



**natraceutical
group**

Valencia, 20 August 2009

First Half 2009 Performance

During the first half of 2009, the ongoing international financial crisis has remained a major challenge for all markets in which the Group's companies operate, which have experienced significant drops in their activity. Clients of both the Ingredients Division and the Nutritional Supplements Division have been cutting down risk by transferring the effects of the crisis to the supply chain by means of reducing stocks, delayed payments and purchase price cuts. These effects have had a major impact on the development of the Group's activities.

In addition, international markets have been experiencing major shifts in consumer trends. Accordingly, the Ingredients Division's clients (mostly food companies) have adapted their products in order to meet current consumer needs appropriately, to the detriment of the latest innovative value-added products. This consumer behaviour shift has negatively impacted this division's sales *mix*, as the demand for more standard products has greatly increased to the detriment of Natraceutical's profits.

Furthermore, the fluctuations of several currencies Natraceutical operates with and, specifically, the higher value of the Euro against the Pound Sterling, have also greatly affected the Ingredients Division's sales during the first half of 2009.

However, the company has also enjoyed a slight increase in sales of products marketed by this Division as compared with the first quarter of the year (+5.6%), bearing in mind that sales of most of said products do not adhere to seasonal variations.

The Nutritional Supplements Division, whose products are sold by Natraceutical Group exclusively to pharmacies and health shops throughout Europe under the trademark Forté Pharma, remains under the impact of poor performance in Europe. In the food supplement sector, this downturn is particularly affecting all health-related products, such as nutritional weight loss supplements, which represent around 70% of Forté Pharma's product portfolio to date, the sales of which were heavily seasonally-driven during the first quarter of the year.

However, once again, the strength of the brand Forté Pharma, specifically in France, its major market with 70% of the overall turnover, gives the company a strong position against competitors marketing this range of products, and helps Forté Pharma to consolidate their market share.

All this has led Natraceutical Group to implement a strict cost-cutting policy in both divisions for the purpose of mitigating the negative impact of the financial crisis in the short term, while maintaining identical production levels and customer service quality.

At the same time, in recent months the company conducted an in-depth analysis of possibilities for the purpose of adapting their growth strategy to the new environment, and thus continuing to increase value for both their businesses and shareholders. Said analysis has led to the recent announcement of an agreement of intention with listed French company Naturex, an international leading operator in the food ingredients sector, aimed at merging said company with Natraceutical's Ingredients Division, and thus creating a leading international natural ingredients company. The operation is expected to be completed by the end of 2009.

Under these circumstances, the company has closed the first half of 2009 with a net business turnover of € 76.13 million, 19.3% down as compared with € 94.31 million in the first half of the previous year.

The recurring EBITDA reached € 6.9 million, compared with € 14.1 million in the first half of 2008, which was largely caused by the drop in sales, identical overheads and increased costs of raw materials. Yet, all other costs generated by the extraordinary measures included in the cost-cutting and staff restructuring processes, which will lead to savings that will be fully effective in the Group's financial statements from January 2010, have set the Company's final EBITDA for the first half of 2009 at € 4.9 million.

Net profits were € -2.07 million, as compared with € 5.83 million in the first half of 2008.

As for quarterly evolution, to note that the Company closed the first quarter of 2009 with sales reaching € 41.34 million, EBITDA of € 4.45 million, and net profits of € 1.04 million.

1. Division-specific evolution

Ingredients Division

In the second quarter of the year, the recessionary behaviour of the international markets has shown no signs of easing. This situation has forced Natraceutical to continue to apply a tight pricing policy for their Ingredients Division, in order to maintain our competitiveness and market share in the sector of food, cosmetics and pharmaceutical ingredients.

To June 2009's close, the Ingredients Division's sales reached € 43.8 million, compared with € 55.34 million in the first half of the previous year. However, the company has enjoyed a slight recovery of sales for this Division as compared with the first quarter of the year (+5.6%), bearing in mind that sales of most of said products do not adhere to seasonal variations.

Noteworthy among the ingredients of the Division's product portfolio is the excellent performance of the natural colourings range (+26% as compared with June 2008's performance). This range is manufactured by the company in the UK, and represents around 20% of the division's overall turnover.

One of the key factors behind this performance is the debate held last year at the European Parliament regarding the control of the use of specific synthetic colourings in food products due to a possible connection with child hyperactivity. Within this context, the State of Maryland could become the first US state to ban the use of several synthetic colourings early next year.

According to UK consulting firm Leatherhead Food International, the value of the world's colourings market was estimated at € 731 million in 2007, 31% of which is currently controlled by natural colourings. LFI also states that the natural colourings market is growing steadily, and it expects that they will move artificial colourings to a second position in the ranking in the mid term, due to the pressure exerted by consumers and Administrations, which are pushing for natural and artificial additive-free products.

Among other aspects mentioned earlier, the Ingredients Division's sales also suffered the impact of fluctuations affecting the currencies with which Natraceutical operates. Specifically, the rise of the Euro against the Pound Sterling has continued to negatively affect the company's accumulated business turnover in the first half of 2009. The impact of these fluctuations on business turnover figures amounted to approximately € 2.1 million.

The recurring EBITDA reached € 4.06 million, compared with € 8.36 million in the first half of 2008, which was largely caused by the increased demand for reduced value-added ingredients and dropping margins, as well as by the difficulty of deflecting across the board the rise in costs of raw materials to all clients. Accordingly, we need to remember that gross margins yielded by this division's product portfolio fluctuate between 10% and 90% on sales, depending on the level of innovation and technology associated with each ingredient. The gross margin for the first half of the year was 40.7%.

Nevertheless, Natraceutical has recently implemented a unit restructuring, cost optimization and margin protection plan for the purpose of easing the negative impact of said effects on the EBITDA, a plan that is expected to offset trading profits in the next financial year. Said restructuring process had an extraordinary negative impact on the company's operating performance that amounted to approximately € 1.4 million, which led to reaching a final EBITDA of € 2.61 million at the end of June 2009.

Despite the drop in costs of several raw materials fuelled from decreasing energy costs following the high prices reached in 2008, the poor performance of several harvests have counteracted said effect, leading to stable costs and even significant increases in some cases, which the company is now beginning to deflect to their clients as much as this is possible in the light of the complex and highly competitive environment in which the company operates.

Nutritional Supplements Division

The Nutritional Supplements Division, whose products are marketed under the trademark Forté Pharma, has ended the first half of 2009 with sales amounting to € 32.72 million, compared with € 38.96 reached in the same period of the previous year.

With a growth strategy that clearly aims at the internationalization of activities, Forté Pharma is now already operating in many European countries. Natraceutical is heavily committed to boosting the business development of Forté Pharma in the European markets, a plan launched in late 2006 following the acquisition of the Monaco-based laboratory. Yet, France, the market of origin, still remains the main client with approximately 70% of the division's overall sales. In relation to product ranges, the main weight control range, which represents approximately 70% of Forté Pharma's products, is now being gradually complemented with the development of health and beauty product

ranges (oral cosmetics), which, in the last two years, and despite the negative financial conditions, have reached 30% of the division's business turnover.

The investments made to achieve increased geographical penetration as well as a new structure for the product portfolio —pursuing the ultimate goal of balancing out the volume of the weight control product range to boost the health and beauty ranges as soon as possible— along with a drop in sales caused by the aforementioned consumer shifts, have led the Company to close the first half of 2009 with an EBITDA of € 4.59 million and margin on sales of 14%, compared with EBITDA of € 7.72 million in the first half of 2008. The Company's gross margin on sales was 77.3%.

In France, Natraceutical Nutritional Supplements Division's main market, and a reference market for trend analysis purposes, the global nutritional weight loss supplements market suffered a 20% drop in the first half of 2009 as compared with the same period of the previous year, as it was heavily punished by shifting consumer trends during the recession periods. Despite this, and thanks to Forté Pharma's strong leadership position in the French weight control market, the impact on the brand was not as strong, and Forté Pharma has consolidated their 17% market share as a leading reference brand in pharmacies and health shops.

To boost said consolidation, the company has launched two brand new products to the market this year: "Minceur Resculpt" and "Minceur Revolution", the latter regarded as the best launch in the French weight control market this year.

This trend has been counteracted by an improved evolution of the health (multivitamins, phytotherapy, relaxing products, etc.) and beauty (oral cosmetics) segments, which combined count for 85% of the European nutritional supplements market.

Thus, while the nutritional weight control supplements market has suffered a 20% overall setback in France, the nutritional supplements market for the so-called health ranges has grown around 20% in Europe in the last twelve months.

Forté Pharma's business evolution in France's neighbouring countries has experienced a similar recessionary behaviour. Nevertheless, the brand has enjoyed double-digit growth in several new markets such as Poland, Romania, Ukraine, Bulgaria, Tunisia and Greece.

The division-specific performance section herein does not include the impact of the corporate structuring costs on the Group's EBITA (€ 2.3 million), which, in this first half of the year, must bear extra costs of about € 0.5 million corresponding to the staff restructuring that is currently under way at the company's central structure. The corresponding savings resulting from this process will be clearly felt from January next year.

2. Relevant events after half-year's close

On August 6 2009, Natraceutical submitted to the Spanish Stock Exchange a Relevant Fact note regarding the signatura of a memorandum of understanding for the merge of Natraceutical Group's Ingredients Division with French company Naturex.

The transaction, which is expected to come into effect before the year end, will be structured by means of the integration of Natraceutical's Ingredients Division into Naturex, where Natraceutical will become board member and a relevant minority shareholder alongside SGD, the family-controlled holding company of Jacques Dikansky, Naturex's chairman and CEO, who will remain the reference shareholder in terms of voting rights.

The stake that Natraceutical shall hold in Naturex is expected to be of around 38-40%, subject to the due diligence process and the final financial structure of the resulting company.

Together with a fully complementary product portfolio, production sites and sales offices all over the world, the resulting company will combine the strengths of Naturex and those of Natraceutical and will become the world leading independent company of natural speciality ingredients.

With a fully complementary product portfolio that includes nutraceutical ingredients, flavouring, preservative and innovative extracts on Naturex's side, and natural colours, fruit and vegetable powders, pectins, functional ingredients, yeasts and caffeine by Natraceutical's ingredients division, the new company will combine the strengths of Naturex, strongly positioned in the USA and Canada, and those of Natraceutical, strongly positioned in Europe, to create a world leading company of natural ingredients

The resulting company will have production sites in Europe (France, Italy, Spain, Switzerland and the United Kingdom), the USA, Morocco, Australia and Brazil and own sales offices in the USA, Europe and Asia, thus being ideally placed to take advantage of the ongoing growth and consolidation of this sector.

After this operation, Naturex proforma sales will reach in 2009 around € 200 million and proforma EBITDA will represent around € 30 million, with a debt ratio close to 3.5 times Ebitda.

The company will operate under Naturex management, headed by Jacques Dikansky, chairman and CEO of the company.

After closing of this deal, and from an operational point of view, Natraceutical Group will focus their efforts in the full development of their nutritional supplements division in Europe, which the company markets exclusively in pharmacies under the brand name Forté Pharma.

3. Prediction of the business evolution during the second half of 2009

As we await the gradual recovery of the world's economy and the markets in which Natraceutical Group operates, one of the company's main goals for its Ingredients Division is to keep applying the strict cost-cutting measures implemented since early 2009 for the purpose of safeguarding the maximum operating efficiency of the business.

In addition, negotiations are currently under way to achieve the integration of Natraceutical's Ingredients Division in Naturex, a process that is expected to be completed before the year's close. This process opens up a wide range of combined growth possibilities that arises from the excellent complementarity and multiple synergies between both businesses. The complementarity of their products, combined with the respective strengths offered by both companies in different geographical markets and activity sectors, as well as the chance for improvement of operating margins, as both companies can benefit from better raw material acquisition conditions and business management centralization.

We must also mention the excellent behaviour of the natural food colourings line, thanks to the latest law amendments and recent shifts in consumer trends, which are expected to keep boosting the commercial development of said ingredients against synthetic additives.

In relation with the Nutritional Supplements Division, Natraceutical has planned to promote further new launches in the health product range, which has suffered significantly less from the current consumer downturn, in the near future. The goal is to continue balancing out exposure in the different product segments in which the company operates. While sales of weight control products are boosted in spring and summer, launch campaigns for multivitamin complexes and other health product references are carried out mostly in autumn and winter. Due to the special circumstances that will have a major impact during the upcoming months as a result of the predicted wide spread of the H1N1 virus (Influenza A) throughout Europe, Forté Pharma is planning to strengthen their multivitamin and natural nutritional supplement product portfolio, in order to offer consumers a range of supplements designed for boosting the body's defences during said seasons.

In addition, to benefit from Forté Pharma's large commercial network in Europe, the company has redesigned their commercial strategy for the following months, which will enable the simultaneous launch of all new product developments in the 15 countries in which the brand is currently operating. This is a major shift from the Company's method to date, which was limited to exclusive launches in France, with new products failing to reach other European markets until 3 or 4 years later.

At the same time, as it was done with the Ingredients Division's product portfolio in past financial years, Natraceutical has started to optimize the Nutritional Supplements Division's product ranges to further concentrate the commercial activities corresponding to all references enjoying greater turnovers and margins.

The company is currently reviewing production contracts and increasing the number of suppliers in order to improve operating margins and reduce acquisition prices.

Finally, it is expected that the latest news regarding a positive shift of the GDP evolution trend in EU countries where both Natraceutical divisions operate and, specifically, the announcement of a significant improvement of said indicator in France, will help to relax the commercial situation and lead to a gradual recovery of standard performance levels.

Natraceutical Group

Spanish multinational corporation Natraceutical Group is at the forefront of biotechnology applied to nutrition, a leading reference in the research and development of naturally-sourced functional / active ingredients and nutritional complements for the foodstuffs, pharmaceutical and cosmetics sectors. The company streamlines its industrial activity through two divisions (Ingredients and Nutritional Supplements) with the purpose of contributing to the prevention of diseases and improving quality of life through nutrition.

The Group's Ingredients division currently runs production facilities in Spain, UK, Switzerland, Australia and Brazil; and operates actively in over 60 countries, running branches in Europe, US and the Asia Pacific region, plus several sales networks worldwide. Natraceutical provides products and services to over 1,000 companies worldwide, including eight of the world's ten leading food corporations.



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In October 2006, Natraceutical expanded its sphere of activity by penetrating the nutritional complement sector following the acquisition of Monaco-based company Laboratoires Forté Pharma, specializing in nutritional supplements for health, beauty and weight control, thanks to which the company gained direct access to end consumers.

Natraceutical quotes in the Spanish stock exchange under the ticker MATE.MC. Total outstanding shares: 328,713,946.

www.natraceuticalgroup.com

On 20 August 2009, Natraceutical Group submitted to the Spanish Stock Exchange Commission (CNMV) their consolidated abridged annual Financial Statements and Abridged Annual Management Report for the first half of 2009, which include in-depth information of the results offered in this note. Both documents are available in Spanish on the CNMV's (www.cnmv.es) and Natraceutical Group's (www.natraceuticalgroup.com) websites.

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