PRESS RELEASE

2008 half-year results

<u>Paris, 29th October 2008:</u>

Groupe VIAL (ISIN: FR0010340406), France's leading independent industrial joinery discount group, announces its consolidated results for the first half to 30th June 2008.

- **First-half highlights**

<u>Activity heavily disrupted by the implementation of ERP</u>

As announced in April 2008, Groupe Vial was forced to choose a new integrator for the implementation of its IT system (Enterprise Resource Planning, or ERP), which therefore caused serious delays in its installation. Given Groupe Vial's new size, with it now having 64 sales outlets, this new ERP has become essential to automate and run all information flows, from sourcing to distribution via production.
The delay in the implementation of ERP created major disruptions in manufacturing, logistics and distribution over the first half of 2008. The lack of automation meant that all processes had to be carried out manually.
Indeed, the Group recorded major malfunctions in all manufacturing units (cutting errors in terms of footage, poorly adapted manufacturing), resulting in substantial wastage and excessive consumption, of basic materials and manpower.
Some weeks, production also saw a virtual paralysis, thus significantly lengthening delays for standard and tailor-made products.
Stocks and the availability of the entire range in stores were therefore also disrupted, resulting in a substantial number of delays in deliveries and in "no sales".

<u>Difficult economic context</u>

The Group's activity suffered from the effects of the housing, financial and economic crises. A number of factors made the joinery market very competitive, by triggering aggressive pricing policies. Indeed, the fall in new housing sales, more restrictive access to personal loans and difficulties faced by craftsmen were all factors that caused the environment to deteriorate.
Furthermore, the first half of 2008 was characterised by a sharp increase in the cost of basic materials and a certain rarefaction of the offer.
Within the context of a fall in demand and an increase in costs, all market players have been forced to reduce their selling prices.
Groupe Vial's discount model does, however, remain well-positioned in terms of price and quality within this new economic context.

Opening of 4 stores over the first half

Over the first 6 months of the year, and despite the problems associated with the implementation of ERP and the economic context, the Group continued to expand its network. 4 new stores were opened, 3 of them in France and 1 in Spain. All of these openings and those planned for the second half of the year were already signed at the end of 2007.

At 30th June 2008, the Group's network consisted of 64 open stores and 7 sites already signed that are planned to open over the second half of the year. These stores are divided as follows:

- France: 64 stores = 60 open + 4 signed
- Spain: 6 stores = 4 open + 2 signed
- Portugal: 1 signed

At end-2008, Groupe Vial's network will thus consist of 71 stores, a virtual doubling in just two years.

Finalisation of the acquisition of the wood factory in Bolivia

Within the context of the sharp increase in the price of basic materials, and notably wood, Groupe Vial has finalised the acquisition of a Bolivian company in order to secure the volume and price of its supplies of wood. Indeed, the company possesses timber rights on forestry concessions guaranteeing at least 7 years of wood for Groupe Vial. It also has 3 woodworking factories for sawing and drying wood and a wood closet factory.
This acquisition was carried out for €16.5 million.

- **Audited consolidated results for the first half of 2008**

(€ millions, IFRS)	**H1 2007**	**H1 2008**
Sales	55.1	**53.8**
Gross profit	34.7	**14.9**
Personnel expenses	-6.2	-7.0
External expenses	-12.3	-15.6
Taxes	-0.9	-1.4
Other operating income and expenses	0.0	-0.2
EBITDA[1]	15.2	**-9.3**
Depreciation	-1.0	-1.3
Provisions and write-backs	0	-0.3
Recurring operating profit	14.2	**-10.9**
Operating profit	14.5	**-11.1**
Finance income	0.2	1.2
Cost of gross debt	-1.2	-3.5
Other financial cost and income	0.0	0.2
Tax	-4.2	4.5
Consolidated net profit	9.3	**-8.8**

[1] EBITDA: Recurring operating income before depreciation and provisions

Sales

Despite the virtual paralysis in production and logistics and a high no-sale rate, associated with the unavailability of a significant number of products, Groupe Vial only recorded a relatively small decrease of 2.4% in sales over the first half of 2008, to €53.8 million. The reaching of maturity of new stores is continuing, albeit at a slower pace than expected. At constant scope, excluding the stores opened over the last 12 months, sales were down 9.5%, reflecting the “no-sale” phenomenon. Indeed, the value-added of the Group’s products associated with immediate availability for standard products and very short waiting times for tailor-made products has been significantly affected by the ERP-related disruption.

The limited fall in activity illustrates both the efforts undertaken by all Group staff to counter as best as possible the failure of the new IT system and the attractive positioning of the Group’s products within a particular difficult economic context.

Gross profit

Gross profit totalled €14.9m over the first half of 2008, down 57% on the first half of 2007. A number of factors are behind this counter performance:

- the sharp increase in the cost of basic materials, and notably wood, PVC, aluminium and glass.
- major sales discounts and price cuts on many products in order to remain competitive on a very aggressive market affected by the economic and housing crises.
- major production unit disruptions associated with the implementation of ERP that resulted in significant product wastage. Indeed, cutting and measuring errors, defects due to the incorrect functioning of systems, forced the Group to manufacture the same product a number of times. These dysfunctions thus resulted in excessive consumption, and therefore cost overruns in terms of materials, manpower and transport, as well as the destruction of a significant amount of end products.

EBITDA and recurring operating income

For H1 2008, EBITDA was a negative €9.3 million. Personnel expenses remained under control, rising just 12.9%, in line with the increase in the workforce that rose from 367 employees at 30th June 2007 to 410 employees at 30th June 2008.
The increase in operating expenses as a whole also remained under control, given the changes in the Group’s size, with the number of stores up 60% between 1st January 2007 and 30th June 2008. Rents and rental charges totalled €3.1m (+25.6%). Advertising and marketing expenses totalled €4.5m for the first half of 2008, versus €2.5m for the previous half.
Recurring operating income for the first half of 2008 was a negative €10.9 million.

Financial income and net profit

Financial income totalled €1.2m for the first half of 2008 thanks to cash management, and in particular the issuance of OCEANE bonds convertible into and/or exchangeable for new or existing shares.
The cost of gross debt was higher, notably due to the increase in debt associated with the September 2007 OCEANE issue. The average interest rate for the 1st half of 2008 was 6.18%, vs. 4.97% in 2007.
The consolidated net loss after tax was €8.8 million. This figure takes into account a deferred tax asset of €4.5m insofar as the Group is considering allocating this to future profit.

- **Financial structure**

At 30th June 2008, consolidated shareholders equity amounted to €66.0 million, down 12% compared to 31st December 2007, because of the half's net loss. Shareholders equity at 30th June 2008 does not take into account the payment of the exceptional dividend approved by the Shareholders Meeting of 22nd September 2008 totalling €8.5 million or the advance dividend payment totalling €7.4 million.

Total gross debt at 30th June 2008 was €121.6 million, stable compared to the figure at 31st December 2007 (€120.7m).
At 30th June 2008, the debt's maturity schedule was as follows: €7.2 million within the coming year and €114.4m beyond that.
Cash and financial assets at 30th June 2008 totalled €53.9m, including the initial payment of €12.4m for the acquisition of the Bolivian company. The balance of this payment, i.e. €2.1m, was paid in August 2008.
The net debt-to-equity ratio stood at 102%.

Groupe Vial has been involved in negotiations with its financial partners since the end of the first half in order to reorganise its debt, and is looking at various solutions including a projected OBSAAR bond issue reserved for financial establishments. Indeed, the Ordinary and Extraordinary General Meeting of 22nd September gave the Board its authorisation to issue OBSAAR bonds that would replace the €55m of senior debt (initial amount) and would reduce the Company's financial costs by enabling shareholders to acquire BSAAR bonds.

The change in working capital requirements over the first half of 2008 was nil. This was notably due to a slight fall in inventory levels (-3.7% to €72.8m at 30.06.08) and accounts receivable (-17.5% to €11.4m at 30.06.08). The reduction in this latter item, which has continued beyond 30th June, is the result of a strategic decision by the Group to limit the risk of payment defaults by its clients by significantly cutting approved credit.

- **Corrective measures**

The counter performance recorded over the first half of this year in no way calls into question the Group's business model as a discount joinery manufacturer-distributor. Indeed, it was essentially due to an industrial mishap resulting from the implementation of the new ERP IT system within the context of an economic crisis. This is why Groupe Vial has taken radical measures to guarantee its short, medium and long-term future.
Following the recent phase of rapid expansion, the opening of new stores will be significantly slowed.
Lastly, the Group will focus all its efforts on deploying the ERP system in order to quickly ensure its correct functioning and to put the entire supply chain back into working order.

<u>Product and pricing policy</u>

Since its last catalogue was published in May, Groupe Vial has significantly strengthened its range of renovation products. Indeed, in the face of the new-housing slowdown but also, more importantly, given the effect of new thermal norms and energy regulations associated with France's *Grenelle de l'Environnement* agreements, Groupe Vial estimates that the joinery renovation market should record buoyant growth in coming years. With this in mind, Groupe Vial will reinforce its ranges of products that can be further cut into dimensions suitable to each customer as one-price tailor-made products available within very short timeframes.
In the 2009 catalogue, priority will again be given to renovation and to products with high-performance energy and environmental qualities.
Within the context of a market that has become increasingly competitive, Groupe Vial remains very well-positioned in terms of selling prices and intends to increase its market share.

Optimisation of sourcing and the control of basic materials

In order to reduce its exposure to the volatility of basic materials and its dependence vis-à-vis its suppliers, Groupe Vial will strengthen its downstream positioning, as illustrated by the acquisition of the Bolivian company.
Indeed, this company will enable the securing of supplies of wood for the Group at a competitive price-quality ratio and with the volumes necessary to ensure development. This integration of the wood subsidiary should have a significant positive impact on the gross margin of Groupe Vial's wood products from the second half of 2009.
Regarding other basic materials, Groupe Vial is deploying its skills and experience worldwide in order to diversify sourcing.

Continuation of the project for a double-glazing glass factory

The project to construct a glass plant is continuing. The factory is expected to be delivered during the second half of 2009, and it should become operational in 2010.
This factory perfectly meets the Group's requirements in terms of securing its supplies, increasing its independence vis-à-vis its suppliers and optimising its delivery times, notably for tailor-made windows.

Slowdown in new store openings

The rate at which new stores are opened will be slowed, once all the stores already signed have been opened. Over the second half of this year, 7 stores will therefore be opened; 4 in France, 2 in Spain and 1 in Portugal. In 2009, only stores already signed will be opened.
At the end of 2008, the Group will thus have a network of 71 stores covering the bulk of the French mainland and will have a solid presence in the south of the Iberian Peninsula.
This slowdown in the rate of new store openings will allow the Group's operating margin to improve as the stores open for less than 2 years gradually reach maturity.

Focus on the deployment of Enterprise Resource Planning (ERP)

All of the Group's staff and integrator teams are currently actively working towards the successful deployment of the ERP system, and the management committee is closely monitoring progress.
All product references and possible manufacturing options have been entered into the database. The implementation of the "production" side is progressing, and initial tests, which took place in September, have been conclusive. For the "distribution" side, the first store was connected to the new system in October, and 15 more stores should be connected by 15th December.
Total deployment across the French distribution network is slated for the first quarter of 2009.
Groupe Vial is thus anticipating total deployment and a 100%-operational system by the end of the first half of 2009.

- **Outlook and guidance**

The disruption associated with the implementation of ERP has continued to weigh on the Group's performances in the second half of 2008. Groupe VIAL is thus anticipating annual sales of €100 million and a net loss of around €21m.

Given the joint effect of the application of corrective measures and the gradual implementation of ERP, the Group expects to be back in the black in 2010.

Next press release:

Q3 2008 sales: 14th November 2008 after market close

About Groupe VIAL (www.groupe-vial.com):
Listed on the Eurolist (Compartment B) of Euronext Paris since December 2006, Groupe VIAL manufactures and distributes aluminium, PVC and wood joinery products (doors, windows, gates, stairs, etc.) offering unparalleled value for money through tight control of supply lines; efficient, modern production facilities and the 64-store VIAL Menuiseries distribution network (including 4 stores in Spain).
Groupe VIAL is France's largest independent discount joinery specialist.

Public site: www.vial-menuiseries.com

Listed on Euronext Paris compartment B of NYSE Euronext

Reuters: **VIA.PA** - Bloomberg: **VIA FP**

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