

**SAPEC**

SECTOR CHEMICALS (AGRO-INDUSTRIAL)

ACCUMULATE

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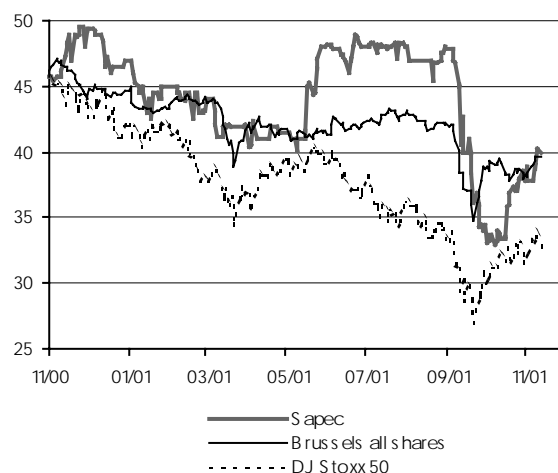
PRICE : EUR 38.75

Financial data	
Market Capitalization [m]	53.48
Nb of shares	
- Outstanding	1,380,000
- Fully diluted	1,380,000
- Bought-back	17,000
Free Float	26.4%
Average Daily Volume [-1Y]	469 shares

Price Performance	-1 M	-3 M	-12 M
Saptec	16.0%	-17.6%	-16.1%
Brussels all shares	1.4%	-6.4%	-15.0%
Dj Stoxx 50	2.1%	-4.2%	-25.6%

Key figures	1999	2000	2001*	2002*	2003*
EPS	3.91	2.47	2.42	2.56	3.86
CFPS	8.32	6.19	5.47	5.57	7.19
Gross DPS	1.41	1.54	1.59	1.65	1.75
EBIT per share	7.64	6.30	5.67	6.42	8.26
EBITDA per share	12.20	10.19	8.75	9.42	11.59
P/E	12.1	18.0	16.0	15.1	10.0
P/CF	5.7	7.2	7.1	7.0	5.4
Dividend yield	3.0%	3.5%	4.1%	4.3%	4.5%
EV/Sales	0.3	0.3	0.4	0.4	0.3
EV/EBIT	12.0	15.5	15.1	12.3	9.8
EV/EBITDA	7.5	9.6	9.8	8.3	7.0

\*estimates



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- > Recent years have seen major changes in Sapec's portfolio of activities. For this reason it seemed to us appropriate to take a closer look at the group's activity and its medium-term prospects.
- > It has to be stated that, despite very clear progress, group profitability remains fairly low owing to an inadequate financial structure, due in turn to the still very heavy overweighting of non-operational fixed assets and a very large cash position.
- > Despite all this, the share is still undervalued. For the investor prepared to wait, it even represents a fairly significant appreciation potential once its financial structure becomes more balanced.
- > The flow-based valuation models (DCF/EVA™) set Sapec's theoretical value at EUR 60 per share. Even applying a 25% illiquidity discount, there is still room for the price to rise by some 15%.

**FINANCIAL CALENDAR**

End march, 2002  
June 18, 2002

Press released : 2001 results  
General shareholders'meeting

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## EXECUTIVE SUMMARY

### **From pyrite mines to an investment holding structure**

Although listed on the Brussels Stock Exchange, Sapec's vocation has always been to invest on the Iberian peninsula. The company was originally founded (in 1926) in order to operate a pyrite mine in Portugal. Subsequently, it gradually integrated vertically into the production and marketing of a wide range of agricultural products and diversified geographically into Spain by acquiring the Tharsis mines.

During the 1980s, with Portugal and Spain's entry into the European Union and the concomitant opening of frontiers, intensification of competition and market deregulation, Sapec found itself confronted with the need to restructure its old industrial installations which were ill-equipped to confront international competition. This process led at the end of 1999 to the group finally quitting its heavy manufacturing activities (sale of the fertiliser division in December 1999).

During the 1980s and 1990s, the group therefore underwent a radical transformation. From being originally a purely industrial company, it presents itself today as an investment holding company with five different basic activities: agrochemicals, chemicals distribution, trading, logistics and energy.

### **Two major strategic axes**

The group's structure can appear fairly complex, given the large number of professions exercised within it and the constant evolution of its activities. Its strategy can for this reason be perceived as being somewhat opaque.

In fact, it develops around two axes.

- On the one hand, Sapec is seeking to increase the critical mass of its traditional activities on its natural market (the Iberian peninsula) in order to improve their profitability. It is in this context that one should see the developments in Spain in the agrochemicals branch, the investments in Interpec Sur (trading branch) and, more recently, the Citri project (chemicals distribution division).
- At the same time the group is looking to develop its portfolio, as and when opportunities arise, towards industrial activities or services that are less cyclical or which create greater added value. This explains the group's presence during the 1990s in the data processing sector (now completely sold), the development, again in the 1990s, of a chemicals distribution activity in Portugal and its presence and its recent developments in managing hydroelectric mini-power stations in Spain.

### **Track record**

During recent years, the group's low current profitability has been one of the major obstacles to any upward movement of its market price.

This weakness is largely due to the group's financial structure which, in our opinion, is badly balanced (see detailed analysis in item 1.4 below). This is mainly because a substantial portion of the funds employed (and in particular equity) is tied up in non-operating fixed assets which, although representing a significant reservoir of potential capital gains, have for years weighed heavily (and will continue to do so for the immediate future) on the group's overall profitability. Certainly, efforts have been made to shed this inheritance from the past, however, the group still has to go some way before regaining a more normal level of profitability.

Another challenge confronting the group is the need to constantly find new investment opportunities. The recent sales (of real estate and activities) have generated large amounts of cash which now needs to be reinvested. The difficulties encountered with AdP in 1999 and the recent precipitous exit from the port terminal management consortia in Portugal have demonstrated that this is not always easy (even if it has to be recognised that these have not negatively impacted the group).

In our view, this constitutes the double challenge facing Sapec management in the months and years ahead. We would add a third and, in our opinion, equally decisive one: its external communication policy.

Even if it has made efforts in recent years, Sapec remains virtually unknown on the listed companies market (how many Belgian private investors or investment clubs know it?). And where its name is well known (on the markets on which it operates), how many investors know that it is quoted? This is a serious shortcoming because, given its low capitalisation and liquidity, it is precisely among private investors that it has the best chance of arousing interest.

The points above point to a very clear undervaluation of Sapec's stock market price. The most relevant valuation methods value Sapec's assets at EUR 60 a share. Given the poor liquidity, we consider it right to apply to this theoretical value an illiquidity discount of 25%. This leaves room for the stock price to appreciate by some 15%.

## 1.0. VALUATION AND INVESTMENT OPINION

Three methods have been used in determining the value of the Sapec group:

- a valuation based on the intrinsic value
- a valuation using the discounted free cash flow method
- a valuation using the economic profit or EVA™ method.

### 1.1. Calculation of the intrinsic value

Break-up value	Value (EUR m)	Group share	Group share (EUR m)	Method of valuation
Agrochemicals	51.92	100.0%	51.92	EVA™
Chemicals distribution	12.89	87.7%	11.30	EVA™
Agrofeedstuffs	15.70	97.1%	15.24	EVA™
Logistics	12.74	100.0%	12.74	EVA™
Energy/Tharsis	27.01	66.9%	18.07	EVA™ / net asset value
Real estate	15.96	100.0%	15.96	net asset value
<b>Total Assets</b>	<b>136.22</b>		<b>125.23</b>	
<b>Structural costs</b>	-29.08	100.0%	<b>-29.08</b>	Present value of perpetuity with CPI = 2.0%
<b>Financial debt (residual)</b>	0.00	100.0%	<b>0.00</b>	Sapec SA
<b>Total net value</b>			<b>96.16</b>	
Nb of shares			1,380,000	
<b>Net value per share</b>			<b>69.68</b>	

- With the exception of the real estate portfolio (valued at book) and the Tharsis subsidiary (valued at intrinsic value), we have opted to value Sapec's participating interests using the economic profit model, better known under the name of EVA™. To do this, five year business plans were drawn up.
- The risk-free rate and the risk premium used are a 20 year Belgian rate (5.22%) and the risk premium (estimated at 4.268) of the Brussels market at 31.10.2001. An average beta of 1.20 has been applied. The discount factor (WACC) has been adjusted in every case to reflect the debt structure of each division or subsidiary and its evolution over time. These detailed valuations are found at the end of each section, describing the activities and the expected results for the next five years.
- For the real estate portfolio, we have adopted a prudent approach, taking as our basis the book value of the land and buildings which are considered as non-strategic and likely to be divested over the coming years. From this value we have deducted the residual debts attached to this property. The net book value of Sapec's real estate portfolio is estimated at EUR 15.96 m (or EUR 11.57 per share).
- We have valued Tharsis at its intrinsic value. Its real estate portfolio has similarly been valued at its book value net of debts. It represents a value of EUR 4.34 m. With Sapec holding 66.8% of Tharsis, this means that the entire portfolio of non-strategic real estate represents for Sapec an amount of EUR 18.86 m or EUR 13.67 per share, or 35% of its stock

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market price and 21% of its book value per share. The hydroelectric mini-station activity has also been valued by the EVA™ approach. We should point out that a lack of sufficient financial data has prevented us from evaluating the impact on Tharsis's value of its two recent participations in new hydroelectric generating stations in Spain. For this reason, Tharsis's cash position (EUR 16.98 m at 20 June 2001) is maintained unchanged.

- The structural costs represent the carrying costs of the various group participations. These consist essentially of salaries and other miscellaneous costs. In order to make them compatible with the approach used for valuing the assets, we have indexed them and discounted them to their net present value using the required rate of return as our discount rate. A tax correction has also been carried out in order to reflect the fact that these structural costs are passed on to the subsidiaries via management fees, with the effect of reducing the subsidiaries' taxable base. Projections for subsidiaries and divisions have also been corrected to reflect this. The fact of taking the structural costs into account in this way means that no holding discount needs to be applied to the intrinsic value.

Based on this method, the theoretical value of the Sapec group is estimated at EUR 96.16 m or EUR 69.68 per share.

### 1.2. Valuation by the discounted free cash flow method

DCF model	2001	2002	2003	2004	2005
- Market risk free	5.22%				
- Market risk premium	4.27%				
- Long terms growth	1.00%				
- Beta (levered)	1.20	1.18	1.20	1.18	1.17
- WACC	6.38%	6.65%	6.63%	6.79%	6.94%
NOPLAT	6.57	7.21	9.11	11.17	11.71
+ depreciation	5.46	5.20	5.47	5.59	6.40
- Investment	-13.62	-2.32	-11.00	-3.89	-6.38
-investment in working capital	2.34	4.05	-3.25	-1.66	-1.01
<b>= free cash Flow</b>	<b>0.74</b>	<b>14.13</b>	<b>0.33</b>	<b>11.22</b>	<b>10.73</b>
Discount factor	0.99	0.93	0.87	0.81	0.76
Present value of free cash flow	0.74	13.11	0.29	9.11	8.11
Cumulative present value of free cash flow	31.36				
+ present value of terminal value	137.77				
<b>=Entreprise value</b>	<b>169.13</b>				
- Value of debt	-81.98				
- Provisions	-5.58				
- Minorities	-5.97				
+ Value of peripheral assets	7.95				
<b>= Theoretical value of equity</b>	<b>83.56</b>				
<b>Idem per share</b>	<b>60.55</b>				

The DCF valuation places a theoretical value of EUR 83.56 m or EUR 60.55 per share on the shareholders' equity. The long-term growth rate of 1% was applied in calculating the terminal value.

### 1.3. Valuation by the economic profit or EVA™ model.

Economic profit model	2001	2002	2003	2004	2005	
- Market risk free	5.22%					
- Market risk premium	4.27%					
- Long terms growth	1.00%					
- Beta (levered)		1.20	1.18	1.20	1.18	1.17
RoIC	3.6%	4.0%	5.3%	6.2%	6.6%	
WACC	6.4%	6.6%	6.6%	6.8%	6.9%	
Spread	-2.8%	-2.6%	-1.3%	-0.5%	-0.4%	
Invested capital (at year start)	182.16	178.34	170.71	178.78	178.02	
Economic profit	-5.06	-4.65	-2.21	-0.97	-0.65	
NOPLAT	6.57	7.21	9.11	11.17	11.71	
Capital charges	-11.63	-11.85	-11.32	-12.13	-12.36	
Economic profit	-5.06	-4.65	-2.21	-0.97	-0.65	
Discount factor	0.99	0.93	0.87	0.81	0.76	
Actualized economic profit	-5.01	-4.31	-1.92	-0.79	-0.49	
Cumulative PV of economic profit	-12.52					
+ Present value of terminal value	-6.05					
+ Capital invested	182.16					
<b>= Value of operations</b>	<b>163.59</b>					
- Value of debt	-81.98					
- Minorities	-5.97					
+ Value of peripheral assets	7.95					
<b>= Theoretical value of equity</b>	<b>83.59</b>					
<b>Idem per share</b>	<b>60.57</b>					

The EVA™ valuation places a theoretical value of EUR 83.59 m or EUR 60.57 per share on the shareholders' equity. Here too, a long-term growth rate of 1% was applied in calculating the terminal value.

### 1.4. Comments on the results obtained

The intrinsic value approach gives a higher theoretical value compared with the results obtained by flow discounting methods. This is not really surprising, since in a flow-based approach the real estate portfolio adds nothing to the theoretical value obtained. On the contrary, it generates average carrying costs of around EUR 0.45 m.

The two latter methods produce very similar values. Here too we should not be surprised, as these two methods are no more than a variation on the same theme. On the other hand, they throw a different light on the company's earning power.

An analysis of the economic profit table leads us to the following conclusions:

Globally, the real estate activity contributed nothing to the value of the enterprise. On the other hand it destroys value over the coming years in a total amount of EUR 26.66 m (see below).

This is due either to an insufficient return on the activities carried out compared with the average cost of invested funds, or a badly balanced balance sheet structure, or a combination of the two.

Our own opinion is that the last hypothesis is the correct one.

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With the possible exception of the logistics branch, the entire core business activities generate, recurrently, sufficient profit to at least cover the cost of invested funds (see below). On the contrary, a far from negligible part of the funds employed are invested in non-operating real estate which does not generate any return, but on the contrary creates carrying costs.

The gross book value of this real estate represents an amount of EUR 22.05 m (of which EUR 4.34 m in the fully consolidated Tharsis subsidiary). The amount is 92.0% financed by equity and 8.0% by debt. With an average cost of equity of 10.33% and the net cost of debt of 3.393%, the average cost of the funds tied up in real estate is therefore 9.78%.

A rapid calculation shows us that the capital cost is therefore EUR 2.16 m ( $22.05 \times 9.78\%$ ). To this must be added the carrying costs of EUR 0.45 m (see above), giving an annual economic loss of EUR 2.61 m and an economic loss in perpetuity of EUR 26.66 m ( $\text{EUR } 2.61/9.78\%$ ). This amount represents the negative impact of holding real estate on the value of the enterprise, viz. 31% of the value of the enterprise.

The same type of exercise can be carried out for the balance sheet structure. In fact, it would appear to us that the company is much too heavily invested in cash (EUR 28 m in 2000) and very likely even more in 2001 following the sales carried out this year. This amount is excessive when compared to usual standards (2 to 3% of turnover). Taking a ratio of 2.5%, this represents a cash excess of some EUR 18 m. The fact is that this cash brings in only  $\pm 3\%$  gross a year (1.95% net of tax). Applying the same calculation to the real estate, we arrive at an economic loss of EUR 1.41 m or EUR 14.41 m to perpetuity.

Sappec's management is fully aware of these weaknesses, which represent the inheritance of the past, and which it took a certain number of measures a few years ago in order to correct. Within the space of 5 years a vast programme of selling off non-productive real estate has been undertaken. The book value of these assets has been reduced by almost one third, generating a cumulative capital gain of almost EUR 7.5 m. Management intends to pursue this sales programme in the coming years.

In our view this is the main challenge facing management in the coming years. However, it is not the only one. The fact is that selling assets is not enough in order to create value for the shareholder. It is also necessary that the proceeds from these sales be reinvested in activities and/or assets which earn at least the cost of the invested capital.

### **1.5. Investment opinion.**

Independently of these considerations, at a market price of EUR 38.75, the company looks clearly undervalued.

The most relevant valuation methods, in our opinion and in line with the comments made above, are the discounted flow methods. These value the net assets at EUR 60 per share.

Even if one considers a discount of 25% on this value to be justified, given the company's size and its low liquidity, this leaves a price appreciation potential of around 15%.

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## 2. THE AGROCHEMICALS DIVISION

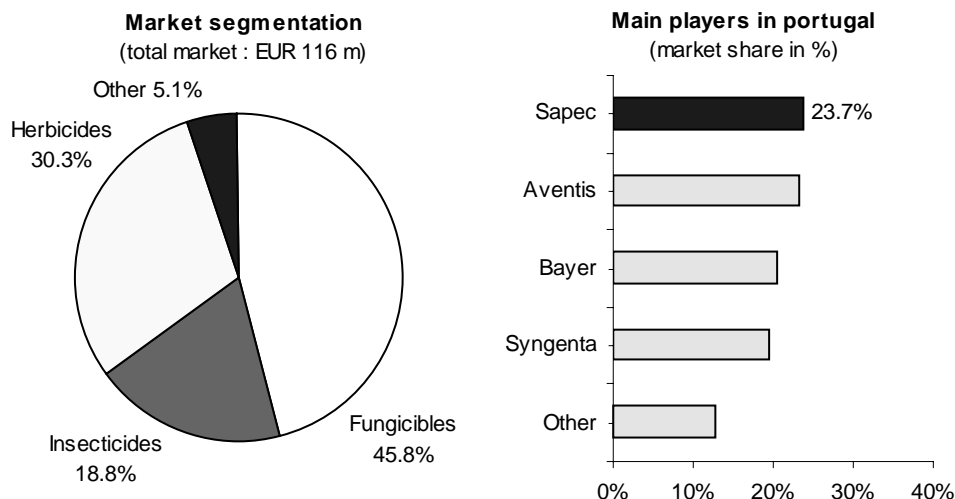
Sapec's plants formulate, pack and distribute crop protection products. In this segment, Sapec produces specialty products, under representation contracts, from active materials developed by major multinationals (Maktheshim Agan, BASF, DuPont, etc.). At the same time it also produces generic products under its own brand name from simple raw materials. Globally, generics represent 60% and specialties 40% of Sapec's crop protection turnover. Sapec offers a wide range of herbicides, insecticides and fungicides. Following a recent acquisition in Spain (Tradecorp), it is also present in the bio and oligo elements segment.

In this area of activity, Sapec operates on the Portuguese market. Over the past three years, it has become increasingly active in Spain, which is now the division's main geographic growth zone.

### 2.1. Portuguese market

The Portuguese market for crop protection products is a relatively limited one. With a turnover of EUR 116 m (in 2000), it makes up 1.6% of the Western European and 0.4% of the world market.

A specific feature of this market, in terms of product segmentation, is that a lion's share of turnover is in fungicides (market share of 45.8% -vs- 18% on the world market), to the detriment of herbicides (30% -vs- 47% on the world market) and insecticides (19% -vs- 29%). This divergence is linked to the relative importance of wine-growing in Portugal.

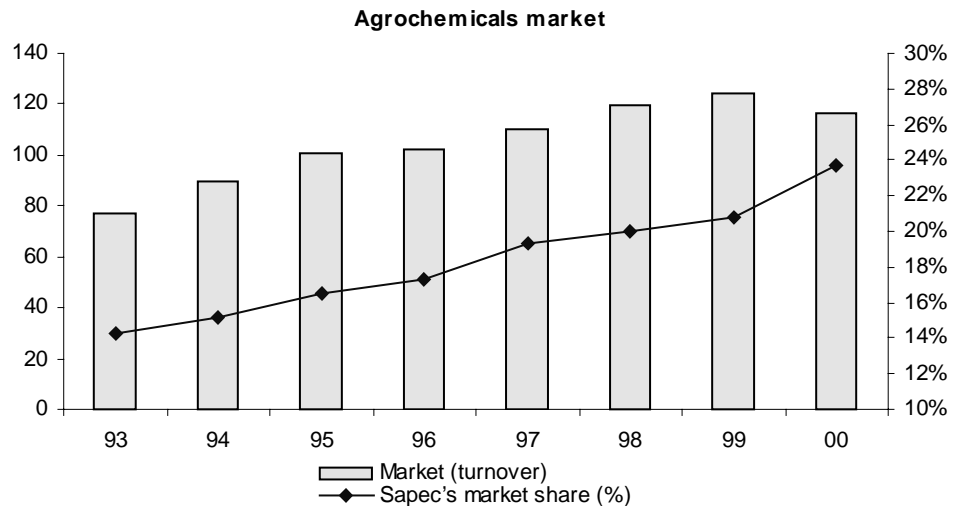


The market is already highly concentrated, with the five largest producers controlling almost 90% of sales. On it we find the major European producers. BASF is present via Sapec, which holds an exclusivity contract on BASF products for Portugal.

With almost 24% of the market, Sapec Agro in 2000 ranked number one on its domestic market. Following its purchase of Aventis's crop protection activities, Bayer should in future be the main producer on the Portuguese market with a share of almost 45%.

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In this highly competitive context, in a market which is seeing an ever greater specialisation towards specific markets and a growing banalisation of generic products, Sapec has succeeded in increasing its positions without overly sacrificing its margins.



Between 1993 and 2000, the group reported an average turnover growth of 14%, which is 8% above its market. Sapec Agro has had to adapt to the changes in its domestic market, by boosting its presence in niches and increasing its overall turnover. This is the price it has paid for maintaining the profitability of this activity, offsetting the fall in gross margins in this sector with volume increases.

As this market becomes more and more compartmentalised, Sapec Agro is going to find it increasingly difficult to increase its market share. Despite this, market niches currently held by small-scale players are still there for the taking. During 2000, Sapec Agro created a new subsidiary, Selectis, to attack these niches with its own separate marketing network and product catalogue. The initial results are pretty encouraging. It is important to point out that this was achieved without cannibalising Sapec Agro, which raised its own market share to 27.7%.

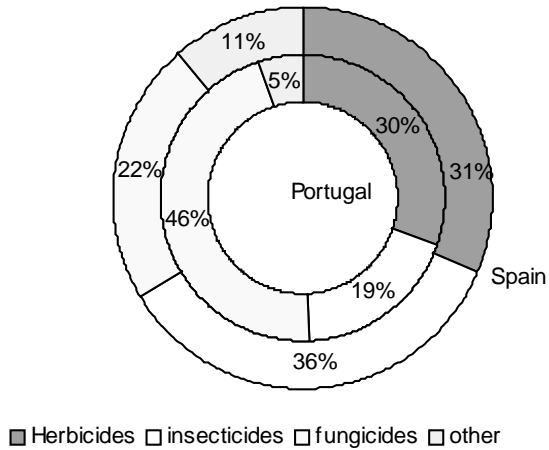
### 2.2. Spanish market

With a turnover of EUR 656 m in 2000, the Spanish crop protection market is 5.5 times the size of the Portuguese one.

It terms of product segmentation, it is also better balanced than Portugal, with fungicides representing just 22% of sales, compared with herbicides (31%) and insecticides (35%). Sapec's presence on this market is enabling it to reduce its exposure to wine-growing, which represented almost 40% of its sales before its expansion into Spain.

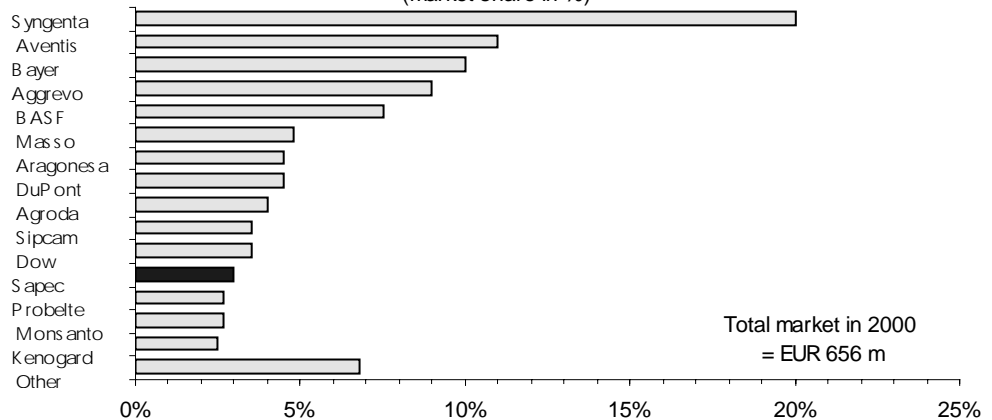
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**Markets breakdown by category**



The Spanish market is also much less concentrated, with the five largest producers controlling only 50% of the market.

**Main players in Spain**  
(market share in %)



At the end of 1998, Sapec put together its first basic marketing team to penetrate the Spanish market, where it was already marginally present in the frontier regions with Portugal. However, effective development required it to acquire a local operator, which already had a whole portfolio of products. Penetration from Portugal would also have been too time-consuming, given the need to seek product homologation from the local authorities.

An initial step was taken in mid-1999 when Sapec acquired Agrides (renamed Sapec Agro Reus), giving it a portfolio of directly marketable products and a market share of the order of one percent.

### **2.3. Tradecorp : a diversification into the promising oligo-elements markets**

In August 2000, Sapec took a second important step by acquiring the Tradecorp group.

Tradecorp specialises in distributing crop protection products and in manufacturing and distributing oligo-elements. These are special fertilisers like humic acids, solid and liquid chelates of EDTA and EDDHA, amino-acids and salinity correctors. Unlike traditional fertilisers (nitrogen, phosphate, potassium, sulphur, calcium and sodium), oligo-elements are specialty products which command high margins and offer strong growth (6-8% a year on average as against 1-2% for traditional fertilisers). The products are applied mainly in high value added crop farming such as vegetable, fruit, wine and flower growing. This type of crop is advancing fast in the Mediterranean basin, in particular in Spain which is now the world's second largest market.

Tradecorp has two production centres, one of which specialises in the synthesis and production of chelated oligo-elements.

Chelates are chemical molecules which protect metallic ions (oligo-elements) so as to keep these available to plants even in adverse soil acidity (pH) conditions. Tradecorp synthesises the EDDHA chelates using an internally developed process (capacity = 300 tpa). These are then used for producing iron-EDDHA (Fe) chelates. These offer resistance to pH levels in excess of 9-10, making them suitable for chalky soils. The EDTA chelates are purchased from the chemicals majors (BASF, Dow) and are attached to the metallic ions (zinc, magnesium, calcium, etc.) by simple chemical reaction.

Along with chelates come a range of special products obtained by formulation or mixing, including humic acids, which improve the physical, chemical and biological features of the soil, amino-acids of vegetal origin used to correct saline soils, amino-acids to promote plant rooting, etc.

For Sapec, Tradecorp is attractive in several respects.

- In the crop protection products sector, this acquisition rounds off the existing portfolio, in terms of products and network (as with pharmaceuticals, crop protection products requires the prior approval of the public authorities before they can be placed on the market). It can now obtain a critical mass (scale economy) faster than if it had had to develop this market share from existing activities.
- At the same time, Tradecorp will help cushion the impact on profits of the increasing banalisation of its basic crop protection products.
- Finally, Tradecorp gives it know-how and a specific technology in the chemical synthesis of micro-nutritional agents, an area which offers strong growth in coming years.

## 2.4. Recent performance and projections

The agrochemical division has evolved very positively over the past three years, driven by its deployment in Spain. The progress was particularly significant in 2000 with the first full year consolidation of Agrides (Sapec Agro Reus), acquired in August 1999 and of Tradecorp, included for five months. In Portugal, growth was weaker against a background of increased competition, even if Sapec Agro succeeded in further increasing its market share.

The narrowing of the EBIT and net margins in 2000 is due essentially to higher goodwill amortisation (to the tune of EUR 0.47 m) and increased financial charges linked to the Tradecorp acquisition.

Contribution to the consolidated result (EUR m)	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
Turnover	23.25	42.41	49.17	53.08	60.06	66.97	74.30
% change	14.9%	82.4%	15.9%	8.0%	13.2%	11.5%	10.9%
- Portugal	21.79	22.41	26.55	27.03	28.30	29.22	29.56
% change	8.0%	2.8%	18.5%	1.8%	4.7%	3.3%	1.2%
- Spain	1.46	20.00	22.62	26.05	31.76	37.74	44.73
% change	nr	nr	13.1%	15.2%	21.9%	18.8%	18.5%
Operating profit	2.80	4.59	5.21	5.96	7.47	8.93	9.20
Margin	12.0%	10.8%	10.6%	11.2%	12.4%	13.3%	12.4%
Net current results	1.34	1.88	2.18	2.50	3.57	4.93	5.54
Margin	5.8%	4.4%	4.4%	4.7%	5.9%	7.4%	7.5%
Net current cash flow	1.93	4.09	4.52	5.06	6.37	7.83	8.17
Margin	8.3%	9.6%	9.2%	9.5%	10.6%	11.7%	11.0%

This trend continued during the first half of 2001. The division's turnover is up 30% to EUR 34.43 m, essentially owing the full year's consolidation of Tradecorp and Selectis. On the other hand, EBIT rose much less sharply to EUR 3.85 m from EUR 3.64 m in 1H 2000 (+ 5.8%). Margins have narrowed noticeably (EBIT margin down to 11.8% from 14% in 1H2000) on the Portuguese market. This margin pressure in Portugal is due to increased competitive fighting by Aventis which is seeking to hive off its crop protection business.

Whilst theoretically this phenomenon ought to be seen as temporary, the fact remains that, given the seasonal nature of sales, it will be very difficult to recover the margins lost in the first half. For this reason we have opted for a cautious scenario in projecting second half earnings for the Portuguese portion of sales.

For 2002, we have again opted for a prudent scenario. Even if the crop protection activity is relatively insensitive to economic cycles, it is not at all certain that Sapec Agro will be able to return one day to the margin levels achieved in 1999-2000. The fact is that Sapec Agro is confronted for the first time, on its home market, with a competitor having a much larger market share. There is nothing to say that Bayer will not continue, or indeed intensify, the competitive battle which Aventis has begun. Given this uncertainty, we have assumed that margins will not return to 1999-2000 levels in the years to come (average gross margin of 27.4% for 2002-2005, compared with a gross margin of 29.9% in 1999-2000). In terms of volume, given the success of the Selectis project, we have forecast average growth of 2.7% for 2002-2005.

For the Spanish market, most of the expected growth lies in the integration and commercial expansion of Tradecorp. At the internal level, the integration of the group's Spanish companies

was completed last May. The synergies in terms of the marketing networks have still to be effective. On export markets, which represented  $\pm 25\%$  of Tradecorp sales in 2000, the development of Tradecorp's international network, currently under way, should enable sales to rise substantially. Between now and the end of 2006, the group intends to increase its sales force outside the Iberian peninsular from 4 persons in 2000 to 45 in 2006. This should be facilitated by the lesser compartmentalisation of oligo-element markets, compared with crop protection markets, and by the considerably shorter registration procedures for molecules (around six months as against 12 for crop protection products).

## 2.5. Valuation of the agrochemicals division

Economic profit model	2001	2002	2003	2004	2005
- Market risk free	5.22%				
- Market risk premium	4.27%				
- Long terms growth	1.00%				
- Beta (levered)	1.10	1.07	1.03	0.95	0.87
RoIC	8.9%	9.2%	12.0%	15.1%	16.6%
WACC	5.1%	5.5%	6.2%	7.0%	7.7%
Spread	3.7%	3.7%	5.8%	8.2%	8.9%
Invested capital (at year start)	37.25	41.01	40.63	38.98	37.17
Economic profit	1.39	1.52	2.35	3.18	3.30
NOPLAT	3.30	3.79	4.86	5.89	6.16
Capital charges	-1.91	-2.26	-2.50	-2.71	-2.86
Economic profit	1.39	1.52	2.35	3.18	3.30
Discount factor	0.99	0.94	0.88	0.81	0.73
Actualized economic profit	1.37	1.43	2.07	2.57	2.43
Cumulative PV of economic profit	9.87				
+ Present value of terminal value	32.90				
+ Capital invested	37.25				
<b>= Value of operations</b>	<b>80.02</b>				
- Value of debt	-28.10				
<b>= Theoretical value of equity</b>	<b>51.92</b>				

### **3. THE CHEMICALS DIVISION**

This is a relatively recent activity, with Sapec beginning to distribute industrial chemicals only in the early 1990s. This activity has expanded steadily, in particular as Sapec has bought up small distributors, allowing to expand its product range and to cover the entire Portuguese market. In 1997, the group extended its range to include solvents (glycol ethylene, acetone, etc). In this context it built a 16-tank terminal, which has been operational since the second half of 1997. In September 1998 it extended its solvent marketing activity by taking an 82.5% capital stake in Proquisol (now fully owned), which also operates in Portugal.

#### **3.1. Strategy to date**

Sapec's strategy in this activity has been to develop added value in the logistics and packaging of chemicals for small and medium-sized enterprises, taking advantage of major producers' desire to withdraw from distributing to this market segment.

To achieve this, the packaging and storage units have been concentrated on the Setúbal site, to take advantage of the agrochemical division's infrastructures and the group's port facilities. Distribution contracts (certain of them medium-term) have been concluded with major producers.

The main customer markets are the paper, glass and ceramics and rubber industries, together with the pharmaceuticals and food, paint, glue and resins sectors. Depending on the size of the clients, Sapec either distributes products directly or sub-contracts to local sellers.

#### **3.2. Recent developments : the Citri project**

The chemicals distribution sector is a mature one, with growth tracking that of GDP. Whilst the Portuguese market remains fragmented in terms of distributors, there has been a visible concentration in client sectors over the past few years, in particular in the paper industry (a particularly important client). This is placing pressure on small distributors' margins, as buyers increase their negotiating clout.

In such a market, margins can be maintained only either by upscaling the activity (volume effect and regaining negotiating power), requiring Sapec to take over a raft of competitors with the risks inherent in an aggressive acquisition policy, or by undertaking a programme of downstream development in order to produce higher value added products (semi-finished products, pre-mixes of basic client products, auxiliary services).

The Citri project belongs in this context. The aim is to offer distribution clients in the chemicals industry a solution for handling their industrial waste.

To do this, Sapec has teamed up with an industrialist who specialises in recycling non-hazardous industrial residues. Together they are building a residue processing unit on the Setúbal industrial side. Into this joint venture, in which it holds 74% of the capital, Sapec is contributing the land on which the reprocessing unit is built, its logistic facilities and its client portfolio. The partner in turn is contributing its industrial know-how.

Citri will become operational in the course of the first half of 2002. During the first full year of activity it should reprocess around 60,000 tonnes of chemical residues.

### 3.3. Recent performance and projections.

1998 and 1999 were two years of strong turnover growth for the chemicals division, with the operational start-up of the new liquid terminal at Setúbal and the Porquisol acquisition. 2000 was more mixed: whilst turnover growth remained high, this growth was due solely to the upward hike in petrochemicals prices. In terms of volumes sold, it was a year of stabilisation.

In terms of margins, the erosion of gross margins which began in 1999 continued throughout 2000 and into the first half of 2001. As mentioned above, this trend towards pressure on margins can be considered as structural.

Contribution to the consolidated result (EUR m)	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
Turnover	21.72	24.67	27.04	29.58	31.35	32.87	34.33
<i>% change</i>	24.1%	13.6%	9.6%	9.4%	6.0%	4.9%	4.4%
- Chemicals	21.72	24.67	27.04	27.58	29.27	30.73	32.12
<i>% change</i>	24.1%	13.6%	9.6%	2.0%	6.1%	5.0%	4.5%
- Citris	0.00	0.00	0.00	2.00	2.08	2.14	2.21
<i>% change</i>				<i>nr</i>	4.0%	3.0%	3.0%
Operating profit	1.59	1.36	0.87	0.99	1.38	2.06	2.23
<i>Margin</i>	7.3%	5.5%	3.2%	3.4%	4.4%	6.3%	6.5%
Net current results	0.77	0.82	0.36	0.15	0.48	1.01	1.20
<i>Margin</i>	3.5%	3.3%	1.3%	0.5%	1.5%	3.1%	3.5%
Net current cash flow	1.34	1.17	0.70	1.28	1.62	2.11	2.25
<i>Margin</i>	6.2%	4.7%	2.6%	4.3%	5.2%	6.4%	6.5%

For the current year, and given the measly first half performance (EBIT and current earnings down 54% and 70% respectively), we expect the division's earnings to be considerably lower.

In 2002 chemicals distribution proper is likely to continue to suffer from low economic growth prospects and continuing pressure on margins. The forecast turnover increase in 2002 is based on the coming onstream of the chemical residues reprocessing activity. In terms of EBIT margin, we are looking at another pretty difficult year. As in 2001, the net current margin should decrease further as the financial charges on the investments for developing the Citri project rise (investment totalling around EUR 11 m over two years).

One can hope for economic activity to revive in 2003, with a corollary revival of sales volumes and petrochemicals prices. Prudence, however, requires us to assume that distribution margins will remain under pressure. In other words, the forecast improvement of the EBIT margin from 2003 onwards is based essentially on the Citri project becoming fully operational.

**3.4. Valuation of the chemicals division**

Economic profit model	2001	2002	2003	2004	2005
- Market risk free	5.22%				
- Market risk premium	4.27%				
- Long terms growth	1.00%				
- Beta (levered)	1.20	1.31	1.28	1.19	1.10
RoIC	7.7%	9.8%	8.2%	12.6%	14.2%
WACC	5.8%	5.3%	5.7%	6.2%	7.0%
Spread	2.0%	4.5%	2.6%	6.4%	7.3%
Invested capital (at year start)	7.24	7.21	11.93	11.10	10.47
Economic profit	0.14	0.32	0.31	0.71	0.76
NOPLAT	0.56	0.70	0.98	1.40	1.49
Capital charges	-0.42	-0.38	-0.68	-0.69	-0.73
Economic profit	0.14	0.32	0.31	0.71	0.76
Discount factor	0.99	0.94	0.89	0.83	0.76
Actualized economic profit	0.14	0.30	0.27	0.59	0.58
Cumulative PV of economic profit	1.88				
+ Present value of terminal value	8.88				
+ Capital invested	7.24				
<b>= Value of operations</b>	<b>18.00</b>				
- Value of debt	-5.11				
<b>= Theoretical value of equity</b>	<b>12.89</b>				

#### **4. THE AGRO-FEEDSTUFFS DISTRIBUTION DIVISION**

The trading activity consists of the importing and distribution of agricultural commodities, such as cereals (maize, corn, wheat, etc.), cereals substitutes (manioc, maize germs, copra, palm nuts, lupin, etc.) and proteins (soyabean meal, rape meal sunseeds, soya hulls, etc.), all products for which there is a production deficit in the Iberian peninsula. The commodities in question are imported mainly from America and Asia and, to a lesser extent, from other European countries.

##### **4.1. Characteristics of the activity and positioning**

For this type of activity, Sapec needs to globalise its purchases (in order to obtain the necessary freight scale economies) and then sell them on in a fragmented fashion, which represents a risk. The risks in this business lie in commodity price variations and in foreign exchange movements with respect to positions taken on international markets, as well as the debtor risk. Here it should be pointed out that, as a general rule, the group does not take speculative positions, but operates only on the basis of specific client requests. The risk is also reduced by the fact that the group has, over the years, developed special relations with certain suppliers and has developed a broad portfolio of regular clients.

This type of activity generates a fairly low margin after financial charges ( $\pm 1.3\%$  of the value of the goods processed). This leaves a very tight margin for manoeuvre and calls for permanent monitoring of the position risks.

Earnings are a function of the volumes, price levels and risk management. Volumes depend not only on the development of final demand, but also on the trader's acquiring a sufficient critical mass both in balance sheet terms (a direct relationship exists between the potential volumes and the total amount of credit lines available to the company, in turn a function of the guarantees offered, i.e. of the capital), as well as the market share held.

On the Spanish market, Sapec is present via its Interpec Iberica subsidiary. This company, set up in 1988, has expanded rapidly to become today, with a turnover of EUR 300 m and a processed volume of almost 2.5 m tonnes, one of the three largest importer/distributors on its market. From its logistic bases at Tarragona and Cadiz, Interpec covers a territory representing three quarters of the Spanish animal feed market. Activities are concentrated exclusively on the vegetal feed chain. Sapec is also present on the Portuguese market through its Seteia division. This activity is, however, pretty marginal (turnover of EUR 16 m in 2000).

##### **4.2. Recent developments**

As indicated above, the commodities trading activity is a fairly low margin business. For this reason the group is seeking to increase the added value per ton sold by integrating the distribution circuits in the ports where Interpec Iberica is active.

In 2000 Interpec Iberica took an initial step by creating its first subsidiary (Interpec Sur, 90% owned) in the port of Cadiz where a port equipment concession has been obtained. Interpec Sur is developing unloading and warehousing activities and has set up a local sales network serving end consumers. Right from its first year of business (9 months in 2000), Interpec Sur

has achieved slightly positive earnings (EUR 0.09 m). Earnings should rise strongly from 2001 onwards.

Following this success, Interpec Iberica is studying other similar projects in other regions of Spain in which it is also present.

### 4.3. Recent performance and projections

After a disappointing 1998, following the failure of a major Spanish client, 1999 and 2000 were two very good years for the division thanks to the strong rise in sales volumes and buoyant commodities prices on international markets.

Contribution to the consolidated result (EUR m)	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
Turnover	277.76	305.13	292.29	264.94	274.85	274.90	274.95
% change	-15.6%	9.9%	-4.2%	-9.4%	3.7%	0.0%	0.0%
- Trading	277.76	304.02	289.98	262.59	272.45	272.45	272.45
% change	8.0%	9.5%	-4.6%	-9.4%	3.8%	0.0%	0.0%
- Interpec Sur	0.00	1.11	2.31	2.35	2.40	2.45	2.50
% change		nr	107.7%	2.0%	2.0%	2.0%	2.0%
Operating profit	3.82	5.16	4.38	4.13	4.77	4.79	4.82
Margin	1.4%	1.7%	1.5%	1.6%	1.7%	1.7%	1.8%
Net current results	2.45	2.28	2.08	1.68	2.17	2.19	2.18
Margin	0.9%	0.7%	0.7%	0.6%	0.8%	0.8%	0.8%
Net current cash flow	2.55	2.63	2.47	2.07	2.56	2.58	2.57
Margin	0.9%	0.9%	0.8%	0.8%	0.9%	0.9%	0.9%

In the first half of 2001, Interpec Iberica's distribution activity grew fairly weakly, with orders delayed during the first four months of the year due to European farming crises (BSE, foot and mouth), even if it operates only in the vegetal feed chain. Also contributing to this weakness was the increased pricing volatility on the Spanish market when consumption picked up again. The Interpec Sur subsidiary, on the other hand, operating in logistics and distribution, was fully profitable, now that all investments were finalised and operational.

The nature of this activity makes it more difficult to make financial forecasts. We have nonetheless undertaken the exercise based on the track record between 1997 and 2000. Earlier years have been excluded as representing a start-up period. During this stage the group had not yet acquired a sufficient critical mass and did not cover as wide a product range as it does today. The volumes and margins achieved during this period cannot therefore be considered as significant.

The scenario we have used is based on the following assumptions: another difficult year for commodities trading in 2001, whilst Interpec Sur comes up to cruising speed. From 2003 onwards we have applied the average sales and trading margins for 1997-2000, with a 2% growth rate, to Interpec Sur's sales. The improvement of the EBIT margin from 2003 onwards compared with the average for 1997-2000 is imputable to Interpec Sur.

#### 4.4. Valuing the agro-feedstuffs distribution division

We have used two methods in valuing the trading activities in our calculation of the group's break-up value in the paragraph on the valuation of Sapec. The first is similar to that used for the other divisions. The second method is to use the dividend discount model based on a normalised profit. For both methods we have applied a fairly high beta (1.5) in order to take account of the somewhat volatile character of this division's profitability.

Economic profit model	2001	2002	2003	2004	2005
- Market risk free	5.22%				
- Market risk premium	4.27%				
- Long terms growth	1.00%				
- Beta (levered)	1.50	1.46	1.44	1.41	1.39
RoIC	5.1%	6.4%	8.1%	7.8%	7.8%
WACC	5.5%	5.9%	6.1%	6.3%	6.3%
Spread	-0.5%	0.5%	2.1%	1.5%	1.5%
Invested capital (at year start)	60.09	44.72	40.41	41.69	41.48
Economic profit	-0.27	0.22	0.83	0.63	0.61
NOPLAT	3.06	2.85	3.29	3.26	3.23
Capital charges	-3.33	-2.63	-2.45	-2.63	-2.62
Economic profit	-0.27	0.22	0.83	0.63	0.61
Discount factor	0.99	0.94	0.88	0.82	0.77
Actualized economic profit	-0.27	0.21	0.73	0.52	0.47
Cumulative PV of economic profit	1.66				
+ Present value of terminal value	5.36				
+ Capital invested	60.09				
<b>= Value of operations</b>	<b>67.11</b>				
- Value of debt	-51.41				
<b>= Theoretical value of equity</b>	<b>15.70</b>				

For the Dividend Discount Model valuation, we have started out from a normalised profit, based on average earnings between 1997 and 2001. This period presents the advantage of including both a cycle peak (2000) and a trough (1997). This average has then been corrected to reflect the position of Interpec Sur, which was launched in 2000 and will only become fully earnings-effective in 2002. To these earnings figures we have applied a pay-out ratio of 75%. This figure may appear high, but is explained by the fact the trading activity will then have reached cruising speed. At this stage it is no longer necessary, as was the case in the past, to keep retention levels high in order to increase capital and hence the credit lines needed to expand the activity. Given the market parameters (zero risk rate and risk premium) and applying a very conservative beta rate (1.5) and a normative inflation of 1.0%, we arrive at a theoretical value of EUR 15.39 m, in line with the valuation by the EVA method.

## **5. THE LAND-BASED LOGISTICS AND PORT HANDLING DIVISION**

The activities that Sapec has developed in this division relate to land-based logistics, that is contract warehousing/distribution and port handling proper.

### **5.1. Land-based logistics**

In the land-based logistics field, Sapec offers, via its SPC subsidiary, bonded and non-bonded warehouse services, export consolidation and/or import deconsolidation and overland distribution. From its ± 38,000 m<sup>2</sup> of warehousing facilities in the Lisbon and Oporto regions, it can cover the entire country by road or rail.

Its priority development area in this segment is stock management for retail goods distribution and industrial companies. A special warehousing zone, recently extended from 10,000 m<sup>2</sup> to 18,000 m<sup>2</sup>, is dedicated to this activity. Services offered cover not only storage, but also reception, control, preparation, delivery and invoicing. Long-term contracts have been concluded with international companies including AKI (subsidiary of the GIB group), Solvay, Kia and Shell.

SPC also has its own park of sea and rail containers, and not only offers container storage, but also repair and maintenance facilities. In this highly profitable business, SPC has a lead position on the Portuguese market, with a share of around 40%.

### **5.2. Port handling**

Port handling is a relatively recent area of diversification, even if, from the start, Sapec has had an unloading wharf at Setúbal for its mining activities. This wharf, which is still operated and is equipped for unloading solid and liquid bulk cargoes, is situated close to the group's industrial site. Today it is used for bringing in supplies for the agrochemicals division, for chemicals distribution activities, and for third party contracting.

This activity was first extended in the early 1980s when the group took a 50% stake in Navipor, a general cargo and roll-on/roll-off freight handling company, also at Setúbal.

This activity did not, however, really get off the ground until the early 1990s, when the group gradually took control of the now 100% owned SPC (Serviço Português de Contentores). In addition to its land transport logistics activities, this acquisition put Sapec firmly on the map, with a presence in the country's three main ports of Lisbon, Leixões (Oporto) and Setúbal (not counting oil and ore).

In late 1999 the group extended its presence in port handling by participating in the first phase of the privatisation of the sector in Portugal. SPC took part in three consortia: in Lisbon, the group took 47.5% of Sotagus (container terminal) and 30% in a bulk and general cargo loading terminal, and at Leixões (Oporto) it took a 20.1% stake in a container terminal. For Sapec this represented a total investment of EUR 4.0 m.

However, this operation quickly proved problematic for Sapec, in particular its main participation in Sotagus. The latter ended its first business year (2000) with earnings well below expectations

(net loss of EUR 1.21 m) owing to delays by the public authorities in extending the quays. 1H2001 has not brought any improvement (current loss of EUR 1.49 m.) The basic problem appears to lie in an absence of cohesion between the partners, with their at times contradictory interests. Given Sapec's inability to take effective control through a majority stake, it decided last October to sell its recently-acquired participations to the other partners in the various consortia. The sale is scheduled to be finalised in the course of November. The sales price should be around EUR 10.5 m, giving a net capital gain of EUR 4.5 m.

Despite this disappointment, the financial consequences of which were, fortunately, positive, Sapec intends to remain active in the port of Setúbal which today, with the solid and liquid bulk quay, a small container terminal and its participation in Navipor, represents Sapec's last port activities in Portugal. Elsewhere, Navigor is managing a consortium of port operators at Setúbal in order to take part in the privatisation of the public "general cargo" and "roll-on/roll-off" terminals, tenders for which must be submitted by the end of November 2001.

### 5.3. Recent performance and projections

Recent performance has been marked by the following items:

In land-based logistics: profitability in 2000 was dented by a major investment (EUR 2.3 m) in extending the logistics site dedicated to sub-contracted stock management and by the start-up of new logistics contracts. Otherwise, one of the container storage and repair sites was sold last year and its activities gradually transferred, which also negatively impacted the profitability of the activity.

In port handling: 2000 earnings were affected by the first-time consolidation of the companies acquired at the end of 1999 and by the higher financial charges, the concession companies having used bank credit to part-finance the acquisition of port equipment.

In 1H2001, earnings in the division were very uneven:

In land-base logistics, earnings rose sharply (current earnings up 80% to EUR 0.47 m) with freshly-arriving clients gradually filling up the newly-built installations, which have been operational since spring 2000.

On the other hand, the profitability of the port handling activity remained depressed owing to the lacklustre performance of Sotagus (current losses of EUR 1.49 m, Sapec's share = 0.71 m.).

Contribution to the consolidated result (EUR m)	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
Turnover	35.57	31.58	22.54	22.05	21.49	23.29	24.53
<i>% change</i>	3.4%	-11.2%	-28.6%	-2.2%	-2.5%	8.4%	5.3%
Operating profit	2.37	1.51	2.16	2.24	2.28	3.16	3.55
<i>Margin</i>	6.7%	4.8%	9.6%	10.1%	10.6%	13.6%	14.5%
Net current results	1.42	0.15	1.15	1.08	1.07	1.86	2.26
<i>Margin</i>	4.0%	0.5%	5.1%	4.9%	5.0%	8.0%	9.2%
Net current cash flow	3.12	2.43	3.30	3.65	3.85	4.76	5.14
<i>Margin</i>	8.8%	7.7%	14.6%	16.6%	17.9%	20.4%	21.0%

Projections for 2001 as a whole are based on the following assumptions:

- Land-based logistics should continue to benefit from improving margins as utilisation of the new installations increases. Earnings will not, however, probably move up as fast as in the first half.
- Sapec intends to deconsolidate the recently sold port activities effective 1 January this year. In this way Sotagus's current losses will not appear in the 31.12.2001 earnings.

For 2002 to 2005:

- In land-based logistics: we anticipate a fall in the traditional warehousing activity due to the slowing of economic activity in 2002, with turnover then growing by an average 3% a year between 2003 and 2005. In stock management for third parties (contract logistics) we expect the utilisation rate to rise further (90% in 2002 as compared with 75% in 2001). The group plans to invest EUR 2.1 m in 2002 to raise contract logistics storage capacity to 25,000 m<sup>2</sup>. Sales projections are based on a warehouse utilisation rate of 40% in year 1 (2003), 70% in year 2 and 90% in 2005.
- In port handling, we also expect activity to slow in 2002 in line with general economic growth. For 2003 it is assumed, prudently, that Navipor will not win the privatisation competition in Setúbal and that sales and earnings will then be without the general cargo activities, with only the roll-on/roll-off activities remaining.

#### 5.4. Valuation of the land-based logistics and port handling division

Economic profit model	2001	2002	2003	2004	2005
- Market risk free	5.22%				
- Market risk premium	4.27%				
- Long terms growth	1.00%				
- Beta (levered)	1.30	1.24	1.23	1.18	1.07
RoIC	7.3%	5.9%	6.0%	8.5%	9.4%
WACC	8.3%	7.7%	8.2%	8.5%	9.1%
Spread	-0.9%	-1.8%	-2.1%	0.0%	0.3%
Invested capital (at year start)	26.31	26.86	29.25	29.24	28.96
Economic profit	-0.24	-0.49	-0.63	-0.01	0.08
NOPLAT	1.93	1.59	1.76	2.48	2.72
Capital charges	-2.18	-2.08	-2.39	-2.49	-2.64
Economic profit	-0.24	-0.49	-0.63	-0.01	0.08
Discount factor	0.99	0.92	0.84	0.77	0.70
Actualized economic profit	-0.24	-0.45	-0.53	-0.01	0.06
Cumulative PV of economic profit	-1.16				
+ Present value of terminal value	2.61				
+ Capital invested	26.31				
<b>= Value of operations</b>	<b>27.76</b>				
- Value of debt	-15.02				
<b>= Theoretical value of equity</b>	<b>12.74</b>				

## 6. THE ENERGY / THARSIS DIVISION

Sapec holds 66.8% of the capital of Tharsis plc, a British company. Tharsis holds three types of assets: cash (EUR 16.98 m at 30.06.2001), a property portfolio that it is busy liquidating, and a 68% stake in Guadalmancha, a Spanish company which operates hydroelectric mini-power stations.

### 6.1. Guadalmancha, the hydroelectric mini-power stations

When looking for opportunities for investing the cash generated by the sale of real estate assets, Tharsis in 1995 began operating hydroelectric mini-power stations in Spain, in partnership with a local financing partner, the Caja de Castilla la Mancha. Guadalmancha right now owns and operates three such power stations, and also operates a fourth on a contract basis. These mini-power stations, with a total installed power of 6.5 MW and producing 35 GW an hour, are located in Albacete region, on the Río Mundo. Guadalmancha holds 25 year licences on these power stations.

At the time, these power stations represented a total investment of some EUR 8.18 m. Each station was financed under a project financing structure, with around two-thirds of the cost debt-financed.

### 6.2. Recent performance and projections

Contribution to the consolidated result (EUR m)	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
Turnover	2.38	2.01	2.22	2.22	2.22	2.22	2.22
% change	68.8%	-15.5%	10.3%	0.0%	0.0%	0.0%	0.0%
Operating profit	1.34	0.92	1.10	1.25	1.25	1.25	1.25
Margin	56.3%	45.8%	49.4%	56.2%	56.2%	56.2%	56.2%
Net current results	1.02	0.47	0.59	0.72	0.75	0.75	0.75
Margin	42.9%	23.4%	26.8%	32.5%	33.8%	33.8%	33.8%
Net current cash flow	1.54	1.02	1.00	1.11	1.14	1.14	1.14
Margin	64.7%	50.7%	45.3%	50.1%	51.5%	51.5%	51.5%

2000 saw a fall in Guadalmancha's profits. For two reasons: first of all production was interrupted for maintenance work during two months in 2000 (no maintenance shut-down in 1999). Secondly, Guadalmancha has used up its tax carryforwards, raising the average tax rate from 10% in 1999 to the normal rate of 35% in 2000.

Cash flow from such activity is fairly recurrent (barring of course an abnormally long drought, which is difficult to forecast), given that the sale of the electricity produced to Iberdola (the company tasked with electricity production and distribution in this region) is guaranteed by the way the electricity sector is regulated in Spain. We have therefore based our projections on a normal production year, which we have kept constant over time. Given that the power stations have reached their real production capacity, growth can come only from operating new power stations.

### 6.3. Valuation of Guadalmancha

Economic profit model	2001	2002	2003	2004	2005
- Market risk free	5.22%				
- Market risk premium	4.27%				
- Long terms growth	1.00%				
- Beta (levered)	0.80	0.74	0.69	0.69	0.69
RoIC	9.0%	10.7%	11.6%	12.2%	12.8%
WACC	7.3%	7.8%	8.2%	8.2%	8.2%
Spread	1.7%	2.9%	3.4%	4.0%	4.6%
Invested capital (at year start)	7.90	7.54	7.20	6.87	6.53
Economic profit	0.13	0.22	0.25	0.27	0.30
NOPLAT	0.71	0.81	0.83	0.83	0.83
Capital charges	-0.58	-0.59	-0.59	-0.56	-0.53
Economic profit	0.13	0.22	0.25	0.27	0.30
Discount factor	0.99	0.92	0.84	0.78	0.72
Actualized economic profit	0.13	0.20	0.21	0.21	0.22
Cumulative PV of economic profit	0.97				
+ Cumulative PV for FY2006 to FY2022	2.34				
+ Capital invested	7.90				
<b>= Value of operations</b>	<b>11.21</b>				
- Value of debt	-2.83				
<b>= Theoretical value of equity</b>	<b>8.38</b>				

In valuing Guadalmancha we have calculated the economic profit generated by the activity until the extinction of the licences (i.e. until 2022). No residual value has been calculated in, other than the initial investment.

### 6.4. Recent developments

On 15 October last, Sapec announced that Guadalmancha had taken a 51% capital stake in Saltesa and 30% in Hidronorte. Together these two Spanish companies own, either in the form of licences to build new power stations or in the form of currently operating mini-power stations, an installed capacity of 60 MW, corresponding to a production capacity of 155 GW/hour. This represents in all 13 power stations across three regions in which Guadalmancha is not present (viz. Galicia, Extremadura and Castille-Leon).

For Guadalmancha this represents an investment of  $\pm$  EUR 10.32 m and an increase of production capacity by 57.20 GW/hour (group's share), in other words almost tripling its current capacity.

Hidronorte also has power stations under construction with an overall capacity of 32.9 MW (85 GW/hour) which are scheduled to come into production in 2003. Some EUR 6 m of additional investment (Guadalmancha's share = EUR 1.8 m) could be needed to complete them. Guadalmancha will shortly be carrying out a capital increase, subscribed by its two shareholders, in order to finance its operations. An as yet unknown portion of the costs will be debt-financed.

We lack sufficient financial information to include these two acquisitions in our projections. Despite this, a quick calculation of the entry price paid per GWH, when compared with the same

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ratio for Guadalmancha, suggests that the price paid is not excessive. Even so, we do not know the financial structures of Saltesa and of Hidronorte. For this reason we prefer not to give figures at this stage.

The operation presents an obvious attraction for Tharsis, allowing an a priori very profitable use of part of its cash in excess and permitting an expansion of this energy pole which otherwise would have had found it hard to grow given the increasing difficulty of obtaining new concessions in Spain.

### 6.5. The intrinsic value of Tharsis

Break up value	in ESP (*1000)	in EUR (m)
Property plats	721,600	4.34
Market value of Guadalmancha	1,394,509	8.38
Idem group share (68%)	948,266	5.70
Cash & equivalent (June 2001)		16.98
Total assets		27.01
Debt (June 2001)		0.00
<b>Net asset value</b>		27.01
<b>Sapec stake (66.8%)</b>		18.07

In calculating a break-up value for Tharsis, we have not taken into account these latest acquisitions by Guadalmancha, for lack of sufficient financial data. We have left Tharsis's cash situation untouched. The real estate assets have been valued at their book value.

In 1H2001, Tharsis sold two sites with a combined area of 317 ha for a total of EUR 10.81, generating an after-tax capital gain of EUR 4.53 m. These proceeds have further swollen Tharsis's cash position to EUR 16.98 m.

Its remaining real estate assets consist of two sites (Fincas 2 and 3), with a combined area of 6,300 ha, a book value of EUR 0.91 m. To this should be added two buildings in Madrid with a book value of EUR 1.95 m.

## 7. THE REAL ESTATE PORTFOLIO

Whilst real estate is not in itself an active line of business, it takes on particular significance for the group, both in terms of valuation (the book net asset value of the group's properties, excluding the properties owned by Tharsis, is an estimated EUR 15.96 m, or EUR 11.57 per share) and as a potential source of cash.

Over 70 years of presence in the Iberian peninsula, the group accumulated significant real estate holdings, first of all in Portugal, then in Spain on taking control of the Tharsis mines in 1961. This portfolio consists essentially of farms and forests ( $\pm$  7,000 ha), an industrial estate (Sapec Bay with an area of  $\pm$  300 ha) and office buildings in Lisbon and Madrid (occupied by group companies or leased to third parties). After various more or less successful attempts to cash in on this major portfolio (parcelling and selling off sites for dwellings at Quinta do Anjo and at Quinta des Aires in Portugal, etc.), Sapec took the decision in 1995 to quit the real estate promotion business entirely.

The objective since then has been to intensify the sale of these assets as and when opportunities present themselves. In this way, between 1997 and 2000, assets have been sold for a total of EUR 24.5 m, generating capital gains of EUR 2.98. Other projects are under study for the years to come. Various contracts have been signed in respect of the industrial estate. The first involves an agreement with a local promoter to break up 233,000 m<sup>2</sup> into lots, with the sales proceeds split 50/50. The total project represents a value of the order of EUR 15 m. The second is a preliminary sales contract for EUR 6 m subject to obtaining the necessary authorisation from the local authorities.

Break up value	in PTE (m)	in EUR (m)
- Sapec Bay	2,719.48	13.56
- Other	830.77	4.14
<b>Total</b>	<b>3,550</b>	<b>17.71</b>
Financial debt	350.00	1.75
<b>Net asset value</b>		<b>15.96</b>
<b>Net asset value per share</b>		<b>11.57</b>

The above table does not include the Tharsis real estate, which is included in the latter company's intrinsic value. In a prudent approach to the valuation of the group, we have not factored in future assets sales, given the unforecastable nature of such sales, nor any resulting capital gains. The real estate has been valued at its book value less related debt.

## 8.0 CONSOLIDATED RESULTS

Consolidated income statement (EUR m)	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
<b>Operating income</b>	<b>426.41</b>	<b>409.26</b>	<b>395.39</b>	<b>374.07</b>	<b>392.26</b>	<b>402.27</b>	<b>412.15</b>
Turnover	420.34	401.50	389.79	368.47	386.66	396.67	406.55
% change	-21.4%	-4.5%	-2.9%	-5.5%	4.9%	2.6%	2.5%
<b>EBITDA</b>	<b>17.73</b>	<b>14.90</b>	<b>15.77</b>	<b>16.29</b>	<b>19.07</b>	<b>22.26</b>	<b>23.89</b>
Margin	4.2%	3.7%	4.0%	4.4%	4.9%	5.6%	5.9%
<b>Operating profit</b>	<b>11.10</b>	<b>9.22</b>	<b>10.31</b>	<b>11.09</b>	<b>13.60</b>	<b>16.67</b>	<b>17.48</b>
Margin	2.6%	2.3%	2.6%	3.0%	3.5%	4.1%	4.2%
<b>Net financial result</b>	<b>-3.93</b>	<b>-4.43</b>	<b>-5.49</b>	<b>-4.28</b>	<b>-4.11</b>	<b>-4.03</b>	<b>-3.65</b>
<b>Pre-tax current results</b>	<b>7.17</b>	<b>4.80</b>	<b>4.82</b>	<b>6.81</b>	<b>9.49</b>	<b>12.64</b>	<b>13.82</b>
Margin	1.7%	1.2%	1.2%	1.8%	2.4%	3.1%	3.4%
<b>Extraordinary items</b>	<b>15.38</b>	<b>6.06</b>	<b>10.16</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Income tax	1.68	1.71	3.76	2.38	3.13	4.17	4.56
Results consolidated by the equity method	0.00	-0.02	0.00	0.00	0.00	0.00	0.00
<b>Net profit</b>	<b>20.88</b>	<b>9.12</b>	<b>11.21</b>	<b>4.43</b>	<b>6.36</b>	<b>8.47</b>	<b>9.26</b>
Group's net profit	20.42	8.87	8.72	3.54	5.33	7.36	8.13
Group's net current profit <sup>1</sup>	5.57	3.51	3.34	3.54	5.33	7.36	8.13
Group's net current cash flow	11.83	8.80	7.54	7.68	9.92	12.22	13.75
EPS <sup>1</sup>	3.91	2.47	2.42	2.56	3.86	5.33	5.89
CFPS	8.32	6.19	5.47	5.57	7.19	8.86	9.96

<sup>1</sup> Before goodwill amortization

## 9.0 CONSOLIDATED CASH FLOW

Consolidated cash flow statement (EUR m)	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
Net financial debt at year start	74.39	69.06	81.98	71.06	61.19	65.18	58.37
Net profit	20.88	9.12	11.21	4.43	6.36	8.47	9.26
Amortisation of goodwill	0.39	0.71	1.33	0.71	0.71	0.71	0.71
Depreciation	6.63	5.67	5.46	5.20	5.47	5.59	6.40
Others deprec. & non-cash items	-18.57	-7.09	2.98	0.00	0.00	0.00	0.00
Change in working capital	-18.77	5.73	2.34	4.05	-3.25	-1.66	-1.01
<b>Cash generated by operations</b>	<b>-9.45</b>	<b>14.14</b>	<b>23.32</b>	<b>14.38</b>	<b>9.29</b>	<b>13.11</b>	<b>15.37</b>
Net capital expenditure	5.15	9.37	13.62	2.32	11.00	3.89	6.38
Distribution of profit	1.83	2.00	2.13	2.19	2.28	2.42	2.62
Change in equity & impact of changes in scope of consolidation & translation adjust.	21.75	-15.68	3.35	0.00	0.00	0.00	0.00
<b>Increase in net financial debt</b>	<b>-5.32</b>	<b>12.92</b>	<b>-10.93</b>	<b>-9.86</b>	<b>3.99</b>	<b>-6.81</b>	<b>-6.37</b>
Net financial debt at year end	69.06	81.98	71.06	61.19	65.18	58.37	52.00
<b>Total equity (year end)</b>	<b>87.52</b>	<b>92.48</b>	<b>99.52</b>	<b>101.67</b>	<b>105.61</b>	<b>111.45</b>	<b>117.96</b>
Gearing	78.9%	88.7%	71.4%	60.2%	61.7%	52.4%	44.1%

10.0. CONSOLIDATED BALANCE SHEET

Consolidated balance sheet (EUR m)	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
<b>Long term assets</b>	<b>83.71</b>	<b>109.01</b>	<b>107.33</b>	<b>103.58</b>	<b>108.34</b>	<b>105.76</b>	<b>104.93</b>
Tangibles & Intangibles	71.99	98.92	97.82	94.15	98.84	96.21	95.35
Financial Assets	11.71	8.40	7.95	7.95	7.95	7.95	7.95
Long Term Receivables	0.01	1.70	1.56	1.47	1.55	1.59	1.63
<b>Current assets</b>	<b>134.62</b>	<b>146.49</b>	<b>145.25</b>	<b>141.23</b>	<b>145.57</b>	<b>150.19</b>	<b>154.10</b>
Inventories	56.69	73.80	71.64	67.72	71.07	72.91	74.03
Accounts Receivable	59.59	43.74	42.47	40.14	42.12	43.21	44.29
Cash and equivalent	14.20	28.03	30.24	32.51	31.49	33.16	34.85
Prepayments and Accrued Income	4.16	0.92	0.90	0.85	0.89	0.91	0.93
<b>Total assets</b>	<b>218.33</b>	<b>255.50</b>	<b>252.58</b>	<b>244.81</b>	<b>253.90</b>	<b>255.95</b>	<b>259.03</b>
<b>Shareholder's equity</b>	<b>80.30</b>	<b>85.71</b>	<b>90.26</b>	<b>91.51</b>	<b>94.43</b>	<b>99.17</b>	<b>104.54</b>
Share capital	36.59	36.60	34.62	34.62	34.62	34.62	34.62
Share premium	7.13	7.13	7.13	7.13	7.13	7.13	7.13
Reserves	35.80	41.32	47.85	49.11	52.03	56.77	62.14
Capital grants	0.78	0.65	0.65	0.65	0.65	0.65	0.65
<b>Minority interest</b>	<b>7.22</b>	<b>6.77</b>	<b>9.26</b>	<b>10.15</b>	<b>11.18</b>	<b>12.28</b>	<b>13.42</b>
<b>Long term liabilities</b>	<b>19.05</b>	<b>34.28</b>	<b>32.01</b>	<b>30.02</b>	<b>30.80</b>	<b>29.46</b>	<b>28.24</b>
Provision for risks and charges	5.57	5.58	5.58	5.58	5.58	5.58	5.58
Other liabilities >1 year	13.48	28.70	26.43	24.45	25.22	23.88	22.66
<b>Current liabilities</b>	<b>111.77</b>	<b>128.74</b>	<b>121.05</b>	<b>113.12</b>	<b>117.50</b>	<b>115.04</b>	<b>112.84</b>
Financial debt	69.78	81.30	74.87	69.25	71.44	67.65	64.19
Trade debt	23.77	25.67	24.92	23.55	24.72	25.36	25.99
Advance received	0.00	0.00	0.00	0.00	0.00	0.00	0.00
taxes & remunerations	4.63	4.43	4.30	4.06	4.26	4.38	4.48
Other amounts payable	4.39	11.63	11.42	11.00	11.57	12.01	12.38
Accrued charges and deferred income	9.19	5.71	5.55	5.24	5.50	5.65	5.79
<b>Total liabilities</b>	<b>218.33</b>	<b>255.50</b>	<b>252.58</b>	<b>244.81</b>	<b>253.90</b>	<b>255.95</b>	<b>259.03</b>
<b>Invested capital &amp; reconciliation with the capital employed</b>	<b>1999</b>	<b>2000</b>	<b>2001(e)</b>	<b>2002(e)</b>	<b>2003(e)</b>	<b>2004(e)</b>	<b>2005(e)</b>
Tangibles & Intangibles	99.01	71.99	98.92	97.82	94.15	98.84	96.21
+ Financial Assets	5.69	11.71	8.40	7.95	7.95	7.95	7.95
+ Long Term Receivables	0.01	0.01	1.70	1.56	1.47	1.55	1.59
+ Inventories	50.21	56.69	73.80	71.64	67.72	71.07	72.91
+ Accounts Receivable	66.05	59.59	43.74	42.47	40.14	42.12	43.21
+ Prepayments and Accrued Income	3.54	4.16	0.92	0.90	0.85	0.89	0.91
- Trade debt	36.86	23.77	25.67	24.92	23.55	24.72	25.36
- Advance received	0.00	0.00	0.00	0.00	0.00	0.00	0.00
- Taxes & remunerations	8.23	4.63	4.43	4.30	4.06	4.26	4.38
- Other amounts payable	2.17	2.39	9.50	9.23	8.72	9.15	9.39
- Accrued charges and deferred income	11.04	9.19	5.71	5.55	5.24	5.50	5.65
<b>= Invested capital (at year start)</b>	<b>166.22</b>	<b>164.15</b>	<b>182.16</b>	<b>178.34</b>	<b>170.71</b>	<b>178.78</b>	<b>178.02</b>
Shareholder's equity	68.36	80.30	85.71	90.26	91.51	94.43	99.17
+ Minority interest	8.11	7.22	6.77	9.26	10.15	11.18	12.28
+ Provision for risks and charges	13.53	5.57	5.58	5.58	5.58	5.58	5.58
+ Other liabilities >1 year	21.85	13.48	28.70	26.43	24.45	25.22	23.88
+ Financial debt	74.03	69.78	81.30	74.87	69.25	71.44	67.65
+ Dividend payable	1.83	2.00	2.13	2.19	2.28	2.42	2.62
- Cash & equivalent	21.50	14.20	28.03	30.24	32.51	31.49	33.16
<b>= Capital employed (at year start)</b>	<b>166.22</b>	<b>164.15</b>	<b>182.16</b>	<b>178.34</b>	<b>170.71</b>	<b>178.78</b>	<b>178.02</b>

11.0. GROWTH ANALYSES AND KEY RATIOS

Growth analysis, margins, key ratios & data	1999	2000	2001(e)	2002(e)	2003(e)	2004(e)	2005(e)
<b>Growth analysis</b>							
% change in							
- EBITDA	-9.6%	-16.0%	5.8%	3.3%	17.1%	16.7%	7.3%
- EBIT	-14.5%	-16.9%	11.7%	7.6%	22.6%	22.6%	4.9%
- net results	nr	-56.3%	22.9%	-60.5%	43.6%	33.2%	9.4%
- net current profit (group's share)	-4.0%	-36.9%	-4.9%	5.9%	50.8%	38.1%	10.4%
- net current cash flow (group's share)	-1.3%	-25.7%	-14.2%	1.9%	29.1%	23.2%	12.5%
<b>Margin</b>							
EBITDA	4.2%	3.7%	4.0%	4.4%	4.9%	5.6%	5.9%
EBIT	2.6%	2.3%	2.6%	3.0%	3.5%	4.1%	4.2%
NOPLAT	2.1%	1.5%	1.7%	2.0%	2.4%	2.8%	2.9%
Net results	5.0%	2.3%	2.9%	1.2%	1.6%	2.1%	2.3%
<b>Key ratios</b>							
Net financial debt/Equity	78.9%	88.7%	71.4%	60.2%	61.7%	52.4%	44.1%
Capex/depreciation	77.6%	165.3%	249.6%	44.7%	201.1%	69.5%	99.6%
Interest cover (EBIT/financial cost)	4.1x	2.4x	2.4x	2.9x	3.8x	4.7x	5.6x
Tax rate (on current earnings)	20.1%	35.7%	36.3%	35.0%	33.0%	33.0%	33.0%
Dividend payout	9.8%	24.0%	25.2%	64.4%	45.3%	35.6%	34.0%
Net working capital/sales	18.7%	17.7%	17.7%	17.6%	17.6%	17.6%	17.4%
RoIC	5.3%	3.6%	3.6%	4.0%	5.3%	6.2%	6.6%
WACC	5.9%	5.7%	6.4%	6.6%	6.6%	6.8%	6.9%
RoIC - WACC	-0.6%	-2.1%	-2.8%	-2.6%	-1.3%	-0.5%	-0.4%
<b>Key data</b>							
Entreprise value	136.14	145.24	126.12	116.25	120.24	113.43	107.06
Net financial debt	69.06	81.98	71.06	61.19	65.18	58.37	52.00
Invested capital	166.22	164.15	182.16	178.34	170.71	178.78	178.02
Net working capital	78.44	71.02	68.82	64.85	68.03	69.64	70.61
Nb of shares (*1000)	1,421.93	1,421.93	1,380.00	1,380.00	1,380.00	1,380.00	1,380.00
Nb of shares bought-back (*1000)	0.00	52.00	17.00	17.00	17.00	17.00	17.00

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