15,3%	4.829
EBITDA normalized	36.113	31.613	14,2%	4.500
Profit / (Loss) for the year	5.146	1.573	227%	3.573
EBITDA norm. / Net Sales	7,8%	6,8%		



Profit & Loss Account CFG

€ M	2Q13	1Q13	Var. %	var €M
Net Sales Value	461.553	441.589	4,5%	19.964
EBITDA reported	36.392	25.420	43,2%	10.972
EBITDA normalized	36.113	25.745	40,3%	10.368
Profit / (Loss) for the year	5.146	-4.066	-	9.212
EBITDA norm. / Net Sales	7,8%	5,8%		



Efficiency measures bearing fruit:

- “Other operating expenses” grow well below inflation, despite increased in utilities and tax costs
- Personnel expenses decline significantly

Profit and Loss Account 1H13

EBITDA normalized by segments

- EBITDA decline in Southern Europe affecting mostly Italy and Portugal due to lower sales volumes, higher meat costs/kg and increased MAP investments. The latter aim to successfully relaunch and reposition the product portfolio and therefore to ensure margin improvements in the medium/long-term
- Northern Europe benefiting from increased sales / lower impact of meat costs in The Netherlands, Belgium and France
- USA (“Other”) continues benefiting from strong growth in volumes (+6.7%) and NSV +13.1% which more than offset meat price inflation

YTD EBITDA Normalized(€ Million)	1H13	1H12	% Var.
Southern Europe	27.360	36.232	-24,5%
Northern Europe	30.412	26.730	13,8%
Other	4.086	2.558	59,7%
Eliminations	-	-	
Total EBITDA normalized	61.858	65.520	-5,6%

EBITDA Margin (%/Net Sales)	1H13	1H12	Var. bp
Southern Europe	5,3%	6,8%	-145,8
Northern Europe	7,8%	6,9%	89,7
Other	14,7%	10,4%	430,7
Total EBITDA Margin, normalized	6,8%	7,2%	-34,8

Note: Southern Europe includes Campofrio processed meats, Carnes Selectas, Portugal and Italy. Northern Europe includes France, Belgium, Holland and Germany. Other is mostly US Business. Intra-segment intercompany sales are eliminated from each segment

Cash Flow Generation

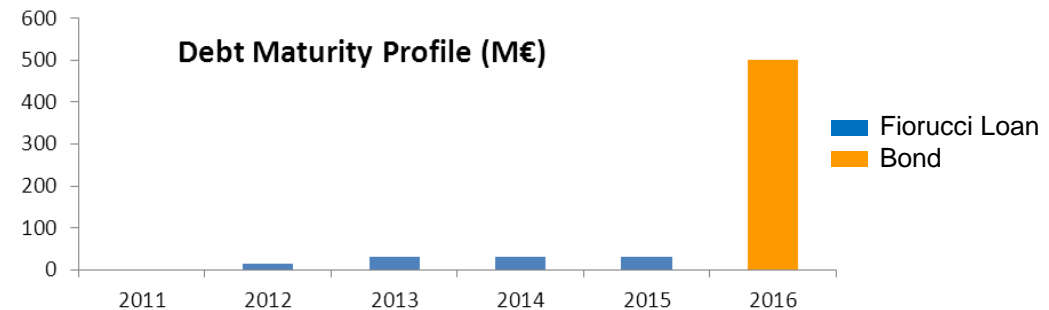
Cash Flow Statement CFG

million €	1H13	1H12	Var. %
Gross operating cash flow	61.790	67.119	-7,9%
Change in Working Capital	-15.508	-2.622	491,5%
Operating Cash Flow	46.282	64.497	-28,2%
Interest payments	-24.905	-26.640	-6,5%
Provisions and other	-16.097	-15.000	7,3%
Payments for Income Tax	-4.544	-6.132	-25,9%
Net Operating Cashflow	829	16.725	-95,0%

- Cash flow generation lower on reduced EBITDA
- Working capital with a negative impact on cash flow due to various factors, higher inventory, accounts receivable and non-trade payables
- Capex: € 34.2 M in line with investment program guidelines

Net Financial Debt

- The 1H13 **positive cash position** amounts to **€113M**
- **€ 235 M** fully available committed bank lines, €65M more than in December 2012; plus €20M of other uncommitted bank lines
- Consequently, our overall **liquidity position** (cash + available bank lines) stands at **€348M**, which is more than sufficient over time given the present debt structure
- Our **Net Financial Debt** amounts to **€490M**, slightly below 1H12
- The resulting **leverage ratio** (NFD /EBITDA LTM) is punctually at 3.3x
- Comfortable debt repayment schedule; amortization of the bank facility with €15M semi-annual repayments until October 2015



Outlook 2013

- **Top line showing stability in strategic markets** in the power brands and the growth platforms. Challenging market conditions mostly in Italy and Portugal
- **Supply chain improvements** should start bringing higher efficiency gains from 2H13 onwards
- **Cost control measures are bearing fruit** and will continue having a positive impact on margins along the year
- **Improved meat market conditions:** grain prices decreasing from previous record highs, higher expected profitability in farms and lower demand from exports (Asia) could soften pressure on meat inflation
- **Cash flow** generation will benefit in the second half of 2013 from higher returns and working capital improvements
- CFG will maintain a **strong cash and liquidity position**



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