

# CORPORACIÓN DERMOESTÉTICA S.A.

## CONSOLIDATED RESULTS FIRST HALF 2005 (1H05)

### Summary

- **The pace of growth of the Group Corporación Dermoestética has accelerated significantly during the second quarter, reaching an overall 1H05 growth of sales of 20.0% as an aggregated figure for the four countries in which the group operates compared to the same period of the previous year.**
  - Spain: net sales have risen +5.2% in the first half of the year. An encouraging 11.3% increase in contracted treatments during the second quarter anticipates a progressive pick-up in growth throughout the year.
  - Portugal: net sales have kept growing at high rates ending the six month period with an overall +29.8% increase.
  - United Kingdom: net sales have grown by +59.1% (pro forma<sup>1</sup>) during the 1H05 compared with the same period last year, exceeding the expectations that the company had at the moment of the acquisition back in May this year.
  - Italy: high growth as a result of the progressive increase in the number of operational clinics, although results are not yet meaningful enough to reach any conclusions.
- **The results of Corporación Dermoestética pro forma<sup>1</sup> (assuming the present Group's structure) have grown by +21,2% in EBITDA terms to €3,598 thousand and by +25,8% in terms of Net Profit to €1,235 thousand.**
  - Launching our business in Italy has resulted in EBITDA losses of €6,682 thousand and €5,284 thousand in capital expenditures in 1H05. During the next quarters we expect capex needs to drop significantly, although losses will continue as a result of the marketing effort to launch operations.
  - In the countries in which our operations are already well established (Spain, Portugal and United Kingdom) aggregate net sales have grown by +19.0% and EBITDA by +35.6%.
- **Our reported Consolidated results reported also reflect (i) Ultralase is only consolidated 48 days in the period, (ii) a one-off impact of application of IAS in first consolidation (€1,046 thousand) that reduces our subsidiary's contribution further to almost nil and (iii) the one-off costs linked to the IPO (€3,849 thousand).**
- **During the six-month period €3,085 thousand have been invested in growing and improving our network of clinics (€2,801 thousand if Italy is excluded). In spite of this, and taking into account the acquisition of Ultralase in May, the Company remains financially strong with a net debt of €26,947 thousand.**

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<sup>1</sup> Pro forma is defined as the sum of the consolidated results for each of the countries assuming that Ultralase was part of the Group from 1/1/2004 (no consolidation adjustments have been made). In the same way, "one-off" adjustments as IPO costs have not been taken into account nor additional financial costs from Ultralase operation done 1/1/2004.

### Relevant facts

- In Spain we have progressed in the opening of the seven clinics anticipated for this year. At the time of issuing this note, we have already opened four – Cartagena (January), Sabadell (February), Alcorcón (July) and Jerez (July); one is waiting for a license (Santiago); and another two are being refurbished (Orense and Logroño, which are expected to open before the end of the year). Gijón is planned to open in 2006.
- The introduction of the intragastric balloon in our Spanish clinics is currently progressing by adding to new licensed clinics that offer this treatment and by recruiting specialists for each clinic.
- In Portugal they have concluded the works at the three new clinics: one of them is open - Braga (January) – and the other two are awaiting licenses – Aveiro and Coimbra.
- The introduction of dentistry in 4Q04 has had a very positive impact on sales in 1H05.
- In the United Kingdom the introduction of cosmetic surgery and aesthetic medicine has been programmed in detail and we have integrated into Ultralase our London clinic (opened in April). The extension of the product range of our clinics is under way and should allow us to start offering the new services in England in the first quarter of 2006.
- The eye market has responded very satisfactorily to changes introduced in the marketing policy in the last few quarters.
- In Italy during the second quarter, refurbishment of 23 of the 24 medical clinics was finished as planned. 14 of them are already licensed to offer medical services and 9 are awaiting licenses. With respect to the aesthetic services, 24 of the 27 anticipated centres are already licensed and open to the public.
- Our volume of sales in Italy should start to increase progressively from the month of September and onwards as the newly opened clinics and aesthetic centres start to benefit from our marketing efforts and the 9 pending medical licences are obtained.
- The company began to trade successfully in the Spanish stock market on the 13th of July, with the shares being initially offered at 9.10€ per share. The total demand was 13.4 times the size of the offer at the IPO price. The first day our shares closed at 10.82€, rising 18.9% from the IPO price and 10.39 million shares were traded.

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## 1. Evolution of the businesses of the company

### Spain and Portugal

Spain and Portugal Thousand €	1Q		Incr. %	2Q		Incr. %	1H		Incr. %
	2005	2004		2005	2004		2005	2004	
<b>Net Sales</b>	18,965	18,009	5.3%	21,486	19,961	7.6%	40,451	37,970	6.5%
<b>Gross margin</b>	14,802	13,826	7.1%	16,818	15,138	11.1%	31,620	28,964	9.2%
% of net sales	78.0%	76.8%		78.3%	75.8%		78.2%	76.3%	
<b>EBITDA<sup>2</sup></b>	4,784	4,434	7.9%	5,702	5,287	7.8%	10,486	9,721	7.9%
% of net sales	25.2%	24.6%		26.5%	26.5%		25.9%	25.6%	

**The business growth in Spain and Portugal is accelerating as the year advances, driven by higher growth in Spain and sustained high growth rates in Portugal. Because of this acceleration in growth, contracted treatments are growing more (+13.3% in the quarter and +9.6% in the six-month period) than the net sales (+7.6% in second quarter and +6.5% in the six-month period).**

**Our margins have remained stable (25.9% in the first half of the fiscal year as opposed to 25.6% in the same period of 2004), in spite of the higher advertising costs.**

Spain. As the year progresses, net sales figures (contracted treatments 2Q05 +11.3% and net sales 2Q05 +5.9%) confirm the acceleration in growth in Spain and growth rates are approaching those consistent with our historical averages.

- Contracted treatments have grown by 11.3% in 2Q05 vs. 3.0% in 1Q05, raising the overall six-month rate up to 7.2%.
- Both pre-existing clinics' growth (*like for like*<sup>3</sup> growth of +6.5% in 2Q05) and new openings (which remain in the range of 5% of sales as in previous quarters) contribute to such improvement in growth rates.
- Because of the acceleration of the growth rates in the last few months, the "stock" of treatments contracted pending to be performed increases more than proportionally. This translates in net sales growing 5.4 percentage points behind contracted treatments. Contracted treatments are actual cash revenues, but are only recognized as sales under the accrual principle as the service is rendered and, therefore, will convert into net sales in the following quarters.

Portugal. During the second quarter net sales in Portugal continue to grow very robustly (+36.0%), leaving the six month rate at +29.8%.

- Contracted treatments have grown at high rates in both quarters (more than 40%). The opening of our clinic in Braga (January) and a robust growth of sales in pre-existing clinics have contributed to such high growth rates.
- During the last quarter of the previous year dentistry was introduced in Portugal, which also contributes to the growth in pre-existing clinics.
- The "stock" of contracted treatments still to be rendered has grown significantly.

<sup>2</sup> EBITDA calculated excluding the costs associated with the IPO.

<sup>3</sup> The comparable growth for clinics or *like for like* is calculated by excluding contracted treatments in the clinics that have not been opened in the two full fiscal years that are compared (full 2004 and full 2005). In this case, Toledo, Marbella and Algeciras (opened in 2004) and Cartagena and Sabadell (opened in the first half of 2005).

**Margins and results.** During the six-month period, the EBITDA margin for Spain and Portugal stayed relatively stable, with a slight gain when compared with previous year's margins (25.9% in 1H05 vs. 25.6% in 1H04).

- During 1H05 gross margin grew from 76.3% (1H04) to 78.2% (1H05), offsetting the increase in operating expenses, mainly due to higher advertising costs (which grow +17.1%, increasing their weight by 2 percentage points over sales).
- The EBITDA of Spain and Portugal grows by +7.9% up to €10,486 thousand.

### United Kingdom

United kingdom (Pro forma) Thousand €	1Q		Incr. %	2Q		Incr. %	1H		Incr. %
	2005 PF	2004 PF		2005 PF	2004 PF		2005 PF	2004 PF	
<b>Net Sales</b>	7,932	5,414	46.5%	10,839	6,382	69.8%	18,771	11,796	59.1%
<b>Gross margin</b>	6,525	4,558	43.2%	8,736	5,015	74.2%	15,261	9,573	59.4%
% of net sales	82.3%	84.2%		80.6%	78.6%		81.3%	81.2%	
<b>EBITDA</b>	1,710	580	194.8%	3,085	969	218.3%	4,795	1,549	209.5%
% of net sales	21.6%	10.7%		28.5%	15.2%		25.5%	13.1%	

**Sales in the United Kingdom have experienced outstanding growth (+59.1% pro forma), higher than expected, driven by the success in the positioning of the Company in the market in an environment of moderate recovery of ophthalmology in the UK.**

During the first half of 2005 pro forma net sales reached €18,771 thousand, compared with €11,796 thousand in the same period in 2004. The success in the positioning ourselves in the ophthalmology market has allowed both volume growth and higher average prices.

This strong increase in our business figures has produced significant improvement in EBITDA margins, reaching 25.5% in 1H05 vs.13.1% in 1H04, based on normal operational leverage of the Company and strict cost control.

The previous results include the costs incurred during the first half of 2005 for the introduction of aesthetic procedures amounting €602 thousand (rents, advertising and personnel costs).

### Italy

Italy Thousand €	1 Q		Incr. %	2 Q		Incr. %	1 H		Incr. %
	2005	2004		2005	2004		2005	2004	
<b>Net Sales</b>	630	363	73.6%	953	459	107.6%	1.583	822	92.6%
<b>Gross margin</b>	398	195	104.1%	637	274	132.1%	1.035	469	120.5%
% of net sales	63.2%	53.7%		66.8%	59.8%		65.4%	57.1%	
<b>EBITDA</b>	(2,127)	(1,815)	17.2%	(4,555)	(2,363)	92.7%	(6,682)	(4,178)	59.9%
% of net sales	- 337.6%	- 500.0%		- 478.1%	- 515.0%		- 422.2%	- 508.4%	

**Even though figures in Italy show very high growth rates, absolute figures are still not relevant. We launched our first TV spots to create brand awareness in 1Q05 and full**

**service launch will follow after the summer, so returns are not expected until later this year or early 2006.**

As refurbishment works<sup>4</sup> have been finalised during the months of July and August, the process of licensing of clinics has progressed further. At the moment of issuing of this report, 14 clinics are open offering medical services and 24 centres are open offering aesthetic services. The licensing process is at an advanced stage for most of the pending clinics so we remain optimistic about reaching our goal of offering medical services in 24 clinics and aesthetic services in all 27 centres by the end of 2005.

	Target 2005	In operation	Of them	
			Put into operation in 2005 <sup>5</sup>	Put into operation in 2003 and 2004
<b>Medical services</b>	24	14	10	4
<b>Aesthetic services</b>	27	23	10	13

During 1H05 advertising expenditure was reinforced and we started investing in TV ads, for a total investment of €3,487 thousand in the second quarter alone, of which €2,831 thousand were spent on TV advertising.

This first effort was directed to build brand awareness and as most of our clinics are operational, a massive commercial campaign follows, starting from the last week of August and lasting until year end. As you would expect, revenues should reflect the first significant advances in Italy during the last quarter of the year or early 2006.

The results in Italy have been EBITDA losses during 1H05 of €6,682 thousand as a result of the advertising, personnel, rents and general expenses, in line with management's expectations.

<sup>4</sup> In all the clinics and aesthetic clinics, except in Verona, where the works should be finished in October.

<sup>5</sup> Most clinics open in 2005 were opened between the months of April and August.

## 2. 1H05 consolidated results

### P&L account pro forma<sup>6</sup>

Pro forma Thousand €	1Q		Incr. %	2Q		Incr. %	1H		Incr. %
	2005	2004		2005	2004		2005	2004	
<b>Net Sales</b>	27,527	23,786	15.7%	33,277	26,803	24.2%	60,804	50,589	20.2%
<b>Gross margin</b>	21,725	18,579	16.9%	26,191	20,428	28.2%	47,916	39,007	22.8%
% of net sales	78.9%	78.1%		78.7%	76.2%		78.8%	77.1%	
<b>EBITDA</b>	4,367	3,199	36.5%	4,231	3,893	8.7%	8,598	7,092	21.2%
% of net sales	15.9%	13.4%		12.7%	14.5%		14.1%	14.0%	

Sales rose +20.2% in 1H05 in the businesses that Corporacion Dermoestética operates at the moment. In the second quarter growth was even higher due to the progressive pick-up in Spain and the United Kingdom. The improvement in gross margins applies to all the countries. EBITDA pro forma margins suffer in the second quarter the higher impact of Italy and stay stable for the overall six-month period, while the absolute EBITDA figure grows +21.2%

Excluding the impact from Italy, Corporacion Dermoestética's sales have grown +19.0% in the three markets in which our operations are already introduced (Spain, Portugal and the United Kingdom) and EBITDA reaches in them €15,281 thousand (+35.6%), growing the EBITDA margin to 25.8% in 1H05 vs. 22.6% in 1H04.

### Reported P&L Account

Corporación Dermoestética Thousand €	1H	Adjustments		1H (reported)		Incr. %
	2005 PF	Consolid. UL	"One-off"	2005	2004	
Net sales	60,804	(13,191)	(1,046)	46,567	38,792	20.0%
Purchases	(12,888)	2,432	0	(10,456)	(9,359)	11.7%
<b>GROSS MARGIN</b>	47,916	(10,758)	(1,046)	36,111	29,434	22.7%
Other operating expenses	(39,317)	7,149	(1,607)	(33,776)	(23,892)	41.4%
<b>EBITDA</b>	8,598	(3,610)	(2,653)	2,336	5,542	-57.9%
Depreciation	(4,252)	975		(3,277)	(2,687)	21.9%
<b>EBIT</b>	4,347	(2,635)	(2,653)	(941)	2,855	-133.0%
Financial results	(1,777)	1,294	(2,242)	(2,725)	185	-1575.5%
Corporate Tax	(1,335)	579	1,347	591	(1,356)	-143.6%
<b>NET INCOME</b>	1,235	(762)	(3,548)	(3,075)	1,684	-282.6%

<sup>6</sup> The P&L account pro forma takes into account as if Ultralase would have been part of the group from 1/1/2004 and does take into account the 'one-off' impacts listed in the next pages aiming to show how the business has performed under our present Group's structure. Both pro forma and reported P&L are reconciled in the next paragraphs.

The P&L pro forma account reconciles with the reported accounts if the following adjustments are taken into account:

- Consolidation of Ultralase only since May 13th. It means lower sales of €13,191 thousand, reduces EBITDA by €3,610 thousand and EBIT by €2,635 thousand if compared with pro forma statement.
- Impact of first consolidation of Ultralase (“backlog”) of €1,046 thousand of additional reduction in sales and results (EBITDA and EBIT). According to newly introduced IAS (IFRS 3.45), the existing orders for treatments (contracted treatments) at the time of the acquisition must be registered as an individualised asset for the purpose of calculating goodwill (i.e. reducing goodwill) and subsequently these revenues are written off from the Consolidated P&L at the time of first consolidation at group level<sup>7</sup>.
- ‘One-off’ impact of the costs associated to the IPO for a total amount of €3,849 thousand. The IPO took place on the 13th of July (i.e. in the second half of the year), but the company has chosen to account for 100% of the costs associated with the public offering in the results of the first half of the year.

By nature they can be split into two categories: €1,607 thousand accounted for as operating costs (professional services -lawyers, auditors-, administrative costs, cost of documentation and specific advertising for the IPO) and €2,242 thousand accounted for as financial costs, resulting from the repurchase of previously existing options with rights over shares, which were executed prior to the offer. At present the only securities holding equity rights are the listed shares.

Costs associated with the IPO have been higher than expected mainly as a result of the complexity of the operation (generation of reports under IAS and Spanish GAAP, prospectus under the new European directive and pro forma statements).

Depreciation is in line with expectations for the full year. In the first half of the year, depreciation amounted to €4,252 thousand (pro forma) and €3,277 thousand (reported).

Financial expenses have increased significantly. In addition to the one-off effect described above, because of two additional effects:

- €1,231 thousand (pro forma) of interest costs incurred by the Company on behalf of clients in the UK, which translate into €406 thousand in the reported accounts.
- €142 thousand of interest from the increase in our debt position as a result of the acquisition of Ultralase (€516 thousand on a pro forma basis)

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<sup>7</sup> Considering this point and the previous one, the contribution of the businesses in the United Kingdom in EBITDA terms has been almost nil (€139 thousand) in the reported P&L account.

### 3. Consolidated balance sheet, investments and financing

#### Consolidated balance sheet

#### BALANCE SHEET

Thousand €

	Jun-05	%	Jun-04	%	Difference 05/04	Dec-2004
<b>ASSETS</b>						
<b>Fixed assets</b>						
Property, plant and equipment	42,818	34%	22,094	35%	20,724	26,895
Intangible assets						
Goodwill	37,374	29%	718	1%	36,656	779
Other intangible assets	279	0%	145	0%	134	172
Others	<u>7,800</u>	6%	<u>2,604</u>	4%	<u>5,196</u>	<u>5,374</u>
	88,271	69%	25,561	40%	62,710	33,220
<b>Current assets</b>						
Cash and equivalents	28,600	22%	34,270	54%	(5,670)	29,199
Debtors	3,012	2%	1,353	2%	1,659	3,475
Inventory	2,624	2%	1,276	2%	1,348	1,839
Others	<u>4,830</u>	4%	<u>1,355</u>	2%	<u>3,475</u>	<u>109</u>
	39,066	31%	38,254	60%	812	34,622
<b>Total assets</b>	<b>127,337</b>	<b>100%</b>	<b>63,815</b>	<b>100%</b>	<b>63,522</b>	<b>67,842</b>
<b>LIABILITIES</b>						
<b>Shareholders' Equity</b>						
Paid-in Capital	3,989	3%	539	1%	3,450	539
Reserves	12,464	10%	12,401	19%	63	12,401
Retained Earnings	<u>9,511</u>	7%	<u>15,248</u>	24%	<u>(5,737)</u>	<u>16,036</u>
	25,964	20%	28,188	44%	(2,224)	28,976
<b>Long Term Liabilities</b>						
Debts with credit institutions	40,257	32%	5,741	9%	34,516	3,307
Liabilities from deferred taxes	7,421	6%	2,665	4%	4,756	5,500
Provisions	2,064	2%	1,295	2%	769	2,103
Other long term liabilities	<u>5,413</u>	4%	<u>695</u>	1%	<u>4,718</u>	<u>760</u>
	55,155	43%	10,396	16%	44,759	11,670
<b>Short term Liabilities</b>						
Debts with credit institutions	3,747	3%	382	1%	3,365	2,979
Commercial creditors	31,147	24%	22,399	35%	8,748	21,471
Other short term liabilities	<u>11,324</u>	9%	<u>2,450</u>	4%	<u>8,874</u>	<u>2,746</u>
	46,218	36%	25,231	40%	20,987	27,196
<b>Total Liabilities</b>	<b>127,337</b>	<b>100%</b>	<b>63,815</b>	<b>100%</b>	<b>63,522</b>	<b>67,842</b>

## Investments

Investments <i>Thousand €</i>	1Q		Incr. %	2Q		Incr. %	1H		Incr. %
	2005	2004		2005	2004		2005	2004	
<b>Clinic Openings</b>	<b>5,717</b>	<b>931</b>	<b>514.1%</b>	<b>1,730</b>	<b>2,269</b>	<b>-23.8%</b>	<b>7,447</b>	<b>3,200</b>	<b>132.7%</b>
Spain + Portugal	1,230	830	48.2%	620	1,617	-61.7%	1,850	2,447	-24.4%
United kingdom	313	0	-	0	0	-	313	0	-
Italy	4,174	101	4032.7%	1,110	652	70.2%	5,284	753	601.7%
<b>Maintenance</b>	<b>335</b>	<b>1,654</b>	<b>-79.7%</b>	<b>303</b>	<b>1,903</b>	<b>-84.1%</b>	<b>638</b>	<b>3,557</b>	<b>-82.1%</b>
Ordinary	18	107	-82.9%	91	92	-1.4%	109	199	-45.2%
Transfers of existing clinics <sup>8</sup>	317	1,547	-79.5%	212	1,811	-88.3%	529	3,358	-84.2%
<b>TOTAL</b>	<b>6,052</b>	<b>2,585</b>	<b>134.1%</b>	<b>2,033</b>	<b>4,172</b>	<b>-51.3%</b>	<b>8,085</b>	<b>6,757</b>	<b>19.7%</b>

### Spain and Portugal

- In Spain investments have been made for 7 new clinic openings, as projected, four of which are already completed – Cartagena (January), Sabadell (February), Alcorcón (July) and Jerez (July) – and one is awaiting license to operate (Santiago de Compostela). Work is in progress in Orense and Logroño, which will very likely be opened before the end of the year. We are also already working in refurbishing Gijón, which is not expected to open until 2006.
- Investments in Portugal include the works in the three new clinics, one of which is already open – Braga (January) – and the other two are awaiting their licenses – Aveiro and Coimbra – .
- In addition, in the first half of the fiscal year, investments were made for transferring existing clinics to new facilities amounting to the sum of €529 thousand. The most significant investments corresponded to the transfer of our clinics in Barcelona (€137 thousand in the period,) and Almeria (€269 thousand) thus concluding the program for the transfer of clinics executed in Spain in the last few years. During 2005 there are no further transfers of clinics programmed.

### United Kingdom

- Openings. During the first half of the year we opened the Hammersmith clinic (London) with an investment of €313 thousand.
- Extensions. In the second half of the year the enlargement of the Leeds clinic is anticipated and the adaptation of the existing clinics to perform medical aesthetic treatments.

### Italy

- During the six-month period a total of €5,284 thousand has been invested in the works for opening new clinics. After finishing the works of all the network of clinics in Italy during this quarter (except Verona), we predict that investment figures will drop significantly in the next quarters.

<sup>8</sup> As 'Maintenance investments' we register investments on IT systems and equipment that are detailed as "Ordinary maintenance", as well as the cost of building new clinics that replace other pre-existing ones ('Transfer of clinics'). The expenses of maintenance and small repairs of the clinics that remain open are accounted for as operating expenses.

According to the agreements signed in the acquisition of Ultralase (value of the acquisition €42,240 thousand), during the second quarter we have paid a total of €33,000 thousand and we will make an additional payment of €5,146 thousand during the third quarter<sup>9</sup>.

## Financial Position

Financial position	Jun-05	Jun-04	2004
<i>Thousand €</i>			
Long Term Debt with credit institutions	40,257	5,741	3,307
Short Term Debt with credit institutions	3,747	382	2,979
Long Term Debts with old shareholders of Ultralase	4,155	0	0
Short term Debts with old shareholders of Ultralase	5,146	0	0
Other financial liabilities (short term)	2,242	26	26
<b>Gross Financial indebtedness</b>	<b>55,547</b>	<b>6,149</b>	<b>6,312</b>
Cash and equivalent	(28,600)	(34,270)	(29,200)
<b>Net Financial indebtedness</b>	<b>26,947</b>	<b>(28,121)</b>	<b>(22,888)</b>

As the general policy of the Group, we expect to continue self-finance our international expansion and to repay existing debt (mostly long term debt) with the resources generated by its ordinary activities.

<sup>9</sup> After these payments, only the loan notes will remain as outstanding payments to former shareholders also working in the Company, which had at the time of acquisition an estimated value of €4,155 thousand, payable in 2008 and 2009, and linked to the results of 2007 & 2008. This figure might differ from the one announced in the prospectus due to exchange rate changes.