



## **CAMPOFRIO FOOD GROUP**

UNAUDITED INTERIM SELECTED  
CONSOLIDATED FINANCIAL INFORMATION  
SIX MONTH PERIOD ENDED 30<sup>th</sup> JUNE 2013

## **TABLE OF CONTENTS**

<b><i>INTRODUCTION</i></b> .....	<b><i>1</i></b>
<b><i>CONSOLIDATED INCOME STATEMENT</i></b> .....	<b><i>2</i></b>
<b><i>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</i></b> .....	<b><i>4</i></b>
<b><i>CONSOLIDATED CASH FLOW STATEMENT</i></b> .....	<b><i>5</i></b>
<b><i>OTHER SELECTED CONSOLIDATED FINANCIAL INFORMATION</i></b> .....	<b><i>6</i></b>
<b><i>EXPLANATORY NOTES TO THE UNAUDITED INTERIM SELECTED CONSOLIDATED FINANCIAL INFORMATION</i></b> .....	<b><i>7</i></b>
<b><i>MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</i></b> .....	<b><i>10</i></b>
<b><i>RECENT DEVELOPMENTS</i></b> .....	<b><i>20</i></b>
<b><i>ANNEXE A – EXPLANATION OF INCOME STATEMENT ITEMS</i></b> .....	<b><i>21</i></b>

## INTRODUCTION

In November 2009, CAMPOFRIO FOOD GROUP, S.A. (the “Company”), incorporated as a public limited company (*sociedad anónima*) under the laws of Spain, issued € 500 million aggregate principal amount of its 8.250% Senior Notes due 2016 (the “Notes”) at a price of 99.365%. The Company will pay interest on the Notes semi-annually on each April 30 and October 31, commencing April 30, 2010. Prior to October 31, 2013, the Company will be entitled, at its option, to redeem all or a portion of the Notes by paying relevant “make-whole” premium. At any time on or after October 31, 2013, the Company may redeem all or part of the Notes by paying a specified premium to the holders. In addition, prior to October 31, 2013, the Company may redeem at its option up to 35% of the Notes with the net proceeds from certain equity offerings. If the Company undergo a change of control or sell certain of its assets, it may be required to make an offer to purchase the Notes. In the event of certain developments affecting taxation, the Company may redeem all, but not less than all, of the Notes. The Company may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, the Company’s liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

The Notes are senior debt of Campofrio Food Group and will rank *pari passu* in right of payment to all of Campofrio Food Group’s existing and future senior indebtedness. The Notes are guaranteed on a senior basis by certain of our subsidiaries.

The Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF market.

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”). The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the U.S. Securities Act (“Rule 144A”) and to certain persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act (“Regulation S”). You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A.

Following the issuance of the Notes, the Company redeemed all of its U.S Private Placement notes, prepaid all of its LBO facilities (multicurrency credit facilities with a limit of €415 million, arranged by Citigroup Global Markets Ltd and Royal Bank of Scotland plc.) and repaid all short-term borrowings under various lines of credit.

This Unaudited Selected Consolidated Financial Information is provided to the holders of the Notes pursuant to Section “Description of the notes - Reports (2)” of the indenture.

## CONSOLIDATED INCOME STATEMENT

Campofrio Food Group  
(In Thousands of Euros)

	Six month period ended June 30,			
	2013		2012	
	Actual (unaudited)	% of total oper. revenue	Actual (unaudited)	% of total oper. revenues
<b>Operating revenues</b>				
Net sales and services	903,142	99.0%	910,363	99.1%
Capitalized expenses on Company's work on assets	2,796	0.3%	3,544	0.4%
Other operating revenue	6,576	0.7%	4,851	0.5%
<u>Total operating revenues</u>	<u>912,514</u>	<u>100.0%</u>	<u>918,758</u>	<u>100.0%</u>
<b>Operating expenses</b>				
Consumption of goods and other external charges	(498,570)	(54.6%)	(493,065)	(53.7%)
Employee benefits expense	(165,369)	(18.1%)	(175,053)	(19.1%)
Depreciation and amortization	(30,965)	(3.4%)	(29,995)	(3.3%)
Other operating expenses	(185,479)	(20.3%)	(184,223)	(20.1%)
Changes in trade provisions	(1,284)	(0.1%)	(937)	(0.1%)
<u>Total operating expenses</u>	<u>(881,667)</u>	<u>(96.6%)</u>	<u>(883,273)</u>	<u>(96.1%)</u>
<u>Impairment of assets</u>	<u>4,505</u>	<u>0.5%</u>	<u>-</u>	<u>-</u>
<b>Operating profit</b>	<b>35,352</b>	<b>3.8%</b>	<b>35,485</b>	<b>3.9%</b>
Financial expenses, net	(26,338)	(2.9%)	(28,172)	(3.1%)
Other results	(5,839)	(0.6%)	(2,685)	(0.3%)
<b>Profit before tax</b>	<b>3,175</b>	<b>0.3%</b>	<b>4,628</b>	<b>0.5%</b>
Income taxes	(2,085)	(0.2%)	(756)	(0.1%)
<b>Profit for the period from continuing operations</b>	<b>1,090</b>	<b>0.1%</b>	<b>3,872</b>	<b>0.4%</b>
Profit & (Loss) after tax for the period from discontinued operations	(10)	0.0%	(2,915)	(0.3%)
<b>Profit for the period</b>	<b>1,080</b>	<b>0.1%</b>	<b>957</b>	<b>0.1%</b>
Non-controlling interests			-	-
Attributable to equity holders of the parent company	1,080	0.1%	957	0.1%

The accompanying notes are an integral part of this consolidated financial information.

## CONSOLIDATED INCOME STATEMENT

### Campofrio Food Group

(In Thousands of Euros)

	Three month period ended June 30,			
	2013		2012	
	Actual (unaudited)	% of total oper. revenue	Actual (unaudited)	% of total oper. revenues
<b>Operating revenues</b>				
Net sales and services	461,553	98.8%	462,950	99.1%
Capitalized expenses on Company's work on assets	1,442	0.3%	2,025	0.4%
Other operating revenue	3,970	0.9%	2,085	0.4%
<u>Total operating revenues</u>	<u>466,965</u>	<u>100.0%</u>	<u>467,060</u>	<u>100.0%</u>
<b>Operating expenses</b>				
Consumption of goods and other external charges	(254,253)	(54.4%)	(253,824)	(54.3%)
Employee benefits expense	(80,330)	(17.2%)	(86,198)	(18.5%)
Depreciation and amortization	(15,653)	(3.4%)	(15,044)	(3.2%)
Other operating expenses	(95,319)	(20.4%)	(95,008)	(20.3%)
Changes in trade provisions	(671)	(0.1%)	(467)	(0.1%)
<u>Total operating expenses</u>	<u>(446,226)</u>	<u>(95.6%)</u>	<u>(450,541)</u>	<u>(96.5%)</u>
<u>Impairment of assets</u>	<u>4,505</u>	<u>1.0%</u>	<u>-</u>	<u>0.0%</u>
<b>Operating profit</b>	<b>25,244</b>	<b>5.3%</b>	<b>16,519</b>	<b>3.5%</b>
Financial expenses, net	(13,409)	(2.9%)	(14,226)	(3.0%)
Other results	(2,883)	(0.6%)	(2,578)	(0.6%)
<b>Profit before tax</b>	<b>8,952</b>	<b>1.9%</b>	<b>(285)</b>	<b>(0.1%)</b>
Income taxes	(3,750)	(0.8%)	1,791	0.4%
<b>Profit for the period from continuing operations</b>	<b>5,202</b>	<b>1.1%</b>	<b>1,506</b>	<b>0.3%</b>
Profit & (Loss) after tax for the period from discontinued operations	(56)	0.0%	67	0,0%
<b>Profit for the period</b>	<b>5,146</b>	<b>1.1%</b>	<b>1,573</b>	<b>0.3%</b>
Non-controlling interests			-	-
Attributable to equity holders of the parent company	5,146	1.1%	1,573	0.3%

The accompanying notes are an integral part of this consolidated financial information.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Campofrio Food Group  
(In Thousands of Euros)

	Consolidated statement of financial position at,	
	Jun 30, 2013	Jun 30, 2012
	(unaudited)	(restated) (unaudited)
<b><u>ASSETS</u></b>		
Property, plant and equipment	569,015	568,125
Goodwill	459,034	456,551
Other intangible assets	287,592	264,139
Non-current financial assets	27,153	13,647
Investments accounted for under the equity method	29,198	28,247
Deferred tax assets	140,493	121,856
<b><u>Total non-current assets</u></b>	<b><u>1,512,485</u></b>	<b><u>1,452,565</u></b>
Inventories	365,206	355,857
Trade and other receivables	173,380	186,761
Other current financial assets	390	385
Other current assets	9,540	6,742
Cash and cash equivalents	112,835	136,328
<b><u>Total current assets</u></b>	<b><u>661,351</u></b>	<b><u>686,073</u></b>
<b><u>Assets classified as held for sale and discontinued operations</u></b>	<b><u>1,079</u></b>	<b><u>4,652</u></b>
<b><u>TOTAL ASSETS</u></b>	<b><u>2,174,915</u></b>	<b><u>2,143,290</u></b>
<b><u>EQUITY AND LIABILITIES</u></b>		
Equity attributable to equity holders of the parent	587,660	579,343
<b><u>Equity</u></b>	<b><u>587,660</u></b>	<b><u>579,343</u></b>
Debentures	491,903	489,563
Interest-bearing loans and borrowings	45,018	90,512
Other financial liabilities	4,288	4,162
Deferred tax liabilities	168,908	170,119
Other non-current liabilities	14,472	16,151
Provisions	89,891	108,356
<b><u>Total non-current liabilities</u></b>	<b><u>814,480</u></b>	<b><u>879,083</u></b>
Debentures	6,875	6,875
Interest-bearing loans and borrowings	51,107	29,408
Trade and other payables	588,231	550,118
Other financial liabilities	4,412	6,441
Creditor for income tax	9,702	3,970
Provisions	46,303	31,463
Other current liabilities	66,134	56,240
<b><u>Total current liabilities</u></b>	<b><u>772,764</u></b>	<b><u>684,515</u></b>
<b><u>Liabilities associated to operations on sale or discontinued</u></b>	<b><u>11</u></b>	<b><u>349</u></b>
<b><u>TOTAL EQUITY AND LIABILITIES</u></b>	<b><u>2,174,915</u></b>	<b><u>2,143,290</u></b>

The accompanying notes are an integral part of this consolidated financial information.



## OTHER SELECTED CONSOLIDATED FINANCIAL INFORMATION

Campofrio Food Group  
(In Thousands of Euros)

### Conciliation from Profit for the period to EBITDA normalized

	<u>Six month period ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
	<u>Actual (unaudited)</u>	<u>Actual (unaudited)</u>
<b>Profit for the period Attributable to equity holders of the parent company</b>	1,080	957
Profit & (Loss) after tax for the period from discontinued operations	10	2,915
Income taxes	2,085	756
Other results	5,839	2,685
Financial expenses, net	26,338	28,172
Impairment of assets	(4,505)	-
Depreciation and amortization	30,965	29,995
<b><u>EBITDA</u></b>	<b><u>61,812</u></b>	<b><u>65,480</u></b>
<u>Total Adjustments</u>	<u>46</u>	<u>40</u>
<b><u>EBITDA (normalized)</u></b>	<b><u>61,858</u></b>	<b><u>65,520</u></b>

### Conciliation from Profit for the period to EBITDA normalized

	<u>Three month period ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
	<u>Actual (unaudited)</u>	<u>Actual (unaudited)</u>
<b>Profit for the period Attributable to equity holders of the parent company</b>	5,146	1,573
Profit & (Loss) after tax for the period from discontinued operations	56	(67)
Income taxes	3,750	(1,791)
Other results	2,883	2,578
Financial expenses, net	13,409	14,226
Impairment of assets	(4,505)	-
Depreciation and amortization	15,653	15,044
<b><u>EBITDA</u></b>	<b><u>36,392</u></b>	<b><u>31,563</u></b>
<u>Total Adjustments</u>	<u>(279)</u>	<u>50</u>
<b><u>EBITDA (normalized)</u></b>	<b><u>36,113</u></b>	<b><u>31,613</u></b>

The accompanying notes are an integral part of this consolidated financial information.

## **EXPLANATORY NOTES TO THE UNAUDITED INTERIM SELECTED CONSOLIDATED FINANCIAL INFORMATION**

### ***Corporate Information***

Campofrío Food Group, S.A. (the “Company”), with registered office at Avda. de Europa, Parque Empresarial La Moraleja in Alcobendas (Madrid), was incorporated as a private limited company in Spain on September 1, 1944, under the registered name Conservera Campofrío, S.A. On June 26, 1996, the Company’s name was changed to Campofrío Alimentación, S.A. and on December 30, 2008, it was changed to its current name, Campofrío Food Group, S.A.

Campofrío Food Group, S.A. is the parent of a group of companies consolidated under the full and equity consolidation methods.

The Company manufactures and sells products mainly for human consumption. The principal activities of the parent company and the group companies are to manufacture, sell and distribute processed and canned meat and derivatives from pork, poultry and beef by-products and other food products.

The Company operates throughout Spain with factories in Burgos, Villaverde (Madrid), Torrijos (Toledo), Ólvega (Soria), Torrente (Valencia) and Trujillo (Cáceres), and through its investments in Portugal, Belgium, France, Germany, Italy, the Netherlands, United Kingdom, USA and Romania.

During the first quarter of 2012, the group signed an agreement to engage, together with Foxlease, in a Joint Venture on which it holds 49% of the share capital. For the constitution of this Joint Venture, the group contributed with its cooked ham business in France, ran by one of its French subsidiaries, Jean Caby SAS. As of March, 2012, the group proceeded to derecognize Jean Caby assets and liabilities from Group consolidated financial statements, and, as part of a Joint Venture, it is now integrated into the consolidated financial statements as an Equity Investee.

### ***Basis of preparation***

The amounts of the consolidated income, balance sheet and cash flow statement, were prepared in accordance with International Financial Reporting Standards, adopted by the European Union (the “IFRS-EU”), in conformity with EU Regulation no. 1606/2002 of the European Parliament and Council. The rest of information and disclosures that are necessary in financial statements elaborated under IFRS-EU are not included since they are not applicable for the purpose of this document.

In any case, this selected financial information here presented and the explanatory notes should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements for the six-month period ended June 30, 2013 and Campofrío Food Group, S.A. and subsidiaries Consolidated Financial Statements and Consolidated Management Report for the year ended December 31, 2012 and 2011.

### ***Critical Accounting Policies***

Our consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (“IFRS-EU”) in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council.

The discussion and analysis of our historical results of operations and financial conditions are based on our consolidated financial statements, which have been prepared in accordance with IFRS-EU. The preparation of our consolidated financial statements requires us to apply accounting methods and policies that are based on difficult or subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

Detailed information regarding the Company’s accounting policies is provided in Note 2 to our Consolidated Financial Statements for the year ended December 31, 2012.

### *Non IFRS-EU Financial Measures*

This selected financial information could contain non-IFRS-EU measures and ratios, including EBITDA, adjusted EBITDA, net debt and leverage and coverage ratios that are not required by, or presented in accordance with, IFRS-EU. We present non-IFRS-EU measures because we believe that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The non-IFRS-EU measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS-EU. Non-IFRS-EU measures and ratios such as EBITDA, adjusted EBITDA, net debt and leverage and coverage ratios are not measurements of our performance or liquidity under IFRS-EU and should not be considered as alternatives to operating profit or profit for the year or any other performance measures derived in accordance with IFRS-EU or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities.

### *Discontinued Operations*

On December 31, 2011 the parent reclassified all its asset and liabilities related to the French cooked business and its breeding and fattening activities in Spain as “Assets and liabilities held for sales and discontinued operations”, following its decision to discontinue those activities. Consequently, on the separate profit and loss statement, operation results from these activities have been classified as “net loss after tax from discontinued operations”, both for the period ended in June 30, 2012 (see Corporate Information section regarding cooked ham business in France).

### *Operating Segment Reporting*

Results are presented in accordance with following strategic reporting segments:

- Southern Europe: includes mainly operating activities managed in Spain, Portugal & Italy.
- Northern Europe: includes operating activities managed primarily in France, the Netherlands, Belgium & Germany.
- Other: includes mainly corporate monitoring and supervising activities and operating activities managed in USA.

Note: Elimination in Net Sales and Services segment reporting refers to the elimination of inter-segment sales (i.e.: sales between Southern and Northern Europe) eliminated at consolidated level. Segment information is presented net of intra-segment sales (i.e.: sales between Spain and Portugal)

### *Net Financial Debt, Liquidity and Capital Resources*

The following chart sets forth the Company’s debt position as of June 30, 2013 and June 30, 2012.

<b>NET FINANCIAL DEBT</b>	<b>Six month ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<u>Non-current financial debt</u>		
Debentures	491,903	489,563
Interest-bearing loans and borrowings	45,018	90,512
Other financial liabilities	4,288	4,382
<u>Current financial debt</u>		
Debentures	6,875	6,875
Interest-bearing loans and borrowings	51,107	29,408
Other financial liabilities	4,412	6,441
<u>Current financial assets</u>		
Other current financial assets	(390)	(385)
Cash and cash equivalents	(112,835)	(136,328)
<b><u>Total Net Financial Debt</u></b>	<b><u>490,378</u></b>	<b><u>490,468</u></b>

Our present debt structure consists of the Notes issued in 2009 which account for € 498.8 million as of June 30, 2013 and a Senior Term Loan Facility amounting to €75 million drawn down in April 2011 to partially refinance the outstanding debt of Cesare Fiorucci S.p.A. our acquired Italian subsidiary, while the rest of its debt and the equity payment were funded out of our cash. As a result, our total debt is practically long-term. After having early unwound all the remaining derivatives last year, there is not any remaining exposure in this regard. The rest of the debt items (i.e. leasing ...) are of negligible value in the context of the Company's balance sheet.

Net financial debt as of June 30, 2013 is just slightly below the one at the end of June 31, 2012 despite the extraordinary cash outs associated to our on-going investments programme, which our being funded out of our positive cash flow generation and existing cash without requiring additional financing.

The Company's liquidity position remained very solid and amounted to € 345,5 million at the end of June 30, 2013, consisting of € 112,8 million in cash and cash equivalents, € 235 million circa of fully available and committed bank lines.

The following tables set forth the situation of the Company's two main financing sources as of June 30, 2013 and June 30, 2012.

<u>Debentures</u>	<u>Consolidated position at</u>	
	<u>30/06/2013</u>	<u>30/06/2012</u>
Non-current debentures	491,903	489,563
Current debentures	6,875	6,875
Principal	-	-
Accrued interest	6,875	6,875
<b><u>Total debentures</u></b>	<b><u>498,778</u></b>	<b><u>496,438</u></b>

<u>Interest-bearing loans and borrowings</u>	<u>Consolidated position at</u>	
	<u>30/06/2013</u>	<u>30/06/2012</u>
Bank loans and credit facilities	92,244	116,434
Credit lines	92,244	116,434
Multicurrency credit line	-	-
Discounted bills payable	2,605	1,797
Interest payable	1,275	1,688
<b><u>Total</u></b>	<b><u>96,124</u></b>	<b><u>119,919</u></b>

The following table sets forth the situation of the Company's current and non-current other financial liabilities as of June 30, 2013 and June 30, 2012.

<u>Other financial liabilities</u>	<u>Consolidated position at</u>			<u>Consolidated position at</u>		
	<u>30/06/2013</u>			<u>30/06/2012</u>		
	<u>Non-current</u>	<u>Current</u>	<u>Total</u>	<u>Non-current</u>	<u>Current</u>	<u>Total</u>
Financial leases	945	674	1,619	1,428	643	2,071
Other financial liabilities	3,343	3,738	7,081	2,734	5,798	8,532
Derivatives	-	-	-	220	-	220
<b><u>Total</u></b>	<b><u>4,288</u></b>	<b><u>4,412</u></b>	<b><u>8,700</u></b>	<b><u>4,382</u></b>	<b><u>6,441</u></b>	<b><u>10,823</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Campofrio Food Group is the largest European producer of processed meat products based on net sales. Its products, which are sold under well established and leading brands, cover a broad range of processed meat categories, including cooked ham, dry sausages, dry ham, hot dogs, poultry products, cold cuts and pâtés. The Company was founded in 1944 in Burgos, Spain and has expanded to achieve a direct presence in eight European countries, Spain, France, Portugal, The Netherlands, Belgium, Italy, Romania Germany and the United States, and sales in over 80 countries worldwide through independent distributors. The Company's market leading brands include *Campofrío* and *Navidul* in Spain, *Aoste*, *Justin Bridou* and *Cochonou* in France, *Nobre* in Portugal, *Marcassou* in Belgium, *Stegeman* in The Netherlands and *Fiorucci* in Italy. For the six month period ended June 30, 2013, the Company had Net Sales and Services and Reported EBITDA of €903.1 million and €61.9 million, respectively. It generates most of its revenues in Europe. The Company is headquartered in Madrid, Spain and its shares have been listed on the Madrid stock exchange since 1988 and on the Barcelona stock exchange since 1990, and are now traded under the symbol "CFG". As of June 30, 2013, the Company had a market capitalization of €533.6 million.

The Company is primarily engaged in the production and sale of processed meat products with a focus on cooked ham, dry sausages, dry ham, hot dogs and poultry products. The Company sources meat primarily from third party suppliers which it monitors on a regular basis to ensure that high-quality and hygienic standards are maintained. The meat is then processed in one, or a combination, of our 25 facilities and the final products are sold directly to customers, which include some of the largest retailers in Europe, including Carrefour, Ahold, Auchan, Delhaize, Casino and Lidl, as well as directly or through wholesalers to a large number of food service specialists and traditional retail outlets. As a result of its strong relationships with retail and food specialist customers, the Company has also developed a strong private label or retailer brand business.

### Factors Affecting Our Results of Operations

#### Raw Material Prices

Pig carcass average price	Six month period ended June 30,			% Increase (decrease) over prior period	
	2011	2012	2013	2012 vs. 2011	2013 vs. 2012
	(price in €/kg)				
Spain Mercolleida	1.57	1.62	1.73	3.3	6.4
France MPB	1.44	1.51	1.56	5.0	3.6
Netherlands Monfoort	1.44	1.59	1.62	10.4	1.8
Belgium Danis	1.33	1.47	1.47	10.6	-0.3
Germany AIM	1.48	1.62	1.66	10.1	2.4
Denmark DC	1.32	1.43	1.49	2.8	6.0

For 4 of the last 6 years, rising grain prices have negatively affected meat protein prices. During H1 2013, cereals prices decreased from their record levels of H2 2012, but pork, poultry and beef meat production continue to be negatively impacted.

Due to adverse climate conditions, the 2012/13 grain production in the EU28 basin reached 278 million metric tons, down -3.5% versus the previous year. While plantings increased (+1%), they were more than offset by lower average yields (-3.9%).

Corn yields (-18.9%) accounted for the most significant part of the lower total EU28 grain output, with disappointing results in key producing countries (Italy, Hungary, Romania and to a lesser extent France). The lack of precipitations in late summer and early fall stymied the yield potential and final production dropped -16% versus 2011. Soft wheat production decreased -3.5%. The output exceeded last year's levels in France, but decreased in United Kingdom, Poland, and Spain. Average yields and planted areas dropped respectively -3.6% and -0.9%.

Last summer 2012, grain prices rose to record levels in international markets, influenced by the EU28 situation as well as the sharp drop in US corn and soybean harvest. The “Corn Belt” most severe drought in the past 100 years led to corn and soybean production down by -15% and -12% respectively, severely affecting global grain trade flows. Following this summer event, prices spiked up to levels never seen before. During 2012, EU27 wheat, barley and corn prices have risen 5% to 10%, and more than 40% for soybean meal. All 4 raw materials are key components of the feed ration for pork and poultry production.

During Q1 and Q2 2013, grain quotations continued their corrections as outlooks pointed to significant improvements in cereals production in both in USA and Europe. In addition, South America (Brazil and Argentina) just harvested a record soybean crop, for the first time surpassing the output from the United States. European grain prices are now trading at or slightly below their levels of June 2012. EU28 cereals output is expected to rise to 300 MT (up 8%) and provide the second highest harvest on record. Similarly, US corn and soybean production are forecasted to reach respectively 14.2 (+31%) and 3.4 (+13%) billion bushels, both surpassing their previous records. US ethanol generation now consumes about 36% of the local corn crop.

The historically high grain prices in Europe significantly impacted the profitability of pig producers. EU pork farmers managed their losses by further lowering sow herds (-3.4% in December 2011 survey, and -4.5% in December 2012). Preliminary results from several countries of the summer 2013 surveys show similar patterns of decreased breeding populations, and solidify the trend initiated more than 28 months ago. All key EU28 pork meat producers show additional cuts (Germany: -2.6%, Spain: -6.4%, France: -2.6%, Netherlands: -2.2%, Denmark: -0.8%, Italy: -12.3%). Eastern Europe continues to be severely affected (for example, Poland breeding herds was surveyed down -10.0%). These decisions impact pork meat output with a 10 to 12 months delayed effect.

During H1 2013, EU27 pork production displayed heterogeneous, and slightly better than expected results, with estimated output down around -0.3%. On one hand, the total production rose in Germany (+1.9%), Belgium (+2.9%), Poland (+0.5%) and United Kingdom (+0.3%). On the other hand, the contrary occurred in France (-0.4%), the Netherlands (-2.8%), Denmark (-1.5%), Spain (-0.7%) and Italy (-3.2%). As a result, prices have risen less than anticipated during the period. Price risks remain present for H2 2013 due to sow and pig population surveys (10 month lag effect).

For 2012, EU28 exports to third countries slowed down to a final -2.0% against the previous year. And during the first 4 months in 2013, European exports decreased by -4.1%. China, Japan and Philippines demand was up +6%, +8% and +35% respectively, while overall Asian imports remained unchanged on lower volumes to South Korea (-49%). For the second consecutive year, China consolidates its position as the largest client of EU28 trade bloc with 34% of transacted volumes. European clients decreased their pork meat orders by -12%, mostly due to Russia (-10%), Ukraine (-11%) and Belarus (-34%).

In general, 2012 EU pig carcass prices traded at their highest levels in the last 15 to 20 years, depending on the country. They are up more than +20.0% in the past couple years. Their evolution reflected the heterogeneous supply conditions in the main producer countries. During H1 2013, the pork quotation rose most in Spain (+6.4%), Denmark (+6.0%) and France (+3.6%). The north European basin composed of Germany, Netherlands and Belgium displayed less inflationary pressure (+2.4%, +1.8%, -0.3%) due to better than expected pork production (-0.3%).

Among all pork cuts, the value of hams rose in line or faster than pig carcass quotations (from +7.1% in Germany to +6.9% in France or 3.6% in Belgium). The ham to pig price ratios remain at low levels versus the last 15 years trend, a sign of consumers still switching to cuts with lower relative value (penalizing hams and loins). Shoulders rose again more than their fair share, from +2.9% in Germany to +6.7% in Spain and +7.6% in Italy. Bellies keep trading near their record highs, up from +3.6% (DE) to +17.7% (ES) against last year. Fat, jowls, trimmings, after surging in the second half of 2012, have dropped significantly during H1 2013 and have remained steady since early April.

European chicken market carcass prices have increased slightly year to date (from +2.7% in France to +1.2% in Spain), with limited impact on cuts prices due to weaker internal demand than 2012. In addition, Brazilian exports to EU28 added more downward pressure to internal chicken and turkey prices during H1.

The pork and chicken meat market trends stated above affected Campofrio Food Group raw material costs only indirectly. First, the Company purchases pork and poultry cuts in different proportions, each one following its own supply and demand dynamics. During H1 2013, the average pork meat price purchased by the Company increased +3.8% versus year ago levels. Second, and more importantly, the cost of goods sold of long-cycle products (cured products) reflects evolutions in raw material prices with a lag time which can vary between 6 and 24 months. Taking into consideration these factors, the pork meat costs for H1 2013 rose by +2.4% versus the same period last year.

## Results of Operations

### Comparison of the six month period ended June 30, 2013 and the six month period ended June, 2012

#### Operating Revenues

The following table sets forth a detailed breakdown of our operating revenues for the six month period ended June 30, 2013 and June 30, 2012.

Operating revenues	Six month period ended June 30,			
	2013		2012	
	Actual (unaudited)	% of total oper. revenues	Actual (unaudited)	% of total oper. revenues
Net sales and services	903,142	99.0%	910,363	99.1%
<i>% increase in Net Sales and Services</i>	<i>(0.8%)</i>			
Capitalized expenses on Company's fixed assets	2,796	0.3%	3,544	0.4%
Other operating revenue	6,576	0.7%	4,851	0.5%
<b>Total operating revenues</b>	<b>912,514</b>	<b>100.0%</b>	<b>918,758</b>	<b>100.0%</b>
<i>% increase in total operating revenues</i>	<i>(0.7%)</i>			

Operating revenues decreased by 0.7% to €912.5 million for the six month period ended June 30, 2013 from €918.8 million for the same period of 2012. Net sales decreased by 0.8% to €903.1 million for the six month period ended June, 2013 from €910.4 million in the same period of 2012. This decrease reflects stability in group strategic markets and value enhancing efforts via our brands, which grow 0.6% in a decreasing branded market environment.

#### Operating Expenses

The following table sets forth a detailed breakdown of operating expenses for the six month period ended June 30, 2013 and June 30, 2012.

Operating expenses	Six month period ended June 30,			
	2013		2012	
	Actual (audited)	% of total oper. revenues	Actual (audited)	% of total oper. revenues
Consumption of goods and other external charges	(498,570)	(54.6%)	(493,065)	(53.7%)
Employee benefits expense	(165,369)	(18.1%)	(175,053)	(19.1%)
Depreciation and amortization	(30,965)	(3.4%)	(29,995)	(3.3%)
Other operating expenses	(185,479)	(20.3%)	(184,223)	(20.1%)
Changes in trade provisions	(1,284)	(0.1%)	(937)	(0.1%)
<b>Total operating expenses</b>	<b>(881,667)</b>	<b>(96.6%)</b>	<b>(883,273)</b>	<b>(96.1%)</b>
<i>% increase in total operating expenses</i>	<i>(0.2%)</i>			

Operating expenses decreased by 0.2% to €881.7 million for the six month period ended June 30, 2013 from €883.3 million for the same period of 2012. Operating expenses constituted 96.6% and 96.1% of total operating revenues for the six month period ended June 30, 2013 and 2012, respectively.

#### Consumption of Goods and Other External Charges

Consumption of goods and other external charges increased by 1.1% to €498.6 million for the six month period ended June 30, 2013 from €493.1 million for the same period of 2012. Consumption of goods and other external charges constituted 54.6% and 53.7% in percentage of total operating revenues for the six month period ended June 30, 2013 and 2012, respectively. The increased was derived from higher raw material prices during the six month period ended June 30, 2013 versus the same period of 2012.

### ***Employee Benefits Expenses***

Employee benefits expenses decreased by 5.5% to €165.4 million for the six month period ended June 30, 2013 from €175.1 million for the same period of 2012, reflecting our efforts to gain competitiveness. Employee benefits expenses constituted 18.1% and 19.1% in percentage total operating revenues, respectively.

### ***Depreciation and Amortization***

Depreciation and amortization increased by 3.2% to €31.0 million for the six month period ended June 30, 2013 from €30.0 million for the same period of 2012. Depreciation and amortization represented 3.4% and 3.3% of total operating revenues for the six month period ended June 30, 2013 and 2012, respectively.

### ***Other Operating Expenses***

Other operating expenses increased by 0.7% to €185.5 million for the six month period ended June 30, 2013 from €184.2 million for the same period of 2012. This increase is mainly attributable to higher manufacturing cost (energy and taxes) partially offset by lower Marketing, Advertising and Promotions (MAP) expenses.

### ***Other Results***

For the six month period ended June 30, 2013 and 2012, Other Results amounted to €5.8 million loss and €2.7 million loss, respectively. Other Results are comprised of our share of profit / (loss) of investments accounted for using the equity method. The loss for the six month period ended June 30, 2013 is mainly related to the joint venture in France.

### ***Finance and Tax Expenses***

#### ***Finance Revenue and Finance Costs***

Net finance cost decreased by €1.8 million to €26.3 million for the six month period ended June 30, 2013, from €28.2 million in the same period 2012 mainly due to the lower total bank debt following amortization under the Fiorucci club deal facility.

#### ***Income Tax Expenses***

Income tax amounted to €2.1 million expense for the six month period ended June 30, 2013, compared to €0.8 million expense in the same period of 2012.

#### ***Result from Discontinued Operations***

For the six month period ended June 30, 2013 and 2012, Results from Discontinued Operations amounted to €0.01 million loss and €2.9 million loss, respectively. Results from Discontinued Operation in the six month period ended June 30, 2012, are mainly comprised of our French cooked and Spain pork breeding business after tax net results.

#### ***Profit (Loss) for the Period***

Profit (Loss) for the Period amounted to €1.1 million gain in the six month period ended June 30, 2013, compared to a €1.0 million loss in the same period of 2012.

### ***Operating Segment Reporting***

Net sales and services	Six month period ended June 30,			
	2013		2012	
	Actual (audited)	% of total	Actual (audited)	% of total
Southern Europe	512,031	56,7%	532,680	58,5%
Northern Europe	390,892	43,3%	388,357	42,7%
Other	27,722	3,1%	24,520	2,7%
Eliminations	(27,503)	(3,0%)	(35,194)	(3,9%)
<b><u>Total net sales and services</u></b>	<b><u>903,142</u></b>	<b><u>100,0%</u></b>	<b><u>910,363</u></b>	<b><u>100,0%</u></b>

EBITDA (normalized)	Six month period ended June 30,			
	2013		2012	
	Actual (unaudited)	% of total	Actual (unaudited)	% of total
Southern Europe	27,360	44,2%	36,232	55,3%
Northern Europe	30,412	49,2%	26,730	40,8%
Other	4,086	6,6%	2,558	3,9%
<b><u>Total EBITDA</u></b>	<b><u>61,858</u></b>	<b><u>100,0%</u></b>	<b><u>65,520</u></b>	<b><u>100,0%</u></b>

**% EBITDA normalized margin over Net Sales**

Southern Europe	5,3%	6,8%
Northern Europe	7,8%	6,9%
Other	14,7%	10,4%
<b><u>Total EBITDA</u></b>	<b><u>6,8%</u></b>	<b><u>7,2%</u></b>

***Southern Europe***

Net sales in Southern Europe decreased by 3.9% to €512.0 million for the six month period ended June 30, 2013 from €532.7 million for the same period of 2012. This variance is mainly affected by tough market conditions in Italy and Portugal with important declines, whilst Spain remains stable.

Normalized EBITDA amounted to €27.4 million for the six month period ended June 30, 2013 compared to €36.2 million for the same period of 2012. Normalized EBITDA margin over net sales for the six month period ended June 30, 2013 reached 5.3% showing a decrease over previous period of 146 basis points. The decline in Southern Europe, is explained by lower sales volumes, higher unitary meat costs and increased Marketing, Advertising and Promotions expenses. The latter aimed to successfully re-launch and reposition the product portfolio and therefore to ensure margin improvements in the medium/long-term.

***Northern Europe***

Net Sales in Northern Europe increased by 0.7% to €390.9 million in the six month period ended June 30, 2013 from €388.4 million in the same period of 2012.

The Normalized EBITDA for six month period ended June 30, 2013 reached €30.4 million compared with €26.7 million for the same period of 2012. Margin over net sales for the six month period ended June 30, 2013 was 7.8% showing an increase over previous period of 90 basis points. EBITDA improvement is due to the successful fixed cost efficiency program carried out in France, and to be rolled out in the rest of Northern Europe in the second half of 2013.

***Other***

The “Other” segment mainly refers to corporate costs in the headquarters and business in USA which continues to outperform in both volume and sales value and sustain the previous period’s high EBITDA margin.

## **Cash Flow**

### ***Cash Flows from Operating Activities***

For the six month period ended June 30, 2013, cash flow from operating activities amounted to €1.0 million cash in compared to €16.7 million cash in for the same period of 2012. This lower cash flow was primarily attributable to lower operating cash flow before changes in working capital and lower variation in changes in working capital.

### ***Cash Used in Investing Activities***

For the six month period ended June 30, 2013, cash flow from investing activities amounted to €34.3 million cash out, compared to €28.8 million cash out for the same period of 2012. Capital Expenditures amounted to €34.5 million in the six month period ended June 30, 2013 and €22.6 million in the same period last year. Investment in Group in 2012 is related to the capital investment in the Joint Venture with Foxlease in France.

### ***Cash Flow from Financing Activities***

For the six month period ended June 30, 2013, cash flow from financing activities amounted to €23.6 million cash out compared to €4.0 million cash in for the same period last year. The cash flow from financing activities for the six month period ended June 30, 2013 and 2012, include the changes in our short-term bank debt, changes in non-current financial assets, and the cash involved in the purchase of treasury shares.

## Comparison of the three month period ended June 30, 2013 and the three month period ended June 30, 2012

### Operating Revenues

The following table sets forth a detailed breakdown of our operating revenues for the three month period ended June 30, 2013 and June 30, 2012.

Operating revenues	Three month period ended June 30,			
	2013		2012	
	Actual (unaudited)	% of total oper. revenues	Actual (unaudited)	% of total oper. revenues
Net sales and services	461,553	98.8%	462,950	99.1%
<i>% increase in Net Sales and Services</i>	<i>-0.3%</i>			
Capitalized expenses on Company's fixed assets	1,442	0.3%	2,025	0.4%
Other operating revenue	3,970	0.9%	2,085	0.4%
<b>Total operating revenues</b>	<b>466,965</b>	<b>100.0%</b>	<b>467,060</b>	<b>100.0%</b>
<i>% increase in total operating revenues</i>	<i>(0.02%)</i>			

Operating revenues decreased by 0.02% to €467.0 million for the three month period ended June 30, 2013 from €467.1 million for the three month period ended June 30, 2012. Net sales remained stable at €461.6 million for the three month period ended June, 2013 showing a slight decrease of 0.3% from the €463.0 million in the same period of 2012.

### Operating Expenses

The following table sets forth a detailed breakdown of operating expenses for the three month period ended June 30, 2013 and June 30, 2012

Operating expenses	Three month period ended June 30,			
	2013		2012	
	Actual (unaudited)	% of total oper. revenues	Actual (unaudited)	% of total oper. revenues
Consumption of goods and other external charges	(254,253)	(54.4%)	(253,824)	(54.3%)
Employee benefits expense	(80,330)	(17.2%)	(86,198)	(18.5%)
Depreciation and amortization	(15,653)	(3.4%)	(15,044)	(3.2%)
Other operating expenses	(95,319)	(20.4%)	(95,009)	(20.3%)
Changes in trade provisions	(671)	(0.1%)	(466)	(0.1%)
<b>Total operating expenses</b>	<b>(446,226)</b>	<b>(95.6%)</b>	<b>(450,541)</b>	<b>(96.5%)</b>
<i>% increase in total operating expenses</i>	<i>(1.0%)</i>			

Operating expenses decreased by 1.0% to €446.2 million for the three month period ended June 30, 2013 from €450.5 million for the same period in 2012. Operating expenses constituted 95.6% and 96.5% of total operating revenues for the three month period ended June 30, 2013 and June 30, 2012, respectively.

### Consumption of Goods and Other External Charges

Consumption of goods and other external charges increased by 0.2% to €254.3 million for the three month period ended June 30, 2013 from €253.8 million for the same period in 2012. Consumption of goods and other external charges constituted 54.4% and 54.3% in percentage of total operating revenues for the three month period ended June 30, 2013 and June 30, 2012, respectively.

### ***Employee Benefits Expenses***

Employee benefits expenses decreased by 6.8% to €80.3 million for the three month period ended June 30, 2013 from €86.2 million for the same period of 2012.

### ***Depreciation and Amortization***

Depreciation and amortization increase by 4.0% to €15.7 million for the three month period ended June 30, 2013 from €15.0 for the same period in 2012. Depreciation and amortization represented 3.4% in June 30, 2013 and 3.2% June 30, 2012 for periods under comparison.

### ***Other Operating Expenses***

Other operating expenses increased by 0.3% to €95.3 million for the three month period ended June 30, 2013 from €95.0 million for the same period of 2012.

### ***Other Results***

For the three month period ended June 30, 2013 and 2012, Other Results amounted to €2.8 million loss and €2.6 million loss, respectively. Other Results are comprised of our share of profit / (loss) of investments accounted for using the equity method. Other Results are comprised of our share of profit / (loss) of investments accounted for using the equity method. The loss for the three month period ended June 30, 2013 is mainly related to the joint venture in France.

### **Finance and Tax Expenses**

#### ***Finance Revenue and Finance Costs***

Net finance cost decreased by €0.8 million to €13.4 million in the three month period ended June 30, 2013 from €14.2 million for the same period of 2012 mainly due to the lower total bank debt following amortization under the Fiorucci club deal facility.

#### ***Income Tax***

Income tax amounted to €3.8 million expense for the three month period ended June 30, 2013, compared with a €1.8 million income for the three month period ended June 30, 2012.

#### ***Profit for the Period***

For the three month period ended June 30, 2013, the profit for the period amounted to €5.1 million compared to €1.6 million for the same period in 2012.

### ***Operating Segment Reporting***

Net sales and services	Three month period ended June 30,			
	2013		2012	
	Actual (audited)	% of total	Actual (audited) (restated)	% of total
Southern Europe	266,755	57.8%	270,645	58.5%
Northern Europe	196,073	42.5%	196,427	42.4%
Other	14,228	3.1%	13,016	2.8%
Eliminations	(15,503)	(3.4%)	(17,138)	(3.7%)
<b><u>Total net sales and services</u></b>	<b><u>461,553</u></b>	<b><u>100.0%</u></b>	<b><u>462,950</u></b>	<b><u>100.0%</u></b>

EBITDA (normalized)	Three month period ended June 30,			
	2013		2012	
	Actual (unaudited)	% of total	Actual (unaudited) (restated)	% of total
Southern Europe	17,477	48.4%	18,240	57.7%
Northern Europe	16,323	45.2%	11,913	37.7%
Other	2,313	6.4%	1,460	4.6%
<b>Total EBITDA</b>	<b><u>36,113</u></b>	<b><u>100.0%</u></b>	<b><u>31,613</u></b>	<b><u>100.0%</u></b>
<b>% EBITDA normalized margin over Net Sales</b>				
Southern Europe	6.6%		6.7%	
Northern Europe	8.3%		6.1%	
Other	16.3%		11.2%	
<b>Total EBITDA</b>	<b><u>7.8%</u></b>		<b><u>6.8%</u></b>	

### *Southern Europe*

Net sales in Southern Europe decreased by 1.4% to €266.8 million for the three month period ended June 30, 2013 from €270.6 million for the same period last year. This variance is mainly affected by tough market conditions in Italy and Portugal with important declines, whilst net sales in Spain have increased.

Normalized EBITDA amounted to €17.5 million for the three month period ended June 30, 2013 compared to €18.2 million for the same period last year. Normalized EBITDA margin over net sales for the three month period ended June 30, 2013 reached 6.6% showing a decrease over previous period of 19 basis points. This stable evolution was reached in a challenging business environment, Spain and Portugal maintaining the EBITDA achieved in the same period last year, while in Italy EBITDA is negatively impacted by decline in sales and higher Marketing, Advertising and Promotions expenses.

### *Northern Europe*

Net Sales in Northern Europe remained stable at €196.1 million in the three month period ended June 30, 2013 compared with €196.4 million in the same period last year.

The Normalized EBITDA for three month period ended June 30, 2013 reached €16.3 million compared with €11.9 million for the same period last year. Margin over net sales for the three month period ended June 30, 2013 was 8.3% showing an increase over the same period of last year of 226 basis points.

EBITDA improvement is due to the successful fixed cost efficiency program carried out in Aoste, and to be rolled out in the rest of Northern Europe in the second half of 2013.

### *Other*

The “Other” segment mainly refers to central monitoring and supervising costs and business in USA which continues to outperform both in volume and net sales.

## **Cash Flow**

### *Cash Flows from Operating Activities*

For the three month period ended June 30, 2013, cash flow from operating activities amounted to €3.5 million cash out compared to €5.5 million cash out for the same period of 2012. This positive €1.9 million variance was primarily attributable to higher gross operating cash flow before changes in working capital and lower cash out for income tax, compensated with higher provisions payments and lower variation in changes in working capital.

### *Cash Used in Investing Activities*

For the three month period ended June 30, 2013, cash flow from investing activities amounted to €19.6 million cash out, compared to €10.6 million cash out for the same period of 2012. Capital Expenditures amounted to €19.7 million in the three month period ended June 30, 2013 and €11.3 million in the same period last year.

### ***Cash Flow from Financing Activities***

For the three month period ended June 30, 2013, cash flow from financing activities amounted to €25.4 million cash out compared to €1.1 million cash in for the same period last year. The cash flow from financing activities for the three month period ended June 30, 2013 and 2012, include the changes in our short-term bank debt, changes in non-current financial assets, and the cash involved in the purchase of treasury shares.

## **RECENT DEVELOPMENTS**

On 29<sup>th</sup> may 2013, the company Smithfield Foods, Inc, (which according to the public registries of the CNMV holds a participation totaling 36.990% in Campofrio Food Group, S.A.), announced by means of information published at its website ([www.smithfieldfoods.com](http://www.smithfieldfoods.com)) that Smithfield Foods Inc and the company Shuanghui International Holdings Limited entered into a merger agreement, that was approved by the Board of Directors of both of the companies, under which the latter would acquire all the share capital of the former. In accordance with said communication, Shuanghui International Holdings Limited is the majority shareholder of Henan Shuanghui Investment & Development Co, China's largest meat processing company. Upon the closing of the transaction, which is subject to certain conditions and is expected to take place during the second half of this year, Smithfield Foods Inc shall cease being a publicly-traded company in order to become a wholly-owned independent subsidiary of Shuanghui International Holdings Limited.

## **ANNEXE A – EXPLANATION OF INCOME STATEMENT ITEMS**

### ***Operating Revenues***

Operating revenues consist of net sales and services, increases in inventories of finished goods and work in progress, capitalized expenses of company work on assets and other operating revenues.

#### *Net Sales and Services*

Our net sales and services consists primarily of the sales of dry, cooked and other meats products, after deduction of rebates and off invoice discounts.

#### *Increase in Inventories of Finished Goods and Work in Progress*

Increase in inventories of finished goods and work in progress includes the positive variation between the closing and opening value of finished products and work in progress.

#### *Capitalized Expenses of Company Work on Assets*

Capitalized expenses of Company work on assets includes personnel costs for staff engaged in facility development and construction and personnel expenses in connection with tangible and intangible assets. Capitalized staff costs are added to the carrying amount for the related asset in property, plant and equipment and amortized over their useful life.

#### *Other Operating Revenues*

Other operating revenues include other income not related to our core activities, such as capital grants release and operating grants.

### ***Operating Expenses***

Operating expenses consist of decrease in inventories of finished goods and work in progress, consumption of goods and other external charges, employee benefits expense, depreciation and amortization, changes in trade provisions and other operating expenses.

#### *Decrease in Inventories of Finished Goods and Work in Progress*

Decrease in inventories of finished goods and work in progress includes the negative variation between the closing and opening value of finished products and work in progress.

#### *Consumption of Goods and Other External Charges*

Consumption of goods and other external charges includes primary purchases of raw material, mainly meats, and other product components such as packaging, spices and other auxiliary materials. This item also includes the stock variation of such materials.

#### *Employee Benefits Expense*

Employee benefits expense includes wages and salaries, dismissal indemnities, social security costs and other employee benefits such as health and life insurance.

#### *Depreciation and Amortization*

Depreciation and amortization includes property, plant and equipment depreciation charges, amortization of other intangible assets with definitive useful life, such as operating software. Costs of property, plant and equipment in use are depreciated on a straight-line basis at annual rates based on the estimated useful life of the assets.

#### *Changes in Trade Provisions*

Changes in trade provisions include mainly changes in trade allowances and reversal from doubtful debtors. Also accounted for in this line item generally, are specific, non-recurring items that are not related to our ordinary business activities.

#### *Other Operating Expenses*

Other operating expenses include all other operating expenses, including services expenses, transport cost, utilities, energies, advertising, marketing and general expenses.

#### ***EBIT***

EBIT is equal to operating revenues less operating expenses.

#### ***Net Finance Cost***

Net finance cost includes finance revenue and finance costs. Finance revenue consists of income on loans and other marketable securities, other interest and similar income, exchange rate gains and changes in fair value of financial instruments. Finance cost consists of interest bearing loans and borrowings, other finance costs and exchange losses.

#### *Income on Loans and other Marketable Securities*

Income on loans and other marketable securities consists principally of interest from deposits.

#### *Exchange Rate Gains and Losses*

This item includes gains and losses from the variation on financial liabilities denominated in US dollars, which is partially offset by the existing cash flow hedge accounting, and also includes, to a lesser extent gains and losses from the trading generated by accounts payable and receivables denominated in currencies other than euro.

#### *Change in Fair Value of Financial Instruments*

Change in fair value of financial instruments includes gains and losses from the variation in the fair value of financial instruments that do not qualify for cash flow hedge accounting.

#### ***Impairment of Assets***

Impairment of assets includes losses recognized when the recoverable amount of non current-assets is lower than their carrying value. The recoverable value is defined as the higher of the net fair market value or the value in use of each non-current asset.

#### ***Share of Profit (Losses) of Investments Accounted for Using the Equity Method***

Results of companies accounted for using the equity method include investments in associates over which we exercise significant influence but which are neither subsidiaries nor jointly controlled entities. Investments are measured initially at acquisition cost, subsequently adjusted for changes to each company's equity, taking into consideration the percentage of ownership and any impairment.

#### ***Income Taxes***

Income taxes consist of current tax payable on the taxable profit for the year and deferred tax. The corporate tax rate in Spain was 35% in 2006, 32.5% in 2007 and 30% in 2008.

#### ***Profit (loss) from Discontinued Operations***

Profit (loss) from discontinued operations represents profit or loss for the year attributable to discontinued operations.