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Overweight

Going Natural...

Reason for report: Initiation of coverage

Price: € 11.80

(closing price 03/03/08)

Target price: €17.18

Investment Highlights

Athens General Index at

Estimates

	2006	2007 e	2008f	2009f
Turnover (€ m)	26.9	33.0	47.2	66.9
EBITDA (€ m)	5.8	6.6	9.0	13.1
EBITDA chng (%)	84%	13%	38%	45%
Profit after-tax (€ m)	2.8	3.3	4.8	7.7
EPS (€)	0.47	0.45	0.63	1.00
EPS chng (%)	151%	-3%	39%	59%
P/E (x)	25.3	26.2	18.8	11.8
EV/Turnover (x)	3.9	3.1	2.2	1.6
EV/EBITDA (x)	18.2	15.5	11.4	7.9
EV/EBIT (x)	20.8	18.4	13.4	9.0
FCF/Sales (x)	Nm	Nm	0.06	0.08
FCF yield (%)	Nm	Nm	0.03	0.06
P/BV (x)	11.0	5.1	4.5	3.9
RoE (%)	51%	27%	26%	35%
RoIC (%)	19%	18%	21%	25%
DPS (€)	0.20	0.23	0.35	0.55
Dividend Yield (%)	2%	2%	3%	5%

Stock data

52 week low/high	10.24-16.26
Outstanding No of shares	7,700,000
Avg daily shares (3m) traded	2,693
Market cap in € m	90.9
Reuters / Bloomberg	KRRr.AT / KORRES GA
Free float (e)	29.6%
Institutional ownership (e)	11%
Absolute performance in '07	97.50%
in '08	-17.02%
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Company Description

Korres Natural Products is a rapidly developing Greek company with roots in the first Homeopathic Pharmacy of Athens. Set up in 1996 with the aim to utilize its extensive scientific resources for the creation of beneficial and safe products. The company today offers a complete skin and hair care range, make-up, sun care products and herbal preparations. Its inspired owner along with a talented team have created the Utilizing the experience with 3000 homeopathic remedies of herbal origin from the Korres pharmacy, the company today offers more than 500 skin and hair care products and herbal preparations. The company has a goal to become an international brand and has already presence in 28 countries at 1,250 POS globally and in ca. 5,600 pharmacies in Greece along with 2 stand alone stores.

We initiate coverage for KORRES Natural Products and we set a target price of €17.18 per share with an Overweight rating. We believe that the company is well positioned in the market with strong growth potential going forward given its international expansion, its strong branding capabilities, the introduction of new innovative and unique products through the focus on R&D and NPD, and the increasing consumer trend for natural products. Finally the enhancement of the brand portfolio with more brands targeting different segments of the market will be a further growth driver.

KORRES operates in the cosmetics market in Greece and internationally is present in most of the biggest cosmetics consuming countries (approx.28). The company is planning to increase its presence in these markets and also to tap some of the emerging markets (China, Russia), which are expected to present the highest growth going forward.

KORRES produces cosmetics using **natural ingredients**, instead of substances such as mineral oils, silicones, propylene glycol, and parabens. The natural cosmetics are set to grow at higher rates than traditional ones in the mature markets given the increasing consumers' demand for healthier and better quality products.

In terms of **products mix**, KORRES is well positioned as it offers all the key main categories of cosmetics, as well as the fairly new categories of men's grooming products and suncare products that are expected to grow at higher than average rates. Furthermore, the company introduced recently a second brand, KINGS&QUEENS, which addresses the mass-market distribution channel, using natural ingredients and herbs well known to heroes, Kings &Queens and historical personalities.

The **Greek market** which is still the company's key market in terms of revenues and profits, has still room to grow at high double digit rates, mainly through the increasing brand awareness and the addition of new products, new lines and new brands.

We **value** the company's stock using the DCF methodology. For the explicit period (08-10) we expect sales CAGR 41%, EBIT CAGR of 46% and eps CAGR of 53%. For the non-explicit period (2011-2018) we expect sales CAGR of 11%, EBIT CAGR of 8%, and FCF CAGR of 6%. We set beta at 1.03, WACC at 8.9% while we assume zero growth on perpetuity.

This case of strong growth does not come without risks. The cosmetics market is highly competitive, with increasing and more demanding consumer needs, and the strong multinationals leading the way. There is need for constant innovation, while high technology and respective need for R&D expenses and investments dominate the market. Moreover, the potential occurrence of defective products can destroy a company's brand awareness, while it is not always feasible to be within consumers' preferences.

Additionally, more company specific, we could note the highly dependence on the company's founder, dependence on certain suppliers and distributors, high WC needs and potential overhang from current shareholders.



Investment highlights

We initiate coverage of KORRES Natural Products and we set a TP of €17.18 per share and an Overweight rating. We believe that KORRES Natural Products is well positioned in a growing market and is well set in order to become an international brand along with a strong market share in the Greek market. The company based on its strong branding capabilities, the high quality of its products at attractive price levels and the focus on R&D and NPD, along with a strong management team is set to grow rapidly.

Investment positives

- **The company's central philosophy and principles for the use of natural ingredients in its products.** The company's products are based on natural ingredients such as herbs with pharmaceuticals properties, food ingredients and natural materials that render the products friendlier both to the human body and the environment, with more sustainable results and less possibilities for side effects. The international trend for using natural products and resources as consumers are becoming more and more sensitive on the possible side effects the chemical ingredients contained in the every day personal care products and cosmetics, has found a perfect match on the company's alcohol and petrol free products. Furthermore, the company, having its roots in homeopathic remedies and utilizing the experience of its founder, has deep knowledge of the attributes and uses of herbs, which are one of the key ingredients of KORRES products. Furthermore, the company being in Greece can fully exploit the Greek Flora and its unique herbs.
- **The company's focus on branding and unique positioning against its peers.** Korres Natural Products' brand enjoys growing awareness not only in Greece but also in the international markets where it is already present. The company's focus on attractive and edgy promotion and packaging has created rapidly growing brand awareness. The company has the ability of combining high aesthetics with science. KORRES has been awarded plenty of times for its products as well as for its products' promotion, packaging and development. The company is unique in the sense of a superior product offering above "selective" brands in terms of quality and with attractive pricing (lower by 10%-20% vs. selective and semi-selective brands). Furthermore, the company diversifies its portfolio with the launch of its new mastige brand (KINGS&QUEENS) which is promoted through the mass-market distribution channel while having premium quality and focus on natural ingredients.
- **The company's focus on R&D – and new product development.** The company is committed in R&D in order to produce innovative and effective products always by using the unique characteristics and advantages of natural ingredients. Given the highly competitive environment the continuous innovation is a prerequisite in cosmetics market. The company's scientific expertise and experience along with the management focus on R&D and the opportunity to utilize the Greek Flora and its unique herbs. The company has the capacity to research and develop ca. 100 new projects at a time in order to be able to produce and market the majority of them. The company's policy is to clinically test the products (12-18 months) and offer products that deliver their promises and at the same time avoid over promising on results.
- **The company's distribution model and network.** The company gained wide access in the market through pharmacies (5,600 in Greece). The distribution through this channel also enhanced the company's profile of producing more healthy and natural products. KORRES Natural Products are strategically distributed strictly in the selective market in Greece; thus apart from the pharmacies network the company launched 2 shop-in shop stores (Attica Department store, Athens Airport). KORRES Natural Products internationally are distributed in the selective and semi-selective market through local distributors. KINGS&QUEENS are locally and internationally distributed in the mass market through supermarkets, retail chains and selected POS.

This model gives the company the ability to get foothold in more markets more rapidly and with lower costs vs. launching a stand-alone owned network. Through the collaboration with distributors the company internationally is present in the most widely known department stores, in stand alone stores at prime locations and in pharmacies – while the collaboration with hotels and Lufthansa give the company the ability to further build its brand awareness.



- **The control of production.** The company's listing in the ATHEX gave the company the necessary financial strength in order to upgrade its production capacity as well as to launch a new brand. The production capacity will increase by 8-times after the installation of the new equipment. The company will not have any constraints in responding to a potential intense demand growth due to the rapid international and local expansion.

Furthermore, the company has the control of the production as the 80% of the products are domestically produced. The rest 20% is outsourced to other companies; however the production is based on KORRES formulas and specs.

- **The company's portfolio diversification with the launch of the KINGS&QUEENS brand, which addresses to a different consumer profile.** The company launched in H207 its second brand - which is not directly competing KORRES Natural products brand. The product line, which currently comprises body care products (shower gels, body milks, body butters and soaps), has the same principles regarding the natural ingredients and the focus on herbs with KORRES, however addresses a different target group through different distribution channels and pricing. The **KINGS & QUEENS** brand is considered as a more fashionable, hip brand in terms of concept and promotion, however of similar quality with KORRES, but at lower pricing and addressing customers through a mass and semi-selective distribution network.
- **The company's senior management – founder.** Mr.Korres, starting from being a pharmacist had the expertise and the scientific background as well as the dedication and vision for building a global natural cosmetics brand. His innovation, high aesthetics and dedication to the company along with a strong business team will bring the company to higher levels.



Investment risks

- **Competition:** the company has strong competitive advantages that are not easily copied – however the competition is fierce with big multinationals leading the trends. The strong competition is leading the company and its peers to spend significant amounts in marketing and promotion and R&D. We note that R&D and NPD are among the key drivers in the sector and could require relatively high amounts of investments and effort without ensured successful results.
- **New brand – New products:** The company has always the risk that its new products or brands might not be well accepted by consumers despite previous company research and surveys.
- **Consumption trends- consumer spending:** A number of macroeconomic factors or trends can affect the level of consumer spending with negative effects on the company's sales. However, some products of the cosmetics and toiletries sector are largely considered as necessities.
- **Defective Products:** A possible occurrence of bad or not well-preserved products (despite the strict control procedures) will be harmful for the company's brand image with potential negative effects on sales.
- **Bargaining power of suppliers and distributors:** The company up to now is cooperating with certain suppliers both for ingredients and packaging products (2 suppliers accounted for 35% of total purchases in 05). On the side of distributors the company cooperates with a certain distributor in N. Greece and exclusively with distributors internationally. A potential disruption of these co-operations could temporarily harm the company's production and distribution.
- **WC needs- weak cash flow- receivables from former subsidiaries.** The company is currently growing and through the improvement of its infrastructure and bigger production capacity it will move towards improving both its turnover and its receivable terms. Regarding the receivables from the 2 former subsidiaries, the risk of not being cashed out is minimized through the personal guarantee by the major shareholders.
- **Dependency on company's founder.**
- **Overhang from current major shareholders.** The company's major shareholders have a lock up period until April 08 for selling above 25% of their stake.

Shareholders' composition

The company listed in the ATHEX on April 12, 07. At the IPO the company offered 1.6m shares. Currently the 7.7m shares are allocated as following- while the major shareholders are bound not to sell for the first year since the company's listing in the ATHEX a more than 25% of their stake.

Shareholders' Current Structure		
G. Korres*	56.10%	4,319,850
H. Philippou	5.60%	431,500
P. Katsoulas*	4.52%	347,875
A. Korres*	4.20%	323,100
Free float	29.60%	2,277,675
Total	100.00%	7,700,000

* 1 year (since IPO) lock up period for 75% of initial stake

Source: the Company



Strategic Focus

- **Geographic expansion:** The Company's strategic goal is to become a global brand. We expect that despite having exposure in ca. 28 countries, the company will focus on some key developed markets such as the UK, the US, France, Germany, and Japan as well as some of the large emerging countries such as China and Russia. Europe represents the largest cosmetics market with Germany, France, the UK, Spain and Italy representing the 70% of the total market. The US, Japan and China markets follow. Furthermore, Russia along with the other European emerging markets are showing dynamic growth rates the recent years. Consequently, we expect that the company will focus its resources for meeting the needs of the largest international markets by developing new products and product categories, expanding its distribution network and strengthening its exports and retail development structures. Finally, as the company's penetration is growing we expect that it will enhance its communication and advertising activities.
- **Strengthen brand in Greece:** The company is present in the Greek cosmetics market since 1996 through the homeopathic pharmacy at first and as an SA since 2000 and has already a market share of more than ca. 12%-12.5%. Sales in the domestic market account for the majority of total group sales. Despite the focus on becoming a global brand, there is still strong potential for growth and expansion in the Greek market. The company will put its efforts to enhance its brand through the launch of new products and product categories as a result of the innovative technology and research. Furthermore up till now, we notice that the company has not made use of all advertisement channels- the company going forward will make use of more frequent and mass advertisement (TV ads) in order to enhance the brand communication. The company will focus on the current stores for renovation and improvement- the distribution network in the Greek market is already fully developed.
- **Development of Kings and Queens brand** – Through this additional brand the company diversifies its portfolio and is penetrating the mass market that represents a larger target group. The new brand is of high quality and prestige and at lower pricing vs. KORRES natural products (masstige). The company has recently launched the body care product line in Greece and commenced exports in some of the European countries (Netherlands, Germany) with encouraging results up to now. Going forward the company will fully cover the Greek market and expand its exports to the rest large European countries and the US. The company will enhance its communication and marketing activities as well as the management structure. Furthermore, the company could expand the product line with hair care products in the future.
- **Strengthen R&D and use of innovative ingredients and raw materials-** the use of R&D and the operation of its subsidiary specialized in extractions could ensure the use of innovative and in addition unique raw materials for the creation of new products and product lines or the reinvention and the development of existing ones. For that reason the company will enhance its R&D and NPD departments.
- **Improve the company's financials:** Through economies of scale improve the cost base of raw materials, production, other supplies- improvement of WC needs and cash flow, through more favorable terms with suppliers and distributors.
- **Enhance portfolio of brands: third brand- upscale pricing- packaging –same high quality** – driven by the strong competition in the sector and following the big multinational companies that are present with different brands in the full spectrum of the market – from the mass market to the super selective, the company could add another brand in its portfolio. A brand that would be more upscale in terms of pricing, packaging and distribution channel.
- **Enhance new activities – co-operations:** The company's co-operation and participation in research programs along with the Greek University Pharmacology Dept for the identification of the characteristics of the Greek Flora, the 15% participation in the Krokos producers association, the co-operation with the Chios Mastiha Growers Association, the participation in the company PHYTO12 and the operation of its subsidiary Greek Extractions can lead to significant breakthroughs in the creation-utilization of unique products and materials addressing cosmetics, nutraceuticals and possibly other sectors complementary to cosmetics.



Valuation

We set a TP of €17.18 per share and an Overweight rating. We use the DCF methodology to value the company. For the explicit period (08-10) we expect sales CAGR 41%, EBIT CAGR of 46% and eps CAGR of 53%. For the non-explicit period (2011-2018) we expect sales CAGR of 11%, EBIT CAGR of 8%, and FCF CAGR of 6%. Finally we assume zero growth on perpetuity.

We assume beta is 1.03 and WACC at 8.9%. We present our DCF valuation in the following table.

in € m, unless otherwise stated	2008 f	2009 f	2010 f	2011 f	2012 f	2013 f	2014 f	2015 f	2016 f	2017 f	2018 f	terminal year
Sales	47.2	66.9	93.5	116.6	134.4	154.6	170.6	186.9	196.3	206.1	216.4	216.4
% change	43%	42%	40%	25%	15%	15%	10%	10%	5%	5%	5%	
EBIT	7.7	11.5	17.2	20.6	23.7	26.0	27.3	28.2	29.0	29.9	30.8	30.8
% change	39%	50%	49%	20%	15%	10%	5%	3%	3%	3%	3%	0%
EBIT margin	16%	17%	18%	18%	18%	17%	16%	15%	15%	14%	14%	14%
Less: Tax	1.9	2.9	4.3	5.1	5.9	6.5	6.8	7.0	7.3	7.5	7.7	7.7
After tax EBIT	5.8	8.6	12.9	15.4	17.8	19.5	20.5	21.1	21.8	22.4	23.1	23.1
Less: Working Capital additions	2.3	3.4	5.9	6.2	6.5	6.8	7.1	7.5	7.9	8.3	8.7	0.0
Plus: depreciation	1.3	1.6	1.7	2.1	2.4	2.7	2.8	2.9	3.0	3.0	3.1	3.1
Less: Cap ex	3.0	3.0	3.0	7.0	8.8	9.6	9.6	9.0	9.1	8.9	8.7	3.1
Net Capex & WC requirements	3.9	4.8	7.1	11.0	12.8	13.7	13.9	13.6	14.0	14.1	14.2	0.0
Reinvestment rate	68.3%	55.7%	55.3%	71.4%	72.4%	70.4%	67.8%	64.6%	64.2%	62.9%	61.7%	nm
ROIC	21.1%	24.7%	24.7%	24.7%	24.3%	23.9%	23.6%	23.3%	23.0%	23.0%	23.0%	0.0%
Free Cash Flow	1.8	3.8	5.7	4.4	4.9	5.8	6.6	7.5	7.8	8.3	8.8	23.1
Discounting Factor	1.0	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.4	0.4
Discounted Free Cash Flow	1.8	3.5	4.9	3.4	3.5	3.8	4.0	4.1	4.0	3.9	3.8	
Average WACC	8.86%											
PV of Cash Flows	40.6											
PV of Residual Value	102.4											
Minorities	0.0											
Enterprise Value	143.0											
Less: Net debt '08e	12.0											
Investments (Mediterra, Krokos)	1.3											
Equity Value	132.3											
target price	17.18											
Plus: Dividend 2007	0.2											
Total investors' return	48%											

Source: JCF, National P&K Securities

The company despite underperforming its peers on average since the beginning of the year, it is trading at a premium regarding 08 estimates and at a discount regarding 09 estimates vs. its peers. However, we should note that in its peer group the big multinational cosmetics companies are included. Furthermore only few company's are at the same business cycle with KORRES, that is in the starting phase of becoming an international brand, with strong brand awareness in its home country and with strong growth potential going forward. In the following table the key KORRES multiples according our estimates are presented vs. its peer group consensus estimates.

	Country	Market Cap.	% Change YTD	Earnings Per Share % Change 08	Earnings Per Share % Change 09	P/E 08	P/E 09	Ev/EBITDA 08	Ev/EBITDA 09
Natura Cosmeticos SA	Brazil	7,763	6.5%	11.2%	12.6%	15.2 x	13.5 x	10.4	9.2
Clarins S.A.	France	1,876	-19.3%	6.0%	12.0%	19.0 x	17.0 x	10.8	9.7
Oreal (L')	France	47,263	-21.0%	11.5%	13.1%	20.6 x	18.3 x	13.5	12.2
Beiersdorf AG	Germany	13,447	0.7%	13.2%	15.6%	23.1 x	20.0 x	13.1	11.3
Sarantis	Greece	453	-15.6%	15.5%	18.0%	13.2 x	11.2 x	9.4	7.7
Shiseido	Japan	953	-12.1%	8.0%	3.6%	26.0 x	25.1 x	8.0	7.9
Oriflame Cosmetics S.A	Sweden	22,447	0.7%	16.4%	20.7%	18.4 x	15.2 x	12.9	10.9
Avon Products	ited States of Amei	16,520	-2.1%	77.6%	18.0%	18.0 x	15.3 x	10.7	9.4
Bare Escentuals Inc.	ited States of Amei	2,559	15.6%	24.2%	25.4%	23.8 x	18.9 x	12.6	10.3
Estee Lauder	ited States of Amei	8,687	-0.4%	9.7%	12.0%	18.3 x	16.4 x	9.1	8.4
Herbalife Ltd.	ited States of Amei	2,849	10.5%	21.8%	16.7%	13.5 x	11.6 x	7.9	7.0
Elizabeth Arden Inc	ited States of Amei	527	-10.4%	38.8%	17.0%	10.9 x	9.3 x	na	na
Physicians Formula Holdings Inc.	ited States of Amei	111	-33.4%	24.1%	30.6%	11.0 x	8.4 x	na	na
Nu Skin Asia Pacific	ited States of Amei	1,108	4.2%	38.4%	13.4%	14.4 x	12.7 x	7.6	6.7
Kao Corp.	Japan	1,725	-6.5%	6.0%	13.5%	24.0 x	21.1 x	8.4	7.0
Natural Beauty Bio Tech Ltd	Hong Kong	4,000	-19.4%	30.3%	-0.8%	17.7 x	17.9 x	12.8	na
Average		20,234	-6.1%	22.0%	15.1%	17.9 x	15.7 x	10.5 x	9.0 x
Weighted Average		34,204	-6.9%	19.0%	13.0%	20.2 x	17.6 x	7.7 x	6.1 x
KORRES (National P&K est)	Greece	93	-12%	39%	59%	18.8 x	11.8 x	11.4 x	7.9 x
(discount) / premium vs. average			99%	79%	294%	5%	-25%	9%	-12%
(discount) / premium vs. weighted average			75%	108%	357%	-7%	-33%	48%	29%

Source: JCF, National P&K Securities



Key earnings and financial estimates

Sales breakdown

The company's products are grouped in the following main categories: face care, hair care, body care, pharmaceuticals and others. The face care products category accounts for ca. 45% of total sales and historically has presented the highest growth. During the period 03-06 the company's sales grew at CAGR 41.3%. Going forward we expect sales to grow at a similar CAGR with strong growth for all product categories driven by the addition of new products, new product lines, new brands and the international expansion.

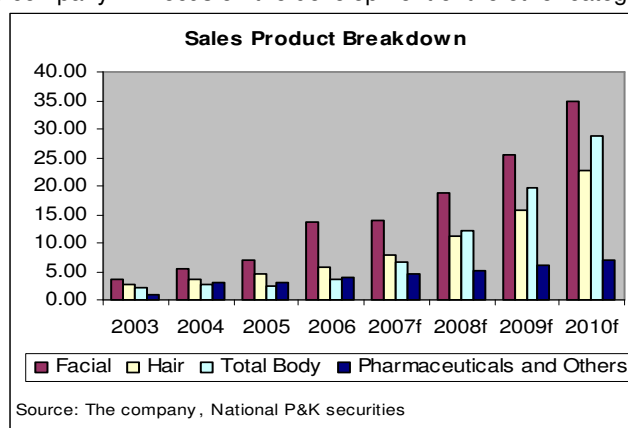
The face care products include all the products concerning the treatment of the face, such as cleansing, moisturizing, anti-age and anti-wrinkling, masks, eye-care, lip care, make up etc. This category is the largest for the company and has strong growth potential. The company launched the make up products line in 06 and for that reason face products sales in FY06 leaped up by 93% y-o-y and accounted for 51% of total sales. In FY07 we expect that the yearly comparison will show almost flat growth, while without taking into account the make up launch, the face care sales will show strong growth in FY 07 as well (at the levels of 30%).

The company continues to add new products and product lines in this key category, and especially the skin care, which leads the way in the cosmetics industry in general. The consumer focus on specific products for specific type of skin, with special more sophisticated characteristics and healthier ingredients drives the demand for the segment and can be strong growth driver for the company that follows the consumer trends. For example the company recently launched a new product line for young skincare that has also anti-acne treatment as well as re-launched and enhanced the men care product line.

The hair care products category includes all the products concerning the hair treatment, hair styling and coloring. The products for the styling and coloring are fairly recently launched and are very successful and profitable.

The body care products category comprises of all products related with the body skin care as well as toiletries, and sun care products. This product category accounted for ca. 14% of sales until FY 06. In FY 07 the company launched its new brand -KINGS and QUEENS, which currently has a body care product line. Through this new brand the company entered the mass market of the body care and toiletries segment, which is bigger and more competitive at the same time. The KINGS & QUEENS was launched in May 07. The launching commenced gradually from Greece, Germany and the Netherlands. We expect KINGS & QUEENS sales to reach ca. €1.3m in FY 07. Given the initial very positive impressions we expect dynamic growth for the brand. The body care category is expected to show ca. 81% y-o-y increase in FY 07 in total, while excluding KINGS & QUEENS we expect an increase of 46% y-o-y.

The pharmaceuticals category includes some homeopathic pharmaceutical products, anticellulite products, syrup and candies for cough as well as anti-insect products. **The other products** category comprises of the hotel complementary products, the Mastiha products line, the oral care products, nutraceuticals such as jam and herbal teas, and finally aromatic oils, candles and promotional material. This category that comprises of many and diverse products is still quite small, however it has strong growth potential depending on the focus and the resources that the company will commit for its growth. Furthermore there is plenty of room for innovation for these product lines. We remain conservative and expect that going forward it will grow at the current mid teen levels, as we believe that the company will focus on the development of the other categories.

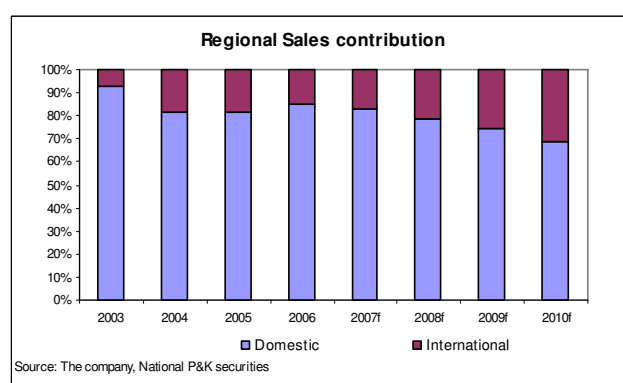
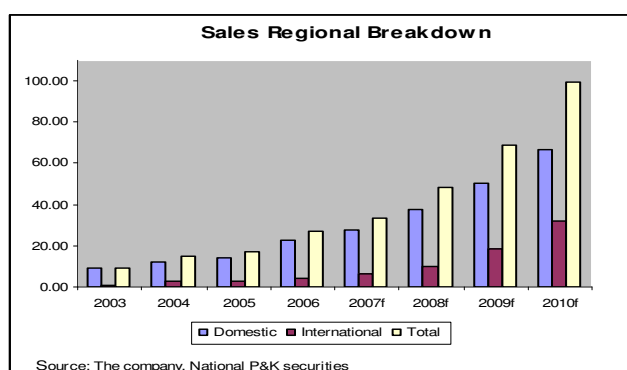




Geographical breakdown

The company is present in Greece with strong distribution network while internationally it has presence in ca. 28 countries. The international expansion is still in the initial stages however growing at a faster pace vs. the domestic sales. The company is established in the Greek market, with strong brand awareness and a market share of more than 12%. We expect that the international sales will present strong growth given the interest witnessed by local distributors in the large cosmetics markets and the increasing number of KORRES stand alone stores. Furthermore the launching of the KINGS & QUEENS brand both in Greece and internationally is expected to boost exports. In the following table the sales breakdown in the domestic and international market is presented along with our estimates. Greece sales accounted for 85% of total in FY 06 while we expect them to drop to 70% of total by the end of 2010.

We note that US, UK, and Germany are the largest contributors in total international sales. According the 9m 07 results US sales stood at €1.4m and UK sales stood at €0.5m out of €3.67m in total.



Considering the sales breakdown in terms of distribution channel and market we note that the company's products in Greece are distributed only through pharmacies and the two stand alone stores in Attica Stores and the AIA airport. Thus, in Greece the company's KORRES natural products address the pharmacies and the selective markets. In the following table the domestic sales breakdown is presented.

Sales Breakdown by Distribution Channel Domestic*				
	2003	2004	2005	2006
Pharmacies	7.34	9.85	10.82	17.73
Distributors	1.57	2.25	2.49	4.17
Stand Alone stores	0	0	0.6	1.06
Total	8.90	12.10	13.91	22.96
Pharmacies	82%	81%	78%	77%
Distributors	18%	19%	18%	18%
Stand Alone stores	0	0	4%	5%
Total	100%	100%	100%	100%

Source: The company, National P&K securities

Internationally the KORRES brand products are promoted in the selective market and distributed by the large local distributors through big departments' stores and shop-in-shops as well as Korres stand alone stores. Up to now, the US and, from the European countries the UK, represented the largest international markets for the company.

The KINGS and QUEENS are promoted in the semi-selective and the mass markets and distributed through super markets and large cosmetics retail chains. The K&Q product line was initially launched in the Netherlands and by the 07 y-end we expect that the launch also in Germany, France, Russia and Japan has commenced.

In the following tables we present the sales breakdown by product and by region historically along with our estimates for the short term.



Sales assumptions

(in EUR million)	2003	2004	2005	2006	2007f	2008f	2009f	2010f
Sales Breakdown by Product								
Facial	3.59	5.53	7.11	13.69	13.86	18.71	25.45	34.86
Hair	2.86	3.58	4.47	5.63	7.91	11.15	15.82	22.79
Total Body	2.07	2.64	2.46	3.71	6.72	12.12	19.57	28.72
Korres Body	2.07	2.64	2.46	3.71	5.41	8.12	12.57	19.72
Kings and Queens	nm	nm	nm	nm	1.31	4.00	7.00	9.00
Pharmaceuticals and Others	1.04	3.04	3.02	3.89	4.51	5.25	6.10	7.10
Total	9.55	14.78	17.06	26.91	33.00	47.22	66.93	93.46

Sales Breakdown by Product Category growth								
Facial	nm	54%	29%	93%	1%	35%	36%	37%
Hair	nm	25%	25%	26%	41%	41%	42%	44%
Total Body	nm				81%	80%	62%	47%
Body	nm	28%	-7%	51%	46%	50%	55%	57%
Kings and Queens	nm					205%	75%	29%
Pharmaceuticals and Others	nm	194%	0%	28%	16%	16%	16%	16%
Total		55%	15%	58%	23%	43%	42%	40%

Sales Contribution Breakdown by Product								
Facial	38%	37%	42%	51%	42%	40%	38%	37%
Hair	30%	24%	26%	21%	24%	24%	24%	24%
Total Body					20%	26%	29%	31%
Body	22%	18%	14%	14%	16%	17%	19%	21%
Kings and Queens					4%	8%	10%	10%
Pharmaceuticals and Others	11%	21%	18%	14%	14%	11%	9%	8%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: The company, National P&K securities

	2003	2004	2005	2006	2007f	2008f	2009f	2010f
Sales Breakdown by region - Group sales								
Domestic	8.90	12.10	13.91	22.96	27.47	37.21	49.66	64.02
International	0.64	2.68	3.16	3.95	5.53	10.02	17.27	29.44
Total	9.55	14.78	17.06	26.91	33.00	47.22	66.93	93.46
Sales Breakdown by region - breakdown								
Domestic	93%	82%	81%	85%	83%	79%	74%	69%
International	7%	18%	19%	15%	17%	21%	26%	31%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Sales Breakdown by region - change								
Domestic		36%	15%	65%	20%	35%	33%	29%
International		316%	18%	25%	40%	81%	72%	70%
Total		55%	15%	58%	23%	43%	42%	40%

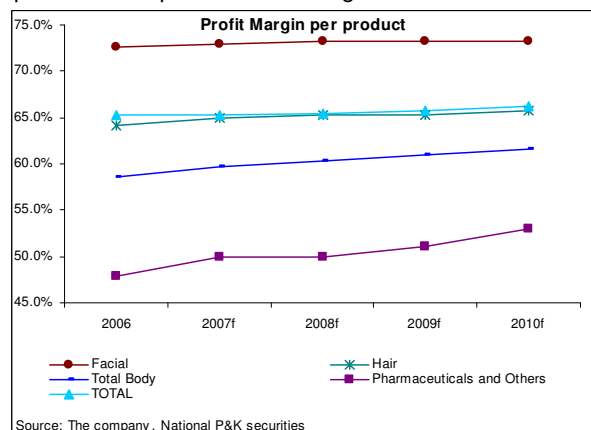
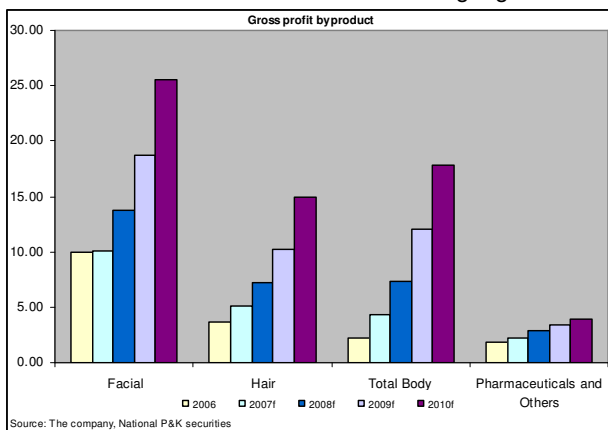
Source: The company, National P&K securities

Profitability

We expect that the company's profitability will improve going forward driven by the following factors.

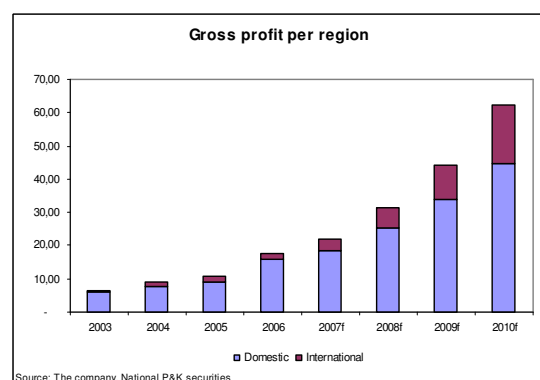
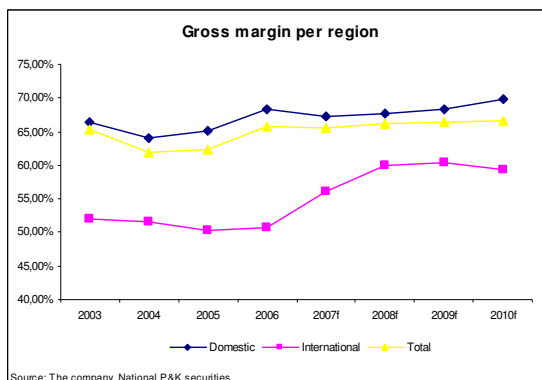
In terms of the **gross profit** improvement, the key driver will be the exploitation of the economies of scale and the operating leverage that will derive from the increased and upgraded production. The new production equipment and the investments for the upgrading of logistics will improve the company's productivity and in effect its cost structure. The company's expansion both in the domestic and the international markets will require the increased production output. Furthermore, the increased volume of purchases of raw materials and packaging will enable the company to renegotiate prices with its suppliers.

The gross profit breakdown by product shows that the face products category accounts for above 40% of total gross profit on average, since it accounts for the 40% on average of sales. The hair care category is the second higher contributor in profitability, while the profits from the body care with the evolution of KINGS&QUEENS will surpass the hair category going forward according to our estimates. In terms of gross profit margins, the face care category enjoys the highest margins that exceed 70%, while hair care stand at ca. 65% and body care at ca. 61%. The higher contribution of the body care category in sales followed by the recent launch of KINGS&QUEENS (which in effect currently presents lower profit margins vs. the group average), will not put some pressure in the group gross margin given the margin improvement expected in all categories.

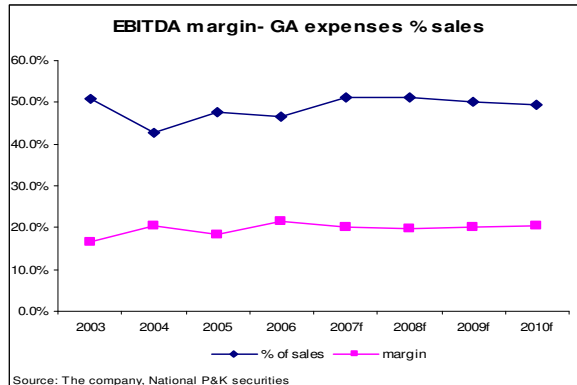


The company's gross profit also depends on the respective distribution channel and the country of sale. The company distributes its products directly to its stores (only in Greece), to pharmacies and domestic and international wholesalers. Consequently the company sells its products at the retail/ wholesale prices in Greece and at export price internationally. The wholesale price is in effect higher vs. the export price, rendering the gross profit margin of domestic sales higher.

We expect that the gross margin for all product categories, as well as both for domestic sales and exports will increase going forward. The improvement of the gross margins will derive from the focus on higher margin products along with the benefits from the increased productivity and the improved cost structure from the operating leverage and the economies of scale as the company's size grows. In the following table the evolution of the company's gross profit is presented along with the breakdown by product category.

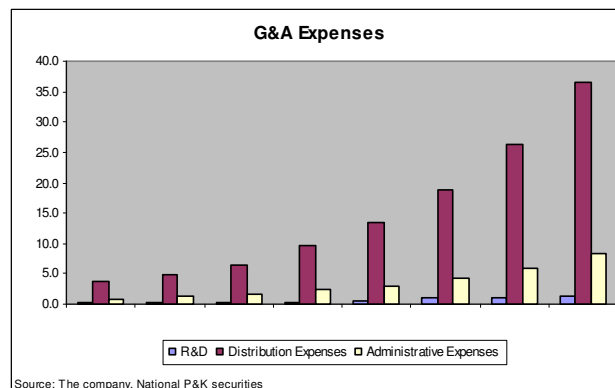


On the EBITDA level we expect some pressure in the margins in the short term driven mainly by the increased advertising, R&D and NPD expenses. The containment of some administrative and distribution costs that will derive from the operating leverage and the improvement of the production operations will be counterbalanced by the requirements for higher advertisement and R&D expenses.



The company is planning to have more intense communication for the enhancement of Korres brand awareness. It is considering of using TV campaigns vs. print campaigns until recently in Greece and print campaigns abroad. Furthermore, the company recently launched the KINGS&QUEENS brand. The communication plan for the brand given its distribution in the mass market is more demanding and is expected to be more intense both in the domestic market and abroad. We expect the marketing expenses to account for ca. 10-11% of sales.

Furthermore, we expect some increase in the R&D expenses in the short term as the company will focus on further stuffing of the department in order to cover the increased needs for innovation and development of new products. As % of sales we expect R&D and NPD expenses to account for ca. 2%. The evolution of the G&A expenses is presented in the following graph.



Regarding the financial expenses we expect that they will grow at similar levels as in the past however with higher interest rates we expect a slight increase as % of average debt. We expect net debt to improve and stand at €6m in FY 07 vs. €15m in FY 06.

We expect net profits increase by 15% in FY 07 and reach €3.3m, while for the period 08-10 we expect net profit to grow at CAGR of 53% and reach €11.7m in FY 10.

Regarding the company's dividend policy we expect that the company will maintain a payout of 55% in the short- medium term given its growth and expansion outlook.

In terms of the company's free cash flow we expect that it will grow significantly through the increased operating cash flow. Operating cash flow will grow through the higher sales and profitability and the improved working capital management. We expect that the WC management will improve on the better payment terms with both the suppliers and distributors as the company becomes bigger and gains negotiation power. Furthermore the company has settled the issue of long term receivables from its former US and UK subsidiaries as the companies have agreed the collection terms. Regarding the inventory management we expect improvements to come from operating efficiencies and the inclusion of K&Q, which is a mass, faster moving product line.



The collection period of receivables depends on the different agreements with its diverse distributors. In Greece from the pharmacies the collection period can extend up to 2-4 months, while from its key distributors in US and UK can extend up to 6 months (with an upper limit for the due amount). The company has agreed for pre-payments with certain distributors in emerging markets.

Finally as far as the capex is concerned, the company has invested up to now the majority of the capital needed for the new equipment, the new production facility, IT infrastructure upgrade and the promotional expenses for the launching of new product lines and the KINGS & QUEENS initial launch. In the medium term the main capex required will be used for equipment, the share capital increase of subsidiaries, set up of new subsidiaries and production improvements.

We recall that through the IPO the company raised €11.5m to be allocated both in the capex for new equipment and the expenses for R&D, and advertisement for new and old brands and products.

In the following table the allocation of the IPO funds raised is presented after some adjustments and date rollovers due to the later than initially expected IPO.

IPO Funds								
Sector	Category	Total funds raised	H1 07	H2 07	H1 08	H2 08	Allocated until H1 07	Reserve from H1 07
Advertising Expenses- Development of Sales	Advertising Expenses- International promotion	3.0	0.1	0.7	1.0	1.2	0.1	2.9
	Advertising Expenses- Current brand domestic promotion	2.0	0.0	1.0	0.5	0.5	0.0	2.0
Investments for new brands development	Launch of Kings&Queens subsidiary	1.2	0.4	0.4	0.2	0.2	0.4	0.8
	Launch of Greek Extracts subsidiary	0.4		0.0		0.4		0.4
R&D expenses for new products development	Expenses for R&D and development of new product, product lines, new brands, utilisation of the Greek flora	0.4	0.1	0.1	0.1	0.13	0.1	0.3
Enhancement of Production Operations		0.9			0.9			0.9
Enhancement of infrastructure		0.4			0.4			0.4
IPO Expenses	IPO Expenses	0.8	0.7	0.0	0.1	0.1	0.7	0.0
Financial Structure Improvement	Bank Debt decrease	1.7	1.7				1.7	0.0
	WC	0.7	0.5	0.2			0.5	0.2
Total		11.5	3.55	2.4	3.2	2.6	3.6	8.0

Source: the company



Earnings Assumptions

Gross Profit by Product	2006	2007f	2008f	2009f	2010f
Facial	9.94	10.12	13.70	18.64	25.53
Hair	3.61	5.14	7.27	10.32	14.97
Total Body	2.17	4.01	7.31	11.94	17.70
Body	2.17	3.25	4.95	7.74	12.21
Kings and Queens		0.76	2.36	4.20	5.49
Pharmaceuticals and Others	1.86	2.25	2.62	3.10	3.76
TOTAL	17.58	21.52	30.90	44.00	61.96
Gross Margin per product	2006	2007f	2008f	2009f	2010f
Facial	72.6%	73.0%	73.2%	73.2%	73.2%
Hair	64.2%	65.0%	65.2%	65.2%	65.7%
Total Body	58.5%	59.6%	60.3%	61.0%	61.6%
Pharmaceuticals and Others	47.8%	50.0%	50.0%	50.9%	53.0%
TOTAL	65.3%	65.2%	65.4%	65.7%	66.3%
Gross Profit per product contribution					
Facial	57%	47%	44%	42%	41%
Hair	21%	24%	24%	23%	24%
Total Body		19%	24%	27%	29%
Body	12%	15%	16%	18%	20%
Kings and Queens	0%	4%	8%	10%	9%
Pharmaceuticals and Others	11%	10%	8%	7%	6%
Total	100%	100%	100%	100%	100%

Source: The company, National P&K securities

	2003	2004	2005	2006	2007f	2008f	2009f	2010f
Gross Profit Breakdown by area - Group Gross Profit								
Domestic	5.91	7.76	9.06	15.70	18.54	25.36	34.37	45.41
International	0.33	1.38	1.59	2.01	2.98	5.54	9.63	16.55
Total	6.25	9.14	10.65	17.71	21.52	30.90	44.00	61.96
Gross profit margin by area	2003	2004	2005	2006	2007f	2008f	2009f	2010f
Domestic	66.39%	64.14%	65.16%	68.39%	67.48%	68.16%	69.21%	70.93%
International	52.00%	51.50%	50.34%	50.72%	54.00%	55.29%	55.73%	56.20%
Total	65.4%	61.8%	62.4%	65.8%	65.2%	65.4%	65.7%	66.3%
Gross profit Contribution by area								
Domestic	94.6%	84.9%	85.1%	88.7%	86.1%	82.1%	78.1%	73.3%
International	5.4%	15.1%	14.9%	11.3%	13.9%	17.9%	21.9%	26.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The company, National P&K securities

	2003	2004	2005	2006	2007f	2008f	2009f	2010f
EBITDA	1.57	3.04	3.15	5.81	6.55	9.01	13.10	18.90
Change margin	0.0%	93.0%	3.8%	84.3%	12.8%	37.5%	45.4%	44.3%
	16.5%	20.6%	18.5%	21.6%	19.9%	19.1%	19.6%	20.2%
Expenses								
R&D	0.2	0.2	0.2	0.4	0.6	1.0	1.2	1.3
% of sales	2.5%	1.7%	1.1%	1.3%	1.8%	2.2%	1.7%	1.42%
Distribution Expenses	3.7	4.8	6.4	9.8	13.2	18.7	26.2	36.2
% of sales	38.8%	32.7%	37.3%	36.3%	40.0%	39.6%	39.2%	38.7%
Administrative Expenses	0.9	1.2	1.6	2.4	3.0	4.3	5.9	8.1
% of sales	9.6%	8.2%	9.2%	8.9%	9.0%	9.0%	8.9%	8.7%
total expenses reported	4.9	6.3	8.1	12.5	16.8	24.0	33.3	45.6
% of sales	50.9%	42.5%	47.6%	46.5%	50.9%	50.8%	49.7%	48.8%

Source: The company, National P&K securities



Company brief Profile

The founder of the company Mr. George Korres commenced his career as a pharmacist in the first homeopathic pharmacy of Athens. His first homeopathic product was a herbal throat syrup made from honey and aniseed. Following, Mr. Korres acquired the pharmacy and started the production of homeopathic products initially for his friends and some special clients. Since then the company has grown significantly and is gradually becoming a global brand: Korres Natural Products offers ca. 500 herbal products- cosmetics and nutraceuticals- through an extensive worldwide network comprising of pharmacies, department stores, stand alone stores and on line stockists.

Production (location- procedure)

The company's production facility of 6,500sq m. is located in Oinofyta in a 13,000sq. m. plot of land. The company within H1 08 will complete the installation of the new production equipment, which will raise the capacity 8 times the current production output (with 3 shifts) lead to production costs efficiencies at the same time. The new equipment includes one of the largest furnaces in the cosmetics industry in Greece. The company's production is realized in Greece (Oinofyta plant) by 80% while a 20% is outsourced to partners who follow the company's specifications and standards. The company for example outsources to Italy the production of some make up products.

The products are manufactured and controlled consistently according to the Cosmetic GMP (Good Manufacturing Practice) and GLP (Good Laboratory Practice) Guidelines.

The company's equipment consists of supporting and producing parts. The supporting equipment consists of a water drilling, water tanks, equipment for the purification of water through double reverse osmosis (that equals the quality of the water used in the pharmaceutical industry), vapor production equipment etc. The producing equipment consists of mixers and tanks with current producing capacity of 10k kg of cosmetics. Furthermore the equipment includes filling machines and automated packaging lines with maximum capacity 15m pieces.

Ingredients from the nature

Korres natural products are in effect made from natural ingredients and are free from mineral oils, parabens, silicones, propylene glycols and ethanolamines. The use of herbs, of herbal extracts and food ingredients are some of the raw materials used for the production of Korres Natural products. The company uses natural ingredients that are more environment and skin friendly than the synthetic and chemical compounds that are used most commonly in the cosmetics industry. For example mineral oil, the synthetic product of chemically processed petroleum, is replaced by vegetable oils of quality and skin compatibility, silicones, a wide family of synthetic, non-biodegradable compounds, are replaced by dry vegetable oils with a velvety texture and substantial moisturizing and nourishing properties and parabens are replaced by organic acids and food preservatives that are more safe and mild. Furthermore, in all products are added active plant extracts that offer rich content of actives in a standardized concentration that ensures maximum efficacy.

According to the company there are 4 categories of active natural ingredients that are used in its products:

- ◆ **Medicinal herbs (the pharmacy heritage):** Herbs with well-known medicinal and cosmetic use such as: properties Calendula, Echinacea, Hypericum, Ginkgo biloba, Ginseng, Hamamelis, Evening primrose, Aloe Vera.
- ◆ **Greek Flora herbs:** such as Thyme, Olive oil, Basil, Mastiha, Crocus, Rosemary, Chamomile, Fennel, Sage, Linden, Rosemary. The company uses also very rare or unique herbs that grow in specific areas of Greece, harvested and naturally processed by the people of local communities such as Mastiha from the island of Chios and Saffron (Krokus) from the village Krokus in Kozani, NE Greece.
- ◆ **Food Ingredients:** the company uses some ingredients reach in nutritional value including antioxidants, vitamins, minerals. Yoghurt and Thyme Honey are some examples of food ingredients used in their natural forms in order to maintain their characteristics.
- ◆ **High-efficacy natural ingredients:** New, high-efficacy herbal ingredients, the latest outcome in the Science of Cosmetology, such as Hibiscus, Argan, Andiroba, Wild Mango, Mourera fluvialis, Imperata cylindrica, Sunflower.

The company is able to use the natural ingredients effectively due to the wide knowledge and experience of its founders on the special characteristics of the ingredients and their compatibility with the skin. Furthermore the company has a strong R&D department, which will be further enhanced with skilful scientific staff along with technological equipment. Furthermore the company has a cooperation with Pharmacognosy University Dept in order to further study and explore the properties of unique Greek herbs.



Products' mix

Starting from homeopathic remedies currently the company's different products are more than 500 and are grouped in the following main categories: Face care, body care, hair care, sun care, colour, nutraceuticals, men's care, young skincare, and other smaller categories. In the following table the further categorization of products in respect to the different applications and characteristics is presented.

Face	Body	Hair	Suncare	Colour	Nutraceuticals	Pharmacy	Greek Flora	Bath & Home	Kits	Men's care	Young Skincare
Cleansing	Showergels	Shampoos	Watermelon Face SPF 30	Face	Herbal teas	Oral care	Organic Greek Saffron	Candles	Party Survival Kit	Shave Cream	Facial gel
Moisturizing	Milks	Conditioners	Watermelon Face SPF 20		Instant beverages	Chewing gums	Mastiha Chiou		Wild Rose Set	Aftershave Balsam	Mask
Brightening	Butters	Intensive Care	Children Sunscreen SPF 30		Jam	Herb balsam candies			Best of Korres set	Gel cleanser	Gel cream
Anti-ageing	Scrubs	Styling	Sweet Orange face body SPF 25		Powder	Syrup			Little Natural Products	Moisturiser	Gel against imperfections
Anti-wrinkle		Herb Balsam	Sweet Orange face body SPF 15	Blush		Antilice Treatment			Delicious Fig	Anti-ageing cream	Shower gel
Firming	Waters	Colorant	Red vine hair protection	Eyes		Anti-insect			Basil Lemon'	Eye cream	
Eye care	Oils		Aloe Vera body Milk		Mascara	Toothpaste			Vanilla Cinamon	Shampoo	
	Crystals		Yoghurt cooling gel		Eye Shadow				Body Butters	Anti-hairloss lotion	
	Herbal Soaps				Eyeliners				Guava Pouch		
	Anticellulite				pencil						
	Pregnancy				Eyebrow pencil				Fig Pouch		
	Hands & Nail				Lips						
					pencil						
					pen						
					stick						
					gloss						
					butter						

The company's products are created under the same philosophy of skin friendly and protective products, rich in extracts that nourish the skin, minimizing the use of chemical agents and through environment friendly procedures. The company manages to create high quality and efficient products without over-promising for their results.

The company's products have already gained the preference of a wide portion of consumers- while the company considers some of its long lasting and preferable products as star products. It is characteristic that Korres products are included in many life style magazines as suggested products for certain categories given their characteristics and efficacy. Furthermore the acknowledgement of some Korres products as the favorite choice by quite few celebrities is one of the most efficient "advertisements" given the fact that celebrities often are considered as trendsetters.

The company is still adding new product lines in its product mix and expanding some of the existing ones. The company launched the colour line in Q1 06. In 07 the company has enhanced and reinvented the men's' line and launched the young skincare and the pregnancy lines. The company is within a highly competitive sector based on innovation. It is important to enrich current lines with new products or to renovate and reinvent the existing lines.

Apart from the key categories of face, body and hair the company offers some other product lines with fewer products and more specialized that are in the category pharmaceuticals and others. The Greek Flora products are the results of the company's cooperation with the local communities of Chios and Kozani for the exploitation and promotion of the local unique products.

- ◆ In cooperation with the Chios Mastiha Growers Association, KORRES has developed a special product line, based on Mastiha, the invaluable resin, which offers aromatic, antimicrobial and healing properties. In Cosmetology, it is used for its antimicrobial, antioxidant and healing properties. The line includes face, body, and hair care products. Mastiha oil and Wheat proteins shampoo was awarded in 2004 by Votre Beaute Magazine in the category of Hair care products in terms of product innovation, quality, price, effectiveness and pleasurable feel
- ◆ In cooperation with the Cooperative de Saffran, KORRES has recently undertaken the worldwide presentation of Krokos Kozanis, the highest quality existing Organic Red Saffron. It is a perfectly pure spice with a unique flavour and a deep colour. It embellishes the taste and lends its appealing colour to dishes, desserts and beverages. At the same time, it has a significant antioxidant and anti-inflammatory action. Saffron is considered as the most valuable spice in the world.

Furthermore the company offers diverse kits, hotel products, nutraceuticals (jam, herbal teas, instant beverages), pharmaceuticals (cough syrup, oral care, chewing gums, antilice treatment, anti-insect) and home products (candles).

Finally, the company recently launched the new brand KINGS & QUEENS through its 100% subsidiary KINGS & QUEENS. The new brand corresponds to a body care product line, which does not contain mineral oils and parabens and is based on natural raw materials that were used by royal, mythical and historic individuals throughout history (i.e. Nefertiti Honey, Gaspar Myhr, Tsar Peter Tobacco, King of Sumatra Pepper and Bergamot etc.). Currently the product line consists of shower gels (13 flavors), body milks (5 flavors), body butters (4 flavors), body milks with glitter (3 flavors) and soaps (4 flavors). The company is considering in expanding the product line also in hair care.

Distribution network

The company has a wide distribution network in Greece and at the same time is present in ca. 28 countries internationally. In Greece the KORRES natural products are distributed through 5,600 pharmacies and 2 stand-alone stores. Internationally the company distributes its products, through third companies, the KORRES stores being established by local distributors and directly to large customers such as Lufthansa Airlines.



KORRES natural products in Greece have a wide presence in the market as the 5,600 pharmacies represent the 50% of the total in country. The company also has 2 stand-alone stores one in Attica department store (the largest department store in Greece) and one in the Athens International Airport (AIA). The penetration through the pharmacies network shows the positioning of the KORRES natural products in the selective market.

Internationally, KORRES natural products are also distributed in the selective and semi-selective market through large department stores, pharmacies, stand-alone stores and on-line stockists. The company has in total 16 stand-alone stores internationally (currently) and is planning to open more in 2008.

KORRES having strong branding and design capabilities, provides the local distributors with assistance regarding the location as well as the design and set up of the store, the selection and training of the employees, as well as the required marketing plan and merchandising material.

The **KORRES shop concept** is based on a mix of strong principles; contrast of materials, straight lines, volumes/cubes, transparency/reflections, super-sized graphics, plethora & repetition of products. Each location has its own unique characteristics, yet all Korres stores are designed based on the Korres store concept, therefore they carry a similar visual identity. Korres has created a model store, which is basically a concept that has been developed by the company, and its success lies in the fact that it depicts a store that is operational, comfortable, easily reproduced and attractive to visit.

KINGS AND QUEENS on the other hand is distributed through the mass and semi-selective distribution channel, as well as through alternative special display points, both in the domestic and in the foreign markets. Kings and Queens has already been introduced to The Netherlands and by the end of the year it will also be launched in the German, French, Russian and Japanese market. In Greece the brand has been introduced from the beginning of July at Fena Fresh in Thessalonica, with Super Markets following such as Sklavenitis, Vassilopoulos, Massoutis, Carrefour and other significant chains, as well as department stores – cosmetics stores such as Attica, Aroma, Gallery de Beaute and others.



POS		
Greece		
Pharmacies	5,600	
Shop in Shop in pharmacies	1150	
Stand alone stores	2	
International		
	27 countries	UK, US, Germany, Spain, Austria, France, Italy, Netherlands, Portugal, Cyprus, Singapore, Hong Kong & China, Dubai, Australia, Belgium, Korea, Japan, Russia, Switzerland, Finland, Norway, Romania, Andorra, Turkey, Canada, Caribbean, India
Selective - semi selective distribution points		
Pharmacies	1,250	
	270	
Stand alone stores		
Shop- in Shops	16	London, Barcelona (2), Mataro, Helsinki, Shanghai, Beijing (2), Glasgow, Frankfurt, New York, Madrid, Valencia, Istanbul, Paris, Switzerland Romania: (3) Famous Brands Gallery, Plaza Romania Mall, Bucuresti Mall Italy: Coin corso Vercelli Milano China: 2 (Hangzhou, Beijing) Korea: Dongah Department store, Daegu Taiwan: Shin Kong Mitsukoshi Dept Store

Department stores/Distributors	UK	Harrods, Harvey Nicols (5 cities), Liberty, Selfridges, John Lewis, Fenwicks, Heals (all stores), Oliver Bonas (all stores), Wholeman, Selected independents and pharmacies across the UK Ludwig Beck, Quartier 206, KaDeWe, Apropos, Alsterhaus, Harald Lubner, Breuninger (4 cities), Anam Cara, Badezimmer Beautystore (2 cities), Lieblings, ANAA, Du Nord, Badehaus, Anne Gallwe, Selected Perfumeries, Hotels & Spas
	Germany	Coin (13 cities)
	Italy	O4M Global Care, Cinc Sentits, Compranatural.com, Todoh, Montvier, Farmacia Gonzalez-Telleria, L/Essencia
	Spain	D/Horta, Parafarmacia Farmaesencia
	Portugal	Selected Pharmacies
	France & Andorra	Le bon Marche, Sephora, Le Printemps, Beauty Monop-Selected POS
	Austria	Nagele&Strubell (8 cities), St. Charles Apocary, Staudigl
	Switzerland	Globus (11 cities), Schminkbar, Hyazinth
	Belgium	Selected Pharmacies nationwide (250 POS)
	Norway	Luna Spa (Oslo)
	Romania	Selected Sensi Blu Pharmacies
	Cyprus	Ermes (4 cities), Selected Pharmacies nationwide
	Russia	Ile de Beaute
	Turkey	Harvey Nicols (1 door)
		Studio at Fred Segal, Nordstrom, Sephora, Henri Bendel, Whole Foods, Anthropologie, Bath and Body Works (selected flagship stores), Pure Beauty, Searle (3 stores), Flight 001 (3 cities), Merz Apothecary, Beauty Collection (3 cities), Ajune, Sanctuary@ Corutside Health Club, Pharmaca (12 cities), New London Pharmacy, Beauty by the Sea, Dancing Cranes, Sage Spa and Salon (3 cities), Floating World, Church Apothecary, Oasis Day Spa, Base Miami, Nusta Spa, KZen (2 cities), Chrome Studio, Miraval Life in Balance, Pied Nu, Trocadero, Terence Conran Shop, Good Scents, Crush Cosmetics, La coupe sauvage (2 cities), Clyde's Chemist, The Skin Care Lab, Facing Thayer, Spa H, Bath Luxe, Turpan (2 cities), Firefly, The Cosmetic Market (2 cities), Panache, Home Rule
	US	Sephora (3 stores)
	Canada	The Conran Shop (4), Estnation (3), Cassina (5), Isetan, Living Motif, Hankyu Umeda Cosmetic Sq.
	Japan	Watson's Boutique (2 doors), LCX Life Style Store- Causway Bay
	Hong Kong	Kit Cosmetics (Melbourne 2 doors, Brisbane, Sydney)
	Australia	Dubai: Saks Fifth Avenue, Faces Burjuman, Faces Mall of Emirates, Areej Mall of Emirates, Areej Mercato, Areej IBN Battuta, Abu Dhabi: Areej Marina Mall, Oman: Areej City Centre, Al Ain: Areej Al Jimi Mall, Ajman: Areej
	UAE	

Lufthansa Airline

Hotels focus on 4/5 star hotels

On line stockists

UK

- <http://www.mankid.co.uk>
- <http://www.asos.com>
- <http://www.bathandunwind.com>
- <http://www.beautyexport.co.uk>
- <http://www.carterandbond.com>
- <http://www.hqhair.com>

USA

- <http://www.sephora.com>
- <http://www.beauty.com>

GERMANY

- http://www.kurfuersten_parfuemerie.de
- <http://www.cara-soulstyle.de>
- <http://www.badezimmer-beautystore.de>
- <http://www.mycalm.com>

AUSTRIA

- <http://www.tonsus.at>

JAPAN

- <http://www.eshopo.hankyu-dept.co.jp/shop/cosme/natural/>
- <http://www.livingmotif.com/home.html>
- <http://www.isetan.co.jp/icm2/jsp/shops/beauty/korres/index.jsp>



Customers- Suppliers

Based on 06 company data the company's major client in Greece is Pharmacon Northern Greece, which is the distributor of the company's products in the pharmacies of Northern Greece. The distributors in the UK and the US as well as the distributors of the 2 stand-alone stores in Greece are the other key customers. However we note that only Pharmacon exceeds the 10% of total turnover.

Regarding suppliers, two key suppliers represent the 23% of total purchases: Phergal Laboratorios S.A. and Intercos Italia Spa.

In the following table the company's key suppliers and customers (according to 06 data) are presented

Customers (% of sales 06 data)	
Pharmacon Northern Greece	16.0%
Korres Natural Products USA	4.4%
Hellenic Distributions	1.0%
Korres Natural Products UK	1.6%
Attica Department Stores	1.5%
District Two Cosmetics Distributor	1.5%
GAGEO	1.1%
Other	72.0%

Suppliers (% of supplies 06 data)	
Phergal Laboratorios	13.7%
Intercos Italia Spa	9.3%
ABEL	4.8%
Dichem Chemicals	4.8%
Rouboulakis	3.7%
other	63.5%

Source: The company

Research and Development

Success in the cosmetics sectors requires constant innovation and product renovation and consequently, the R&D plays a key role in a company's growth and development. Korres natural products are committed in continuously developing its products using research and technology, which is evident by its rich and diversified product offering. The company is adding new product lines and at the same time renovates/expands older ones. The average lifespan of a product is ca. 3 years and then onwards a packaging or formula renovation is required.

Going forward the company will focus and invest on the R&D to introduce new products, new formulas, new product categories, as well as to develop new brands. At the same time it will set up a company of producing unique Greek floral herb extracts and natural raw materials. The company's research is multi-level, starting with analyzing and studying the properties of plants, isolating the active ingredients, standardizing the quality of the extract, developing lab-scale and industry-scale production methods.

For that reason it will invest on new technology and on human capital to reinforce the R&D department. The R&D department can even run 100 new projects at a time in order to come up with the new products after the completion of the testing period which lasts 12-15 months. Specifically the R&D department has already concluded on the new product launches for the following couple of years, and is doing research for the new products beyond 2010.

Additionally, the company in cooperation with the sector of Pharmacology (Pharmaceutics department, University of Athens), participates in industrial research development programs.

The company's most important launch in 2008 is an anti-ageing skincare line based on the first KORRES developed and patented highly efficient anti-ageing ingredient. The patent is still pending.



Subsidiaries – Investments in Associates

The company's subsidiaries are KINGS & QUEENS (100% stake) and KORRES Homeopathics (100% stake). KINGS & QUEENS commenced operations in July with the launch of its body product line. KORRES Homeopathics is a wholesale company of homeopathic and phytotherapeutic products. The company acquired 100% KORRES Homeopathic on Nov 11, 07. The company will form another subsidiary Herbs Extracting Company (stake 99%) in order to proceed with the operation of Greek herbs' extraction.

The company has a 15% stake in Crocus Kozanis Products and recently acquired a 5.1% stake in the company MEDITERRA.

The company has an agreement with the cooperative Crocus Kozanis Products for the exclusive distribution of the organic Kozani Crocus, as for the development Crocus products.

MEDITERRA SA, manages and develops the network of Mastihashops, it has both production and distribution operations, and has the exclusive right of distributing mastiha Chios and the gum ELMA Plus in Greece on behalf of the Mastiha-Chios Growers Association.

KORRES has also business relation with MEDITERRA. MEDITERRA acts as a supplier for the raw material –mastiha resin- for the production of the mastiha products line that KORRES has developed in association with Mastiha-Chios Growers Association. At the same time MEDITERRA is supplied by KORRES with cosmetic products with mastiha as ingredient.



Cosmetics Sector

(based on Global Insight : A study on the European Cosmetics Industry, Euromonitor Estimates)

We based our overview for the cosmetics' market internationally on studies and estimates from Global Insight and Euromonitor. More specifically on the study "A study on the European Cosmetics Industry" that was conducted by Global Insight for the European Commission, the Directorate General For Enterprise and Industry.

Global Insight is a privately held company formed from the two economic and financial information companies DRI (Data Resources, Inc.) and WEFA (Wharton Econometric Forecasting Associates). Global Insight provides economic, financial, and political coverage of countries, regions, and industries available from any source—covering over 200 countries and spanning more than approximately 170 industries with over 3,800 clients in industry, finance, and government with 600 employees, and 23 offices in 13 countries covering North and South America, Europe, Africa, the Middle East, and Asia.

Euromonitor International is an independent provider of business intelligence on industries, countries and consumers. Founded in 1972, Euromonitor International is a privately owned company with offices in London, Chicago, Singapore, Shanghai and Vilnius.

Both companies have been awarded and acknowledged for their consistent and accurate information providers.

Finally COLIPA (source in the Global Insight study) is the European Trade Association representing the interests of the cosmetic, toiletry and perfumery industry.

According to Global Insight and Euromonitor estimates the consumer and toiletries world sector grew by 6.6% CAGR during the period 01-06 reaching at \$269.7bn. Going forward during the period 06-11 the sector is expected to grow by 3.3% CAGR globally with some product categories and regions exceeding the global average.

.....by region

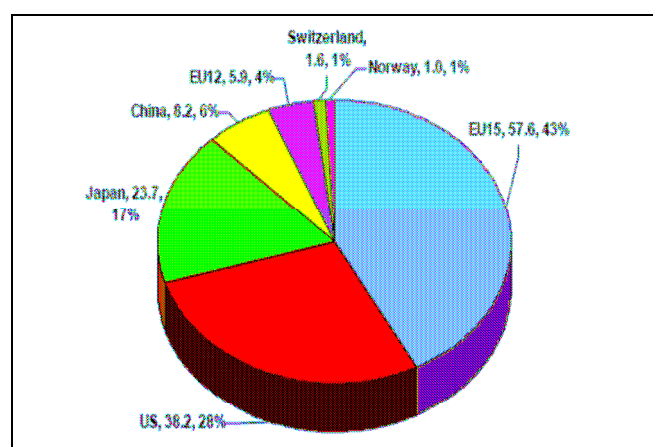
Cosmetics sector is quite challenging characterised by high competition, increasing investment in R&D and innovation, new trends and new products such as natural/ organic products or men's products, and heavy A&P spending. Global players are putting effort with different strategies to maintain their shares in the more mature markets and the more traditional product categories and at the same time trying to tap the emerging markets and to follow the trends for new products and product categories through different distribution channels.

The key players of the sector are big multinationals such as Unilever, Procter Gamble, Beiersdorf, big global brands such as Estee Lauder and L'Oreal as well as major fashion brands. These players with an extended portfolio of brands tap the whole range of – from low-end – mass market up to the high –end super selective- market segments in terms of pricing and distribution channels. At the same time smaller players, local ones, as well as private label products from big retailers, are also competing.

In the following pie chart the sales breakdown of the Cosmetics and Toiletries industry in FY 06 is presented among Europe, US, China and Japan. Additionally, a more detailed breakdown for the European market is presented.

2006 Country Market Sizes and their Shares of the Total; Retail Sales Prices, Millions of €					
Country	Market Size	% Share	Country	Market size	% Share
EU15	57,586	90.70%	Denmark	928	1.50%
EU12	5,889	9.30%	Czech Republic	840	1.30%
EU27	63,475		Finland	758	1.20%
Germany	11,713	18.50%	Romania	655	1.00%
France	10,440	16.40%	Hungary	630	1.00%
United Kingdom	9,993	15.70%	Ireland	567	0.90%
Italy	8,793	13.90%	Slovakia	423	0.70%
Spain	7,442	11.70%	Cyprus	179	0.30%
Netherlands	2,437	3.80%	Lithuania	177	0.30%
Poland	2,416	3.80%	Bulgaria	172	0.30%
Belgium/Luxembourg	1,720	2.70%	Slovenia	162	0.30%
Sweden	1,552	2.40%	Latvia	93	0.10%
Greece	1,344	2.10%	Estonia	85	0.10%
Austria	1,291	2.00%	Malta	59	0.10%
Portugal	1,105	1.70%	Switzerland	1568	
			Norway	1,022	

Source: Euromonitor, COLIPA Statistics Working Group



Source: Euromonitor, COLIPA Statistics Working Group



Western Europe is the largest market in size globally for cosmetics and toiletries products, while Europe's overall market size almost equals the size of US and Japanese markets together. Western Europe reached \$77bn in 06 and for the period 01-06 presented a 9.2% CAGR. Going forward it is projected that as it is considered to be a mature market its CAGR will stand at 1.6% for the next 5 years.

In the EU it is evident that Germany has the largest cosmetics market reaching €11.7bn and is followed by France with €10.4bn, the UK with €10bn, Italy with €8.8bn and Spain with €7.4bn. In effect these 5 countries account for the ca. 70% of the total EU market. The newest members in the EU, namely EU 12, represent the 9% of the total EU (27) market despite representing more than 20% of the population. This fact is a proxy for expecting these new countries to grow at faster pace going forward.

Based on Euromonitor and Global Insight estimates, during the period 01-06 the EU 15 market has grown on average by 2.5% in € terms or by ca. 9% in \$ terms. In the meanwhile EU 12 showed a 5.5% CAGR in € terms or by ca. 15.9% in \$ terms. Among the EU 12 countries Czech Republic, Romania and Hungary presented the fastest growth in € terms. The growth differences in the two EU areas are seen due to the more dynamic economic growth seen in EE that led to rising disposable income and boosted overall consumption.

US grew by 2% during the period 01-06 in \$ terms or decreased by ca. 4% in € terms. We witness that the US consumers have spent less on cosmetics and toiletries during the aforementioned period as the overall consumption grew at a faster pace.

In Japan, the cosmetics market presented CAGR of 1.9% during the period 00-06 in local currency or decreased by 3.8% in € terms (due to the depreciation of YEN vs. €). The market presented acceleration during 05 and 06 on the improvements in economy. It is however noted that the Japanese consider certain cosmetics products necessities making consumption inelastic to the economic downturns.

Finally China presented the most dynamic growth along with the EU 12. During the period 01-06 the market grew by 4.6% in € terms or by 10% in local currency. The Chinese market is very dynamic as a reflection of the hikes witnessed in the GDP growth the last decade. The cosmetics sector is still in its infancy in China, making it an attractive target by the large cosmetics companies coupled with the increasing disposable income.

According to Euromonitor Eastern Europe, Africa and Middle East as well as Latin America have the highest growth potential globally in the next 5 years. Specifically countries such as Russia, India, China and Brazil are among the countries in these regions that most cosmetics countries will show their focus in order to capture the significant upside. The growth in every product category exceeds the expected global average. Accordingly the Euromonitor and Global Insight outlook for each region is presented in the following tables.

(A more detailed breakdown of the consumption historic evolution is available in the appendix)

Regional Sales Performance 2006			
US\$ million	Market size US\$ million	Market %CAGR 2001/2006	Market %CAGR 2006/2011
Eastern Europe	19.3	15.9	6.6
Africa and Middle East	11.8	-3.7	5.0
Asia Pacific	65.0	5.8	4.7
Latin America	36.3	9.6	3.4
Australasia	4.1	11.6	1.8
Western Europe	77.4	9.2	1.6
North America	55.7	2.7	0.7
World	269.7	6.6	3.0

Source: Euromonitor International

Notes: Percentage of company sales in each sector is calculated from rsp sales within this market in 2006

Data sorted by forecast CAGR 2006-2011

Global Insight presents more long-term estimates for the countries under review according to which the growth in EU 12 emerging markets will continue to grow at faster pace during both periods under review, while China will present the fastest growth – double digit levels during both periods – until 2026. This growth potential is based on the very low current spending per capita on cosmetics and the expected strong growth of GDP and consumer spending.

EU 15 and the US are expected to grow at pretty similar rates, with the US growing faster during the first projected period. The laggard is expected to be Japan given its projected declines in population and very low inflation rates.

Country <i>bn in LC</i>	CAGR						
	2006	2011	2016	2021	2026	2006-2016	2016-2026
China*	10.3	20.8	38.7	67	108.8	14.1%	10.9%
Japan**	3.5	3.9	4.7	5.7	6.7	3.1%	3.6%
U.S.	47.9	62.9	78.4	94.9	114.5	5.0%	3.9%
EU12	5.2	8.5	12.2	15.9	21.1	8.8%	5.6%
EU15	50.9	61.3	73.4	88.1	111.5	3.7%	4.3%
EU27	65.5	81.8	100.5	122.4	156.2	4.4%	4.5%

*Chinese market size is given in USD

**Japanese market size is in trillions of yen

Source: Global Insight based on Global Consumer Markets

..... by product category

A broad categorisation of cosmetics and toiletries products is skin care, hair care, toiletries, decorative cosmetics and fragrances. In a more detailed categorisation we identify the following key product categories: skin care, sun care, bath and shower products, hair care, colour cosmetics, fragrances, depilatories and deodorants as well as 2 relatively new and with growing importance -baby care and men's grooming products. These last 2 categories along with sun care and skin care are expected to present the highest growth rates in the next 5-year time period.

In the following table the market size and the projected growth potential for each product category is presented:

World Sector Sales Performance 2006			
US\$ million	Market size US\$ bn	Market %CAGR 2001/2006	Market %CAGR 2006/2011
Skin care	60.1	9.3	4.4
Sun care	6.2	10.3	4.2
Baby care	4.7	7.8	3.4
Men's grooming products	21.7	8.3	3.3
Colour cosmetics	35.7	5.2	3.0
Fragrances	30.6	7.0	2.8
Hair care	53.0	5.5	2.7
Depilatories	3.2	6.4	2.4
Deodorants	13.0	7.7	2.1
Bath and shower product	23.6	3.5	1.4
Cosmetics and toiletries	269.7	6.6	3.0

Source: Euromonitor International

Notes: Percentage of company sales in each sector is calculated from rsj

This figure may be slightly distorted by double-counting products which a

Data sorted by forecast CAGR 2006-2011

Skin care is the largest product category and according to Euromonitor the 06-11 CAGR is still expected to stand at 4.4% vs. 3% in the cosmetics sector in general. Skin care is the segment that leads the market as it plays key role in the technological developments and the launching of new products. Apart from the more traditional products increasing demand is seen for new anti-ageing products, firming lotions and creams, night-time formulations to repair skin, as well as for new lines more specialized to treat non-traditional body parts (knees, elbows, necks). Furthermore, customers in the more mature markets become more sophisticated and look for effective and of higher quality products. The fact that a large part of the population is ageing drives the demand for anti-wrinkle and anti-ageing products, which gradually become more sophisticated. Furthermore a rising trend also in the skin care category is the increasing demand for men's grooming products. It is a niche market segment currently with significant growth potential.



Sun care products grew significantly in the prior 5 years and will remain one of the fastest growing categories in the next 5-year period. The increasing concern over the negative effects from the sun radiance as well as the growing variety and innovation witnessed in the sector along with self-tanning, after sun and moisturising products set a fast growing pace among fierce competition.

Bath and shower products are expected to slow down going forward by Euromonitor as it is considered a mature sector compelling for innovative products. Within this sector body wash and shower gel and liquid soap are expected to lead growth especially those with more specialised use. The men's grooming products will boost sales in the segment.

Hair care is projected to grow by over 3% globally with colorants presenting the higher growth potential. This market is also saturated and in general presents low brand loyalty and more price sensitivity. However at the same time innovative and specialised products can boost demand for more sophisticated consumers.

Colour cosmetics being the 3rd largest category after skin care and hair care is also projected to grow by a 3% CAGR in the next 5 years amongst strong competition. The new attributes of the colour cosmetics such as moisturising, anti-aging, or sun-protective as well as different forms of application are the latest trends in this category. Other emerging trend is the popularity of two-step products or products with multi-use attributes that bring convenience and cost cutting. Effectiveness and precision are some key characteristics sought by consumers.

Fragrances is a very competitive segment and in many countries is dominated by the big luxury brands. These products are often associated with fashion / celebrity icons. The trends differ significantly among the regions due to different cultural and economic trends. Overall the segment is expected to present CAGR 2.8% over the next years; slightly below the cosmetics sector 06-11 CAGR.

Considering **men's grooming products** as a separate market segment we notice strong CAGR during the past 5 years (ca. 8% in \$ terms) and are expect above sector average in the next 5 years, showing the dynamic interest of men in cosmetics consumption and the increasing number of more fashion and trend conscious men worldwide on average.

Looking at the consumer spending on the different product categories by the key markets it is evident that skin care segment is the largest segment in almost every market and presented growth in the recent years in every market. However each market has its own consumer preferences in spending and different characteristics.

	Fragrances	Decorative Cosmetics	Skin care	Hair Care	Toiletries	Total
EU 15						
% of total	15.0%	12.0%	26.0%	24.0%	23.0%	100.0%
CAGR 2000-2006	2.4%	2.8%	5.6%	2.1%	1.7%	3.0%
Contribution to Growth	0.4%	0.3%	1.4%	0.5%	0.4%	3.0%
EU 12						
% of total	15.0%	12.0%	26.0%	19.0%	28.0%	100.0%
CAGR 2000-2006	8.7%	7.1%	9.3%	4.1%	4.2%	6.4%
Contribution to Growth	1.3%	0.8%	2.4%	0.8%	1.2%	6.4%
U.S						
% of total	12.0%	18.0%	21.0%	22.0%	27.0%	100.0%
CAGR 2000-2006	-0.3%	3.1%	4.3%	1.9%	1.9%	2.3%
Contribution to Growth	0.0%	0.6%	0.9%	0.4%	0.5%	2.3%
Japan						
% of total	2.0%	20.0%	45.0%	19.0%	15.0%	100.0%
CAGR 2000-2006	-1.2%	0.4%	3.8%	0.4%	0.8%	1.9%
Contribution to Growth	0.0%	0.1%	1.7%	0.1%	0.1%	1.9%
China						
% of total	2.0%	10.0%	38.0%	22.0%	27.0%	100.0%
CAGR 2000-2006	16.6%	12.3%	19.3%	8.6%	6.5%	11.9%
Contribution to Growth	0.4%	1.3%	7.4%	1.9%	1.8%	11.9%

*Contribution to growth is the number of percentage points contributed by a category to total growth

Source: Euromonitor, COLIPA Statistics Working Group



.....raising trends and characteristics of the sector

Market Consolidation

As we have already mentioned the cosmetics sector is very competitive and largely dominated by large global companies. The ten largest companies account for the half of the total market. These companies despite holding a key market position they have always to be active in order to maintain it. Competition among them is strong but at the same time smaller companies are striving to increase their market shares threatening the dominance of the established big multinationals. These challenges led many of the large companies to take M&A activity lately— getting easier access to diverge products and streamlining at the same time their production. The consolidation in the sector is more likely to continue as long as the large company's can find attractive targets- small niche local brands that will give access to local markets and new product lines.

Regulations

Cosmetics address some very delicate aspects of the human body and rightfully consumer safety must be ensured by certain regulations. Regulations for cosmetics rule a number of issues such as prohibited substances, lists of a number of cosmetic colorants, preservatives and UV filters that can be used, labeling requirements, appointment of safety responsibility, animal testing permit or prohibition and other. Different regulations in different regions can stiffen the distribution of products in all countries. In some cases certain products have characteristics and uses that make their classification between cosmetics or medicines equivocal and consequently questionable under which regulation they should abide. Medicines have in effect stricter and more time-consuming regulations and procedures. The level of regulation in the different countries can affect the trading of cosmetics in the different markets. Furthermore the dynamic environment and the introduction of new formulas and ingredients can be negatively affected by strict or not updated regulations.

Research and Development

The dynamic cosmetics sector is primarily driven by innovation and new product development targeted to meet the increasing and more sophisticated consumer needs. Products targeted for specific skin types, with unique formulas or with the use of unique ingredients, with faster action or multiple applications, are some examples. Apart from the introduction of new products, R&D is necessary when entering a new market or a new country. Among the most significant and time consuming steps in the procedure of developing a new product is testing. For example testing for the product's resistance in extreme conditions, or testing on skin for its effectiveness. Consequently, cosmetics companies realizing that innovation is a prerequisite for succeeding in the demanding cosmetics sector, they invest highly in their R&D and NPD departments. The large multinational companies spent sizeable sums on research (range of 0.8%- 3.4% of turnover in FY 06).

Closely related to R&D and NPD are the senses of intellectual property and patent issue. A patent gives a firm the sole legal right to make a product for a certain period of time. There are certain procedures and requirements for the granting of a patent. Patents in effect can secure economic returns for a company for a certain period of time as well as the first mover advantage.

Branding and advertising

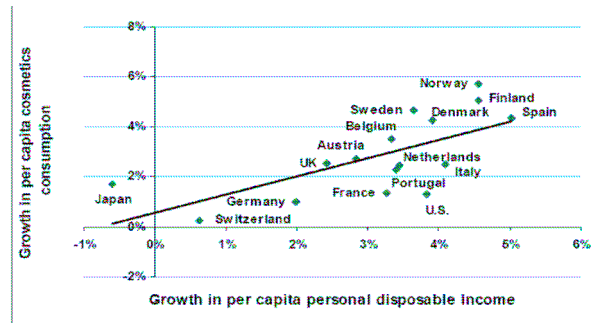
Branding is very important in the cosmetics competitive sector. Strong brand awareness along with distinct positioning as well as unique characteristics both in the product itself as well as in its packaging and design. The strong competition, especially in the mature markets through the numbered companies and the large selection of products makes customer loyalty difficult. The customers become more and more sophisticated and the large variety leads them to what attracts most their attention. The companies invest highly in R&D and NPD in order to manufacture innovative and unique products and at the same time they also need to invest in marketing and advertising. The increasing association of the cosmetics sector with fashion trends intensify the need for sizeable A&P spending.

Distribution channels

The segmentation of the products is also based upon the distribution channel used to penetrate each market along with the pricing. The low price products that address to the mass market are promoted through super market and large retail chains. The semi selective market, which accounts for both low end and medium products in terms of pricing, branding and quality are promoted through large retailers specialised for cosmetics. High end pricy and luxury brands are promoted through stand alone stores or shop in shop in departments stores or large cosmetic retailers and finally cosmetics are promoted through pharmacies as well. The pharmacy channel increased its share of cosmetics and toiletries in a number of countries such as France Germany and Italy (vs. decrease in Spain and Switzerland) given the sophistications and the quality and personalisation of service offered in these outlets. Finally direct sales play an important role in several countries.

Disposable income growth and consumption

One could argue that the main driver in cosmetics consumption is the level of personal income growth. According to Global Insight, in general there is strong correlation between as with a 1% increase in per capita disposable income will lead to a 0.7% increase in per capita cosmetics consumption. However the level of correlation is not the same in all countries. Recent results show that for example in Germany, Italy and France where the disposable income grew at fairly stable rates the per capita cosmetics consumption was sluggish. On the contrary on the Nordic countries the cosmetics consumption growth exceeded the disposable income increase suggesting higher income elasticity. In Japan the consumption grew higher than the income which actually fell in the respective review period, while in China the growth was parallel.



Source: COLIPA Statistics Working Group, Global Insight

However apart from the different trends witnessed in the different countries and regions we note that there are also variations depending on the product category. Some of the products are seen by consumers more and more as necessities (eg. Skin care –nourishing and anti-aging products) and others as luxury products (e.g. luxury fragrances).

...going natural

The fierce competition in the sector poises to its major players significant pressures for continuously new products or products with additional features, innovative and smart. However the increasing use of chemicals and additives that can give to products additional features have raised significant concerns to consumers. Media coverage on possible carcinogenic effects from some chemicals used in hair care or colour cosmetics have driven consumers to seek for more natural products. The growth witnessed in the cosmetics and toiletries sector the past years is partly attributed to the growing trend for natural products.

Not just a fashion trend; It's a part of a general concept for a healthier way of living and is witnessed in different kind of products. The fact that multinational companies are entering this market is a sign that natural cosmetics are becoming a mainstream offering according to Euromonitor. Organic and natural products' market is growing at approx.20% y-o-y in Europe and accounts ca. 2%-4% of the cosmetics market, while in the US they are also growing rapidly and already account for the 10% of the market. There a lot of SME's (more than 400 according to Global Insight) producing natural/organic cosmetics in Europe while in the US, companies have commenced consolidating their operations. Natural cosmetics producers are now seen all over the world, while it is noticeable that their popularity is not cut down despite the fact that they are more expensive than the traditional ones. Finally, we note that currently the limited regulation allow for a general definition of "natural" products allowing many producers to claim that their products are naturals, while organic products are more difficult to enter mass production.

Korres is well positioned in the market of natural products offering to consumers unique products based on the natural resources of the Greek flora which is very rich and offers great variety of plants and herbs. The fact that there are so many and diverse herbs have led the company to the creation of a subsidiary, which will be responsible for the extraction of. This will secure the quality and the quantity of the companies need in raw materials as well as the possibility to create unique formulae for the company. This subsidiary could engage in trading of its extraction to other cosmetics producers as well as at a later stage. So the company has secured the supply of natural ingredients for its products vs. some competitors facing the issue of extinction or protection of some rare and exotic natural resources. The continual booming demand for natural products will lead to more educated and able to expose products disguised as natural products and to appreciate the good quality. Still the natural cosmetics market is not regulated without any unified standards or certification. However in several countries such as in the US there are some plans for the introduction of new standards and the imposition of required labelling stating the level of organic ingredients used. We expect that the sector will continue to boom in the following years along with stronger competition as both consumers and producers become more experienced.



The Greek market

Korres commenced its operations in the Greek market in 1996 and until now it has expanded its presence in more than 28 countries worldwide. However, the sales in the Greek market still account for the majority of the company's total sales. As the Greek market is currently the company's key market with strong growth potential still expected, we present some key characteristics of the Greek cosmetics market.

According to COLIPA statistics and Global Insight, the Greek market has decelerated the recent years after strong momentum during the period 00-02. During the period 00-06 the C&T market grew by 5.5%. The strong private consumption during the respective period supported the growth in the C&T market.

CREECE	UNIT	2000	2001	2002	2003	2004	2005	2006	CAGR
Total C&T market	€ bn	0.98	1.09	1.23	1.23	1.28	1.31	1.34	5.50%
	Y/Y growth rate		11.90%	12.60%	0.20%	4.10%	2.70%	2.30%	5.50%
Per capita C&T consumption	Y/Y growth rate		12.00%	3.90%	4.30%	3.70%	2.30%	2.10%	4.70%
Total population	Y/Y growth rate	0.40%	0.40%	0.30%	0.20%	0.20%	0.20%	0.20%	0.20%
Population 65+	Y/Y growth rate	2.40%	2.30%	2.20%	2.00%	1.60%	1.20%	0.70%	1.70%
Private Consumption	Y/Y growth rate		7.80%	6.50%	7.40%	7.40%	7.50%	6.90%	7.30%
C&T as % of total consumption		0.89%	0.92%	0.97%	0.91%	0.88%	0.84%	0.80%	

Source: COLIPA Statistics Working Group, Global Insight, United Nations

In the Greek market according to the International Market Research the most popular product categories are skin and hair care, and especially those addressed to female consumers as identified by Global Insight and Euromonitor.

CREECE	Fragrances Perfumes	Decorative Cosmetics	Skin Care	Hair Care	Toiletries	Total
Share of Total	11%	11%	29%	33%	16%	100%
CAGR 2000-2006	8.40%	1.10%	9.40%	4.00%	4.20%	5.50%
Contribution to Growth	0.90%	0.10%	2.70%	1.30%	0.70%	5.50%

Source: COLIPA Statistics Working Group

Other trends that are evident in the Greek market are: a shift from more expensive fragrances to deodorants, and products that are considered necessities, such as colour cosmetics, depilatories, and sun care products have grown recently according to Euromonitor. However there are also signs that some value added products are gaining popularity and consumers are willing to spent more on these categories especially concerning upper mass or premium skin care, hair care or sun care products. The growth in these categories is driven by innovation and advances in technology. In the skin care category especially, the Greek aging women prefer the facial products for anti-aging and firming and nourishing.

However the internationally increasing demand trend for men's grooming products is starting to gain popularity in Greece as well, making it a niche market currently, with strong growth potential.

The mainstream cosmetics market in Greece could be characterised as mature, while the competition is intense as the market is fragmented; however for some products concentration is high among the major multinationals. The key players are subsidiaries of multinationals or distributing multinationals' products. The key players are L'Oreal, Estee Lauder, Procter and Gamble, Beiersdorf, Wella, Sarantis, Rilken etc.

The distribution is mainly driven by supermarkets for mass products while pharmacies and department stores and specific cosmetics stores are also major distributors. In the following table the structure of the Greek cosmetics market are presented. Between the mass market and the selective market we find the semi selective market (eg. Hondos) that has characteristics of both categories. The pharmacies channel is quite strong as roughly the number of pharmacies in Greece reaches 10,000. We note that KORRES Natural Products cooperates with 5,600. According to some data provided by the company and based on cosmetics sector study by ICAP on October 05, KORRES Natural Products had a market share of 12%-12.5%



Greek market Breakdown Distribution Channel	04 Market Size EUR m	Market Share %
Mass market	395	45%
Retail chains and cosmetics stores		
Selective Market	245	28%
Cosmetics Stores with skilled personel /Aestheticians		
Hair salons and Beauty parlors	87	10%
Pharmacies	78	9%
Direct Sales	65	7%
Door-to-door and Internet		
Total	870	100%

Source: The company

Company	Market Share (%)
Cosmetique Active Hellas A.E	21.0-21.5
Pierre Fabre Hellas A.E.E.	19.0-19.5
Korres Natural Products	12.0-12.5
APIVITA SA	11.0-11.5
Roche Hellas SA	7.5-8.0
Omega Pharma Hellas SA	7.0-7.5
Other	19.5-22.5
Total	100.0

Source: ICAP -October 05, the company



KORRES consolidated balance sheet and cash flow statements and analysis

in € m, unless otherwise stated

BALANCE SHEET (BS) ITEMS	2005	2006	2007e	2008f	2009f	2010f
Fixed assets	11.30	13.75	17.77	18.62	18.93	20.19
Tangible assets	7.07	10.50	14.32	15.75	16.95	18.02
Current Assets	13.11	19.24	25.02	33.90	44.30	57.82
Accounts receivable	8.49	12.37	15.87	21.82	28.47	37.07
Inventories	3.68	5.19	6.38	9.08	12.76	17.58
Cash	0.95	1.67	2.77	3.00	3.07	3.18
TOTAL ASSETS	24.41	32.99	42.79	52.52	63.24	78.00
Net debt position	12.40	15.14	10.93	12.00	12.93	13.83
Shareholders' equity	4.60	6.57	17.85	20.02	23.49	28.76
Capital	1.70	1.83	12.43	12.43	12.43	12.43
Reserves & retained earnings	2.90	4.74	5.41	7.59	11.06	16.33
Provisions						
Long-term liabilities	5.34	10.24	9.44	9.76	9.77	10.78
Long term bank debt	4.68	9.76	8.70	9.00	9.00	10.00
Other long term liabilities	0.66	0.48	0.74	0.76	0.77	0.78
Short-term liabilities	14.47	16.17	15.50	22.04	29.28	37.76
Accounts payable	5.07	7.68	9.06	13.73	19.44	26.77
short term bank debt	8.67	7.06	5.00	6.00	7.00	7.00
Other short term liabilities	0.73	1.44	1.43	1.42	1.82	2.78
TOTAL EQUITY & LIABILITIES	24.41	32.99	42.79	51.82	62.54	77.30
RATIO ANALYSIS ON BS ITEMS	2005	2006	2007 e	2008 e	2009 e	2010 e
Liquidity: Current ratio	0.9	1.2	1.6	1.5	1.5	1.5
Acid Test	0.7	0.9	1.2	1.1	1.1	1.1
Activity: Avg receivables to turnover days	173	141	156	146	137	128
Avg trade creditors to purchases days	236	253	270	258	267	270
Avg inventories to turnover days	175	176	187	175	176	177
Financial Structure: Liabilities to equity	4.3	4.0	1.4	1.6	1.7	1.7
Bank debt to equity	2.9	2.6	0.8	0.7	0.7	0.6
Fixed to total assets	46.3%	41.7%	41.5%	35.5%	29.9%	25.9%
Profitability: Return on total assets	5.4%	9.9%	8.6%	10.2%	13.3%	16.6%
Return on invested capital	11.8%	18.6%	18.4%	21.1%	24.7%	29.9%
Return on Equity	28.5%	50.9%	26.8%	25.5%	35.4%	44.8%
CASH FLOW (CF) STATEMENT	2005	2006	2007 e	2008 e	2009 e	2010 e
Profit before tax	2.0	4.0	4.5	6.5	10.3	15.6
Plus: Depreciation & amortization	0.4	0.7	1.0	1.3	1.6	1.7
Plus: Net interest expenses	0.7	1.1	1.1	1.2	1.2	1.6
Less: tax paid	0.88	1.20	1.21	1.61	2.57	3.90
Gross cash flow	2.27	4.61	5.34	7.40	10.53	15.00
Plus: Chng in accounts payable	1.96	2.61	1.38	4.68	5.71	7.33
Less: Chng in accounts receivable	-3.81	-3.89	-3.50	-5.12	-5.56	-8.59
Less: Chng in inventories	-1.28	-1.51	-1.18	-2.71	-3.68	-4.81
Working capital chng	-3.09	-2.74	-3.26	-1.43	-2.30	-5.87
Operating cash flow	-0.82	1.87	2.09	5.97	8.23	9.13
Less: Purchases of fixed assets	1.65	4.25	5.83	3.00	3.00	3.00
Free cash flow	-2.47	-2.38	-3.74	2.97	5.23	6.13
Less: Dividends paid	0.85	1.54	1.80	2.66	4.24	6.44
Less: Net interest expenses	0.72	1.06	1.05	1.24	1.23	1.55
Plus: Equity chng	1.27	1.97	10.60	0.00	0.00	0.00
Plus: Debt chng	3.66	3.46	-3.12	1.30	1.00	1.00
Plus: Other (minorities etc)	0.00	0.00	0.00	-0.84	-0.69	0.96
Chng in Cash Position	0.88	0.46	0.01	-0.47	0.07	0.11
Cash Position	0.95	1.67	2.77	3.00	3.07	3.18

Source: The company, National P&K Research estimates



KORRES consolidated profit & loss statements and analysis

in € m, unless otherwise stated

PROFIT & LOSS (P&L) ITEMS	2005	2006	2007e	2008f	2009f	2010f
Turnover	17.06	26.91	33.00	47.22	66.93	93.46
% chng	15.5%	57.7%	22.6%	43.1%	41.7%	39.6%
Cost of sales	-6.33	-9.21	-11.30	-16.10	-22.66	-31.21
Gross profit	10.74	17.71	21.69	31.12	44.27	62.25
Gross profit margin	62.9%	65.8%	65.7%	65.9%	66.1%	66.6%
Other operating income	0.20	0.04	0.80	0.80	0.80	0.80
SG&A	-7.79	-11.93	-15.94	-22.91	-31.97	-44.15
% of turnover	45.6%	44.3%	48.3%	48.5%	47.8%	47.2%
EBITDA	3.15	5.81	6.55	9.01	13.10	18.90
% chng	3.8%	84.3%	12.8%	37.5%	45.4%	44.3%
EBITDA margin	18.5%	21.6%	19.9%	19.1%	19.6%	20.2%
Depreciation & amortization	-0.42	-0.71	-1.02	-1.32	-1.59	-1.75
% of fixed assets	5%	7%	7%	7%	7%	7%
x capex/depreciation	333%	481%	391%	227%	157%	172%
Operating profit (EBIT)	2.73	5.10	5.53	7.69	11.51	17.15
% chng	1.7%	86.5%	8.4%	39.1%	49.7%	49.0%
Operating profit margin	16.0%	18.9%	16.8%	16.3%	17.2%	18.4%
Net interest expenses	-0.72	-1.06	-1.05	-1.24	-1.23	-1.55
Pre-tax profit	2.01	4.04	4.48	6.45	10.28	15.60
% chng	0.9%	101.0%	10.8%	44.0%	59.4%	51.8%
Income tax	-0.88	-1.20	-1.21	-1.61	-2.57	-3.90
% effective tax rate	43.7%	29.7%	27.0%	25.0%	25.0%	25.0%
Minority stake in profits						
Profit after tax	1.13	2.84	3.27	4.84	7.71	11.70
% chng	1.9%	150.9%	15.1%	47.9%	59.4%	51.8%
Net profit margin	6.6%	10.6%	9.9%	10.2%	11.5%	12.5%
EPS after tax (in EURO)	0.19	0.47	0.45	0.63	1.00	1.52
EPS chng	1.9%	150.9%	-3.3%	39.4%	59.4%	51.8%
Dividends						
Dividend policy: Payout Ratio	75.4%	54.2%	55.0%	55.0%	55.0%	55.0%
DPS (in EURO)	0.14	0.20	0.23	0.35	0.55	0.84
% chng		42.9%	16.8%	47.9%	59.4%	51.8%
BVPS (in EURO)	0.36	0.55	0.75	1.08	2.32	2.60
Weighted number of shares	6.10	6.10	7.26	7.70	7.70	7.70
End-year number of shares	6.10	6.10	7.70	7.70	7.70	7.70
(t-1 - t+2) CAGR in turnover		40%	35%	41%	35%	26%
(t-1 - t+2) CAGR in EBITDA per share		42%	31%	42%	36%	26%

Source: The company, National P&K Research estimates

APPENDICES

Per Capita Consumption by Country- Region

Country	C&T expenditure per capita (€), 2006	CAGR 2000-2006	C&T expenditure per capita (€) at US\$ PPP, 2006	ranking by PPP expenditure
Norway	219	5.7%	131	13
Cyprus	212	-1.1%	233	1
Switzerland	211	0.2%	144	6
Denmark	171	4.2%	119	19
Sweden	171	4.7%	139	7
Spain	169	4.3%	153	4
France	166	1.3%	138	9
United Kingdom	165	2.5%	137	10
Belgium/Luxembourg	164	3.5%	139	8
Austria	156	2.7%	129	15
Netherlands	149	2.4%	116	21
Italy	149	2.5%	133	11
Malta	144	2.9%	187	2
Finland	144	5.1%	120	18
Germany	142	1.0%	121	17
Ireland	133	2.9%	99	23
Greece	121	4.7%	124	16
Portugal	104	2.3%	118	20
Czech Republic	82	11.4%	145	5
Slovenia	81	6.7%	131	12
Slovakia	78	6.9%	162	3
Poland	63	4.7%	108	22
Estonia	63	6.1%	130	14
Hungary	63	8.4%	96	25
Lithuania	52	8.9%	99	24
Latvia	40	3.1%	83	26
Romania	30	9.7%	47	28
Bulgaria	22	7.6%	62	27
EU12	57	6.8%	98	
EU15	150	1.9%	132	
EU27	128	2.2%	124	

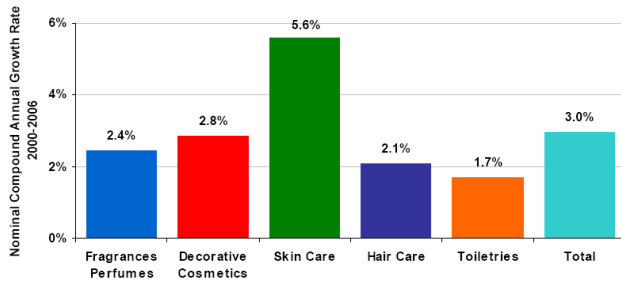
Source: COLIPA Statistics Working Group, Euromonitor

Country	C&T expenditure per capita (€), 2006	CAGR 2000-2006	C&T expenditure per capita (€) at US\$ PPP, 2006
China	6	4.0%	24
Japan	186	-4.5%	174
US	127	-3.8%	127
EU15	150	1.9%	132
EU12	57	6.8%	98
EU27	128	2.2%	124

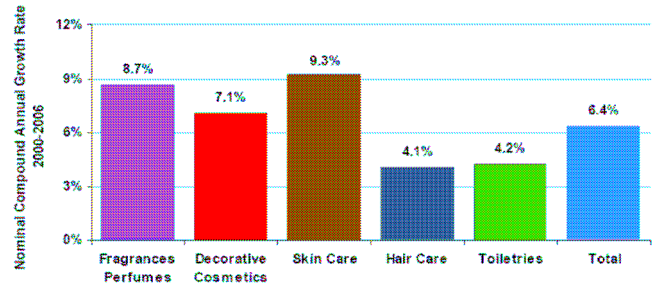
: Euromonitor, COLIPA Statistics Working Group

Cosmetics and Toiletries Consumption evolution by country-region

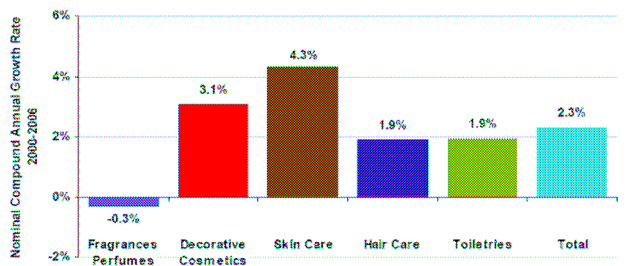
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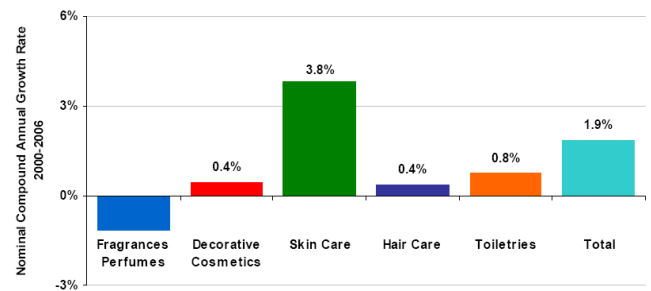
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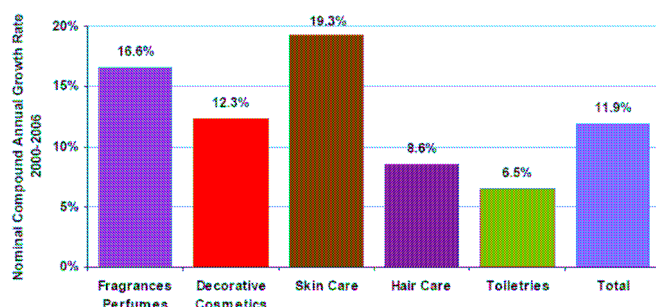
US



JAPAN



CHINA



Source: Euromonitor



Disclosure Appendix

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Disclosure Checklist for Companies mentioned & other price data information

Company Name	Reuters	Rating	Price	Price date / time	Disclosure
KORRES Natural Products	KRRr.AT	Overweight	€11.80	March 03 2008/ Official Close	1,3

Source: National P&K Securities

1. National P&K Securities and/or its affiliate(s) has acted as manager/co-manager/adviser in the underwriting or placement of securities of this company within the past 12 months.
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Rating and target price history

Date	Rating	Price	Target price
04-March-2008	Overweight	11.80	17.18

Source: National P&K Securities

Risks and sensitivity:

- Competition
- Consumer trends
- **Dependency on company founder**
- **Need for high Marketing and R&D expenses**
- Our target price and estimates are sensitive to various factors including interest rates, inflation, the local economic environment, market volatility, management continuity or other company specific events

Ratings Distribution

	Overweight	Equalweight	Underweight
Greek Equity Research Coverage (46)	59%	38%	3%
% of companies in each rating category that are investment banking clients	47%	19%	9%

Source: National P&K Securities

Definition of investment ratings

Overweight, Equal weight, Underweight: Denote notional investment ratings (not recommendations) pegged to the performance of the General Index (& MSCI Europe Telecoms for Telecoms), which imply a positive, neutral and negative view respectively.

Overweight: The stock is expected to perform above the General Index (and MSCI Europe Telecoms in the case of telecoms)

Equal weight: The stock is expected to perform in line with the General Index (and MSCI Europe Telecoms in the case of telecoms)

Underweight: The stock is expected to perform below the General Index (and MSCI Europe Telecoms in the case of telecoms)

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