

**FOLLI FOLLIE S.A**

**ANNUAL FINANCIAL STATEMENTS  
COMPILED IN ACCORDANCE WITH  
THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**YEAR 2006**

**(Period from 1 January to 31 December 2006)**

It is declared that the accompanying Financial Statements are those, which have been published by posting them on the internet, at the address [www.follifollie.com](http://www.follifollie.com). It is noted that, the published in the press “Condensed Financial Data and Information for the Year 2005 from 1 January 2006 to 31 December 2006”, according to the Joint Ministerial Decision No. 172/10.01.2006 of the Ministers of Finance and Development, aim at providing the public with certain general financial data and information but they do not present a comprehensive view of the financial position and of the results of operations of the Company and those of the Group, in accordance with the International Financial Reporting Standards.

Therefore, it is recommended, to any reader, before proceeding to any kind of investment decision or other transaction with the Company, to visit the Company’s web site, at the internet address [www.follifollie.com](http://www.follifollie.com) where are posted the annual financial statements prepared according to the International Financial Reporting Standards accompanied with the Auditors’ Report of the Certified Public Accountant Auditor.

**Athens, 9 March 2007**

**For account of FOLLI FOLLIE S.A.**

**Dimitrios Koutsolioutsos**

**Chairman of the Board of Directors**

**INDEPENDENT AUDITOR'S REPORT**  
**To the Shareholders of «FOLLI FOLLIE ABEE »**

**Report on the Financial Statements**

We have audited the accompanying financial statements of «FOLLI FOLLIE ABEE » as well as the consolidated financial statements of the Company, which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Greek Auditing Standards, which are based on International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and that of the Group as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Emphasis of Matter**

We do not state any ambiguity as regards the Report conclusions however, we would like to call your attention to the Note 4 to the financial statements which indicates that the tax obligations for the year 2006 of the company have not yet been audited by the tax authorities and accordingly its tax obligations for this year are not considered final. The outcome of the tax audit could not be previewed at this stage.

**Report on Other Legal and Regulatory Requirements**

The content of the Management's Report is consistent to the accompanying financial statements.



**BAKER TILLY HELLAS**

Certified Public Accountants-  
Consultants A. E.

76, 3rd Septembriou Str.

104 33 Athens, Greece

SOEL Reg. No: 148

Athens, 14 March 2007

The Certified Public Accountant

**GEORGIOS I. VARTHALITIS**

SOEL. Reg. No: 10251

## 1. DATA FROM BALANCE SHEET

### I. BALANCE SHEET

BALANCE SHEET (Amounts reported in Euro)				
	THE GROUP		THE COMPANY	
	1/1-31/12/2006	1/1-31/12/2005	1/1-31/12/2006	1/1-31/12/2005
<b>ASSETS</b>				
Tangible Assets	69.403.677,02	29.269.571,73	17.160.799,87	17.175.960,39
Investments in PPE	15.380.000,00	15.380.000,00	15.380.000,00	15.380.000,00
Intangible Assets	330.053.867,28	4.185.089,70	627.009,14	750.442,44
Investments in associates	0,00	40.395.445,88	387.438.470,75	159.505.501,95
Deferred income tax assets	2.109.039,58	2.660.750,50	352.870,16	703.225,42
Other long term receivables	6.676.684,23	6.838.204,67	293.421,34	419.574,43
<b>Total non-current assets (a)</b>	<b>423.623.268,11</b>	<b>98.729.062,48</b>	<b>421.252.571,26</b>	<b>193.934.704,63</b>
Inventories	125.598.481,85	71.758.888,21	13.583.250,86	14.134.365,54
Trade Receivables	140.239.131,14	121.290.148,36	15.850.440,84	18.872.475,88
Other Receivables	24.453.461,03	6.199.578,58	2.204.855,35	2.395.951,33
Other financial assets at fair value through profit or loss	3.419.646,43	2.921.508,63	1.464.116,71	2.921.508,63
Cash and cash equivalents	109.310.713,75	33.892.169,63	22.402.656,98	13.247.662,22
<b>Total current assets (b)</b>	<b>403.021.434,20</b>	<b>236.062.293,41</b>	<b>55.505.320,74</b>	<b>51.571.963,60</b>
<b>TOTAL ASSETS (a) + (b)</b>	<b>826.644.702,31</b>	<b>334.791.355,89</b>	<b>476.757.892,00</b>	<b>245.506.668,23</b>
<b>EQUITY &amp; LIABILITIES</b>				
Long-term borrowings	406.901.777,95	125.149.592,17	341.000.000,00	119.499.958,91
Retirement benefit obligations	8.476.568,05	3.356.944,74	620.917,00	540.126,00
Deferred income tax liabilities	15.247.131,09	1.047.943,78	1.251.176,41	1.035.080,14
Provisions for other liabilities and charges	11.105.905,03	4.054.878,43	524.253,57	698.272,82
<b>Total non-current liabilities</b>	<b>441.731.382,12</b>	<b>133.609.359,12</b>	<b>343.396.346,98</b>	<b>121.773.437,87</b>
Trade payables	34.806.413,96	15.829.100,60	2.874.807,77	3.487.817,55
Short-term Borrowings	11.811.849,44	5.047.457,92	9.210.173,45	4.863.495,62
Other current liabilities	68.657.923,18	18.332.977,03	6.671.670,58	6.052.479,60
<b>Total current liabilities</b>	<b>115.276.186,58</b>	<b>39.209.535,55</b>	<b>18.756.651,80</b>	<b>14.403.792,77</b>
<b>Total Liabilities (a)</b>	<b>557.007.568,70</b>	<b>172.818.894,67</b>	<b>362.152.998,78</b>	<b>136.177.230,64</b>
Share capital	9.884.062,50	9.884.062,50	9.884.062,50	9.884.062,50
Share premium	62.531.731,47	62.531.731,47	62.531.731,47	62.531.731,47
Other reserves	8.832.577,14	24.513.525,66	20.184.566,82	19.679.018,84
Own Stock	-1.339.856,41	0,00	-108.985,61	0,00
Retained earnings	207.356.278,78	161.106.539,24	22.113.518,04	17.234.624,78
Exchange differences	-32.706.043,74	-12.980.009,96	0,00	0,00
Other capital and reserves attributable to equity holders of the Company	-88.927.927,73	-88.927.927,73	0,00	0,00
<b>Total capital and reserves attributable to equity holders of the Company (b)</b>	<b>165.630.822,01</b>	<b>156.127.921,18</b>	<b>114.604.893,22</b>	<b>109.329.437,59</b>
Minority interest (c)	104.006.311,60	5.844.540,04	0,00	0,00
<b>Total Equity (d) = (b)+(c)</b>	<b>269.637.133,61</b>	<b>161.972.461,22</b>	<b>114.604.893,22</b>	<b>109.329.437,59</b>
<b>TOTAL EQUITY AND LIABILITIES (e) = (a)+(d)</b>	<b>826.644.702,31</b>	<b>334.791.355,89</b>	<b>476.757.892,00</b>	<b>245.506.668,23</b>

**2. DATA FROM INCOME STATEMENT FOR THE YEAR**

**II. INCOME STATEMENT (PER OPERATION)**

**DATA FROM INCOME STATEMENT FOR THE YEAR ( Amounts reported in Euro )**

	THE GROUP		THE COMPANY	
	1/1-31/12/2006	1/1-31/12/2005	1/1-31/12/2006	1/1-31/12/2005
Sales Revenue	484.399.340,17	222.796.934,45	35.032.150,23	36.980.835,86
Cost of goods sold	-223.688.912,80	-88.446.212,13	-12.017.987,36	-12.905.798,37
<b>Gross profit</b>	<b>260.710.427,37</b>	<b>134.350.722,32</b>	<b>23.014.162,87</b>	<b>24.075.037,49</b>
Other Operating income	16.831.147,48	6.066.792,76	1.968.034,27	4.643.121,97
Administrative expenses	-27.589.763,56	-11.586.965,70	-5.517.592,12	-4.793.128,43
Selling and marketing costs	-134.369.191,45	-61.797.910,10	-12.224.539,25	-10.346.725,55
Other expenses	-2.303.769,50	-2.556.704,96	-1.015.247,11	-792.398,81
<b>Operating profit</b>	<b>113.278.850,34</b>	<b>64.475.934,32</b>	<b>6.224.818,66</b>	<b>12.785.906,67</b>
Finance costs - profit	3.236.809,39	1.331.144,45	989.781,05	1.188.934,36
Finance costs - expenses	-14.666.330,16	-5.148.235,89	-12.545.570,22	-4.857.480,26
Share of profit of associates	4.177.374,06	9.395.738,69	20.988.636,25	9.671.639,04
<b>Profit before taxes (EBT)</b>	<b>106.026.703,63</b>	<b>70.054.581,57</b>	<b>15.657.665,74</b>	<b>18.788.999,81</b>
Income tax expense	-24.302.074,07	-13.391.086,52	-1.457.037,00	-3.360.297,83
<b>Profit for the period (after taxes)</b>	<b>81.724.629,56</b>	<b>56.663.495,05</b>	<b>14.200.628,74</b>	<b>15.428.701,98</b>
<u>Attributable to:</u>				
Equity holders of the Company	65.160.341,01	55.428.778,38		
Minority interest	-16.564.288,55	-1.234.716,67		
Earnings (after taxes) per share - basic (expressed in €)	1,98	1,68	0,43	0,47
Amortisation - Depreciation	7.952.028,91	3.082.378,44	1.054.074,99	949.794,62
<b>Earnings (profit) before taxes, financing and investing results and depreciation - amortisation (EBITDA)</b>	<b>121.230.879,25</b>	<b>67.558.312,76</b>	<b>7.278.893,65</b>	<b>13.735.701,29</b>
<b>Earnings (profit) before taxes, financing and investing results (EBIT)</b>	<b>113.278.850,34</b>	<b>64.475.934,32</b>	<b>6.224.818,66</b>	<b>12.785.906,67</b>
Proposed dividend per share (expressed in €)			0,12	0,26

**3. DATA FROM STATEMENT OF CHANGES IN EQUITY FOR THE YEAR**  
**(AMOUNTS REPORTED IN EURO)**

DATA FROM STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ( Amounts reported in Euro )				
	THE GROUP		THE COMPANY	
	1/1-31/12/2006	1/1-31/12/2005	1/1-31/12/2006	1/1-31/12/2005
Net equity of period Open. Balance (1/1/2006 and 1/1/2005 respectively)	161.972.461,22	95.908.062,29	109.329.437,59	101.349.048,11
Issue of share capital				
Dividends	-43.611.451,25	-8.125.853,46	-8.566.187,50	-7.248.312,50
Directors Fees	-313.514,50	-326.541,80	-250.000,00	-200.000,00
Net income recognised directly in Equity	0,00	1.660,89	0,00	0,00
Minority interest (Due to :New Subsidiaries / Increase of participation )	81.599.975,98	0,00	0,00	0,00
Net amounts effected directly Equity(Due to: New Subsidiaries/Increase of participation )	<b>9.439.947,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>
Profit for the period, after taxes	81.724.629,56	56.663.495,05	14.200.628,74	15.428.701,98
Adjustment in foreign currency translation differences	-19.835.058,79	17.851.638,25	0,00	0,00
Own Stock	-1.339.855,61	0,00	-108.985,61	0,00
<b>Net equity of period Closing Balance</b>	<b>269.637.133,61</b>	<b>161.972.461,22</b>	<b>114.604.893,22</b>	<b>109.329.437,59</b>

**4. DATA FROM CASH FLOW STATEMENT**

(AMOUNTS REPORTED IN EURO)

**IV. CASH FLOW STATEMENT**

<b>CASH FLOW STATEMENT (Amounts reported in Euro)</b>				
	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	1/1-31/12/2006	1/1-31/12/2005	1/1-31/12/2006	1/1-31/12/2005
Cash Flows related to Operating Activities				
Net Profit before taxes	106.026.703,63	70.054.581,57	15.657.665,74	18.788.999,81
<i>Adjustments in respect of non-cash transactions:</i>				
Depreciation and Amortisation	7.952.028,91	3.082.378,44	1.054.074,99	949.794,62
Provisions	1.067.649,93	1.188.610,09	232.823,00	854.320,94
Cash flows from investing activities	-6.005.841,35	-11.528.844,11	-21.500.927,58	-12.083.378,02
Debit interest and similar expenses	8.029.971,77	4.724.103,21	7.952.112,89	4.668.063,61
Other non-cash expense/income	0,00	0,00	0,00	0,00
Operating profit before adjustments of working capital	117.070.512,89	67.520.829,20	3.395.749,04	13.177.800,96
Decrease/(increase) of Inventories	5.492.850,82	-21.232.011,83	551.114,68	-2.703.139,87
Decrease/(increase) of Receivables	-27.213.232,14	-28.318.885,55	5.048.631,02	-5.921.292,33
Increase/(decrease) of payable accounts (except Banks)	-30.445.404,23	2.751.752,10	-529.254,41	1.573.232,40
Interest paid and similar expenses	-10.648.306,80	-5.148.235,89	-8.433.121,20	-4.950.020,20
Income Tax paid	-29.617.235,32	-11.332.373,00	-3.287.032,72	-1.950.571,40
<i>Net cash inflows/(outflows) from Operating Activities</i>	24.639.185,22	4.241.075,03	-3.253.913,59	-773.990,44
Cash Flows related to Investing Activities				
Purchases of subsidiaries, associates and other investments	209.320.322,31	0,00	227.789.431,30	-1.772.539,39
Purchases of tangible and intangible assets	-8.793.806,02	-10.272.671,44	-927.023,46	-1.982.571,72
Proceeds from sale of tangible and intangible assets	1.429.524,58	95.690,76	20.960,00	12.007,22
Proceeds from sale of financial assets	2.070.853,98	643.044,41	1.961.153,98	643.044,41
Dividends received	0,00	9.164.303,46	20.990.210,29	9.735.942,50
Interest received	2.618.335,03	424.132,68	481.008,31	281.956,59
Decrease/(increase) of other long-term receivables	3.292.142,66	1.272.691,65	-19.846,91	-42.682,56
<i>Net cash inflows/(outflows) from Investing Activities</i>	208.703.272,08	1.327.191,52	205.282.969,09	6.875.157,05
Cash Flows related to Financing Activities				
Cash received from issue of share capital				
Own Stock	-1.339.855,61		-108.985,61	
Proceeds from Loans	294.233.581,31	1.010.172,79	225.846.718,92	0,00
Repayment of Loans	0,00	0,00	0,00	-27.604,87
Payments for leases	-583.819,39	-632.199,66	-117.569,61	-123.547,81
Dividends paid	-29.551.841,65	-8.069.321,96	-7.928.286,26	-7.211.863,40
<i>Net cash inflows/(outflows) from Financing Activities</i>	262.758.064,66	-7.691.348,83	217.691.877,44	-7.363.016,08
Net increase/(decrease) in cash and cash equivalents	78.693.977,80	-2.123.082,28	9.154.994,76	-1.261.849,47
Cash and cash equivalents at the beginning of the period	33.892.169,63	33.723.558,93	13.247.662,22	14.509.511,69
Exchange rate differences from the conversion of cash equivalents	-3.275.433,68	2.291.692,98	0,00	0,00
<i>Cash and cash equivalents at the end of the period</i>	109.310.713,75	33.892.169,63	22.402.656,98	13.247.662,22

**5. NOTES TO THE CONSOLIDATED AND PARENT'S SEPARATE  
FINANCIAL STATEMENTS**

1. General information

FOLLI – FOLLIE S.A. (“the Company”) with distinctive title “FOLLI FOLLIE” and its subsidiaries (together “the Group”) is engaged in the sector of silver and gold products, in particular manufactures jewellery and watches from precious and semi-precious metals and stones as also in the sector of accessories. In the object of the Company as stated in the Articles of Association is included the distribution of the aforementioned products by retail and wholesale in the domestic and international market.

The address of the Company’s registered office is 23 Km Athens – Lamia National Road, Ag. Stefanos, Attica, its web-site is [www.follifollie.com](http://www.follifollie.com) and it has its primary listing on the Athens Stock Exchange since 1997.

Folli Follie following its listing on the Athens Stock Exchange and the increase of the share capital that arose, extended its development abroad, thus placing the foundation of its multinational character. Nowadays, Folli Follie continues to develop its activities in new strategically important markets around the world while strengthening its presence in existing ones.

The consolidated financial statements, which are presented, refer to Folli Follie S.A. and the subsidiaries of the Group.

These financial statements have been approved for issue by the Board of Directors on 9<sup>th</sup> March 2006.



**FOLLI FOLLIE S.A.**

The Structure of the Group Folli Follie has as follows:

COMPANY	REGISTERED OFFICE	% PARTICIPATION	RELATION
			THAT COMMANDED THE CONSOLIDATION
FOLLI FOLLIE HONG KONG LTD	HONG KONG	99,99%	Direct
FOLLI FOLLIE UK LTD	LONDON	99,99%	Direct
FOLLI FOLLIE FRANCE SA	PARIS	100%	Direct
FOLLI FOLLIE SPAIN SA	MADRID	100%	Direct
FOLLI FOLLIE CZECH SRO	PRAGUE	100%	Direct
FOLLI FOLLIE POLAND SZOO	WARSAW	100%	Direct
FOLLI FOLLIE SLOVAKIA SRO	BRATISLAVA	100%	Direct
FOLLI FOLLIE GERMANY Gmbh	TRAOUNSTAIN	100%	Direct
MFK FASHION LTD	NICOSIA	100%	Direct
PLANACO SA	ATHENS	76,67%	Direct
HELLENIC DUTY FREE SHOPS	ATHENS	52,28%	Direct
FOLLI FOLLIE JAPAN LTD	TOKYO	40%	Direct
FOLLI FOLLIE ASIA LTD	HONG KONG	99,99%	Indirect
FOLLI FOLLIE TAIWAN LTD	TAIPEI	99,99%	Indirect
FOLLI FOLLIE KOREA LTD	SEOUL	99,99%	Indirect
FOLLI FOLLIE SINGAPORE LTD	SINGAPORE	99,99%	Indirect
BLUEFOL GUAM LTD	GUAM	99,99%	Indirect
BLUEFOL HAWAII LTD	HAWAII	99,99%	Indirect
BLUEFOL HONG KONG LTD	HONG KONG	99,99%	Indirect
FOLLI FOLLIE MALAYSIA LTD	KUALA LUMPUR	99,99%	Indirect
BLUEFOL THAILAND LTD	BANGKOK	99,99%	Indirect
FOLLI FOLLIE CHINA (PILION LTD)	SHANGAI	85,00%	Indirect
HELLENIC DISTRIBUTIONS SA	ATHENS	52,28%	Indirect
LINKS (LONDON) LIMITED	LONDON	52,28%	Indirect
LINKS OF LONDON COM LTD (UK)	LONDON	52,28%	Indirect
LINKS OF LONDON ASIA LTD (HK)	HONG KONG	52,28%	Indirect
LINKS OF LONDON INC (USA)	NEW YORK	52,28%	Indirect
LINKS OF LONDON (FRANCE)	PARIS	52,28%	Indirect
HDFS SKOPJE DOO (Π.Γ.Δ.Μ.)	SKOPJE	52,28%	Indirect
HELLENIC TOURIST BUREAU A.E.	ATHENS	52,28%	Indirect

## 2. Summary of significant accounting policies applied by the Group

### 2.1. Basis of preparation

These consolidated and parent's separate financial statements of FOLLI FOLLIE S.A. at 31 December 2006 have been prepared under:

- The historical cost convention
- The going concern basis
- The accrual basis of accounting
- The consistency and relevance of presentation
- The materiality of data

and are in accordance with the International Financial Reporting Standards (IFRS) as these have been published by the International Accounting Standards Board (IASB), as well as their interpretations, as published by the International Financial Reporting Interpretations Committee (I.F.R.I.C.) of the IASB and which have been adopted by the European Union by the regulation Number 1606/2002 of the European Union as of 31 December 2005.

The financial statements for the previous year were prepared under IFRS 1 "First-time Adoption of International Financial Reporting Standards", given that they were the first financial statements prepared, and were published in accordance with IFRS (year 2005). The date of the Group's transition to the new standards, in accordance with IFRS 1, is 1 January 2004.

The accounting principles mentioned below, have been applied with consistency to all periods presented.

The financial statements of FOLLI FOLLIE S.A. have been prepared in accordance with the accounting principles of the Uniform Greek General Chart of Accounts (GGCA) up to the year that ended on 31 December 2004. The principles of the GGCA differ in some respects from those of the IFRS. The comparative figures for 2004 were restated in accordance with the adopted accounting principles and accounting estimates for the IFRS.

The preparation of financial statements in conformity with the IFRS requires the use of analytical accounting estimates and assumptions in the process of applying the accounting principles.

## 2.2. Consolidation – Measurement of subsidiary and associate companies

Subsidiaries are all entities over which the Parent company has the power to govern. Subsidiaries are fully consolidated (full consolidation) from the date on which control is transferred to the Group and are de-consolidated from the date on which control ceases. In the case of Folli Follie, as it arises also from the table set out above, the subsidiaries are fully consolidated by the full consolidation method.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains of transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The investments in subsidiaries in the parent's separate Balance Sheet are measured at acquisition cost net of any accumulated impairment loss.

The application of the policy to business combinations that occurred before the date of transition to IFRSs, is covered by 10 optional exceptions based on IFRS 1. In particular, based on circumstance i, goodwill recognised directly as a deduction from equity, under previous GAAP shall not be recognised and restated in the income statement the disposal of all the entity or part of it with which is related goodwill or if the investment in the subsidiary becomes impaired. This was applied by the company during the first preparation of the consolidated financial statements in accordance with IFRS.

In accordance with the Group's standard practice, investments in affiliates are recorded according to the equity method. The Group's share following the participation acquisition in the affiliates is recorded directly to the Profit and Loss Account, whereas the changes in reserves for the same period are recorded to the Group's reserves. The accumulated changes affect the accounting value of the investments in associated Companies.

Unrealized gain from transactions between the Group and its related parties are eliminated according to the Group's participation percentage in these related parties. The accounting principles followed by the related parties have been modified in order to be in conformity with those adopted by the Group.

- a. Until 30.04.2006, the Folli-Follie Group exercised a significant influence over KAE (Hellenic Duty Free Shops) having a 24.68% stake of the Company's total voting rights. In May 2006, the Group increased its stake by 24.6777%, paying a consideration of 202,987,184.00 euros, and thus on 30.06.2006 the Group held 49.36% of the share capital of Hellenic Duty Free Shops (KAE), a company listed on the Athens Stock Exchange, namely 25,999,000 shares. Through this increase, the Group also increased its percentage of indirect participation in the subsidiaries of KAE, which are the following:
  - a) Hellenic Distributions (ELLI NIKES DIANOMES)
  - b) H.D.F.S SKOPJE DOO
  - c) HELLENIC TOURIST BUREAU S.A.

Moreover, on 17/07/2006 the Folli Follie Group acquired 1.540.000 shares of H.D.F.S. Following this acquisition representing 2.92% of H.D.F.S.' total number of shares, the total participation of Folli Follie to H.D.F.S. at 31.12.2006 has reached 52.28%.

The Group had included on 30.06.2006 in its consolidated financial statements the Hellenic Duty Free Shops S.A for the period, applying the full consolidation method, from 05/05/2006, date on which it acquired control of the company; for previous periods the consolidation was performed by applying the equity method.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition of the total percentage (24,6777% and 2,92%) and the full consolidation for the period between the acquisition date and the closing date (31.12.2006) had the following results:

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Positive change in Turnover of the Group (in 000's) 238.120,00 €

Increase of operating profit before taxes (EBITDA) (in 000's) 52.464,00 €

Increase of Equity (in 000's) 98.792,00 €

If the Group of Hellenic Duty Free Shops had been fully consolidated from the beginning of the period (1.1.2006), the effect at 31.12.2006 would have been positive both on Turnover (by € 300.047,00) and on Operating profits before taxes (by 64.823,00 €).

From the specific increase – acquisition of the additional percentage of 24.6777% - the Group acquired a goodwill of 151.266.165,00 euros which has been determined as follows:

- Date of acquisition	05/05/2006
- Percentage	24,6777%
- Shares (Total amount)	52.675.000
- Shares acquired	12.999.000
- Nominal value per share	0,30 euros
- Purchase value per share	15,60 euros

Total cost of shares

- Cash paid	202.784.400,00 euros
- Direct Expenses related to the acquisition	202.784,00 euros
- Dividends from benefits before the acquisition	<u>(10.398.400,00 euros)</u>
Total Cost of acquisition	192.588.784,00 euros
Less: Fair value of Assets and liabilities	(41.322.619,00 euros)
Goodwill	151.266.165,77 euros

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Analytically the assets which were acquired, the liabilities and the contingencies which were undertaken by the Group during the acquisition of 24,6777%, are as follows:

	<u>Book Value (thou. euro)</u>	<u>Fair Value (thou.euro)</u>
Tangible Assets	25.856	25.856
Intangible Assets	52.551	103.551
Deferred income tax assets	467	467
Other long term receivables	3.268	3.268
Inventories	54.299	54.299
Trade and other receivables	12.556	12.556
Other financial assets at fair value through profit or loss	1.826	1.826
Cash and cash equivalents	77.580	77.580
Long- term borrowings	(4.484)	(4.484)
Deferred income tax liabilities	-	(12.750)
Trade paybles	(49.211)	(49.211)
Current income tax	(3.369)	(3.369)
Dividends payable	<u>(42.140)</u>	<u>(42.140)</u>
	129.199	167.449
		<u>24,6777 %</u>
<u>Fair Value</u>		<u>41.323</u>

It should be noted that, the Company performed a first estimation of all assets acquired and also of all liabilities and contingent liabilities.

Also, an independent surveyor performed an estimation of intangible assets, assignment of licenses (royalties) of exclusive use (article 120 of Law 2533/1997) of tax free sales based on future cash flows.

From the increase – acquisition of the additional percentage of 2.92% - the Group acquired a goodwill of 13.490.439,09 euros.

b. At this point it should be mentioned that, at the end of May 2006, the Company acquired 76.67% of the Share Capital of the company Planaco S.A. by participating in the partial share capital increase with an amount of 2.700.000,00 € Planaco S.A. was consolidated for first time at this current period. The Group consolidated Planaco S.A. in its financial statements since 01/06/2006, date of verification of the share capital increase.

The results of the period ended at 31.12.2006 were not affected by the aforementioned acquisition, while if Planaco S.A. had been consolidated at the beginning of the period, the influence would be immaterial.

It should be noted that, the fair value of all assets acquired by the Group, and of all liabilities, and contingent liabilities undertaken as well as the fair value of the Company's intangible assets were estimated by an independent surveyor.

c. In addition to the above, it shall be mentioned that, at the end of July 2006, the Folli Follie Group acquired the British jewellery, watches and luxury items brand LINKS OF LONDON Ltd. Specifically, the company "HELLENIC DISTRIBUTIONS S.A.", fully owned by the company "HELLENIC DUTY FREE SHOPS" and a member of the FOLLI FOLLIE Group, acquired the total number of shares (100%) of the British company.

d. It must be noted that during the last quarter of year 2006, the Group acquired the Retail Licence for operating in China. As a consequence the financial data of the Group for the last quarter of the current fiscal year include the results of the Chinese Market.

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**2.3. Segment reporting**

*Primary reporting format – Geographical segments*

The registered office of the Group is in Greece. The segments are mainly the points of sales of inventories and services.  
The presentation is based on where the assets are located.

Amounts in thousands Euro

	<u>Greece</u>		<u>Europe</u>		<u>Japan</u>		<u>Other Asian markets</u>		<u>Consolidated items</u>	
	<i>31/12/2006</i>	<i>31/12/2005</i>	<i>31/12/2006</i>	<i>31/12/2005</i>	<i>31/12/2006</i>	<i>31/12/2005</i>	<i>31/12/2006</i>	<i>31/12/2005</i>	<i>31/12/2006</i>	<i>31/12/2005</i>
“Net” sales abroad	236.530	25.824	37.625	11.632	43.007	50.578	167.237	134.763	484.399	222.797
<b><u>Operating profit/Segment result</u></b>	118.841	18.858	24.393	5.624	29.889	35.614	87.587	74.255	260.710	134.351
Unallocated expenses									-147.431	-69.874
<i>Operating result</i>									113.279	64.477
<i>Finance costs</i>									-11.429	-3.818
<b><u>Share of profit of associates</u></b>	4.177	9.396							4.177	9.396
<b><u>Profit for the year</u></b>									106.027	70.055
	<i>31/12/2006</i>	<i>31/12/2005</i>	<i>31/12/2006</i>	<i>31/12/2005</i>	<i>31/12/2006</i>	<i>31/12/2005</i>	<i>31/12/2006</i>	<i>31/12/2005</i>	<i>31/12/2006</i>	<i>31/12/2005</i>
<b><u>Assets</u></b>	500.048	75.948	98.117	16.844	21.240	27.524	205.131	171.919	824.536	291.735
Investments in associates		40.395							0	40.395
Unallocated Assets									2.109	2.661
Total Consolidation									826.645	334.291
<b><u>Liabilities</u></b>	503.107	134.023	4.438	4.043	11.964	14.811	13.775	10.913	533.284	163.790
Unallocated Assets									23.724	9.529
Total Consolidation									557.008	173.319
Capital expenditure	4.523	2.021	107	-107	1.488	691	3.637	7.668	9.755	10.273
Depreciation	4.561	950	1.232	561	625	885	848	686	7.952	3.082



## 2.4. Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-momentary financial assets and liabilities measured at fair value, are reported as part of the fair value and therefore recognised as also the differences of the fair value.

### (c) Group companies

The financial statements of all the Group companies, that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Equity is translated at the exchange rates ruling at the date it is incurred.
- Income and expenses are translated at average exchange rates of the period.

All resulting exchange differences are recognised as a separate component of equity and transferred to the income statement recognised as part of the gain or loss on sale when a foreign operation is sold.

## 2.5. Property, plant and equipment

a) Property, plant and equipment is stated at historical cost less subsequent depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to

the income statement during the financial period in which they are incurred. Installations on third parties' property (establishment of stores) are depreciated over the estimated term of the lease. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method over their estimated useful lives, as follows:

- Buildings (privately owned)	50	Years
- Electro-Mechanical etc. Installations on privately owned buildings	20-25	«
- Installations on third parties' property	8-12	«
- Mechanical equipment	6,67-9,09	«
- Motor vehicles	6,67-9,09	«
- Other equipment	6,67	«

Residual values are recognised only on privately owned buildings.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

#### b) Investments in Property

All investments in property are measured at fair value. According to this method the investments, at each closing balance sheet date, are measured at their fair value and the differences from the cost or the previous measurement is recognised in the income statement.

## **2.6. Intangible assets**

### **(a) Intangible Market Value of Retail Stores**

The Intangible market Value of the Company's retail stores is measured at cost less depreciation. Depreciation is performed based on the lease term of the stores, which is 8 to 12 years.

### **(b) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which in the case of Folli Follie is estimated depending on the application of each software and is from 4 to 7 years approximately.

## **2.7. Impairment of non-financial assets**

### **Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognised as expenditure in the income statement when incurred.

## **2.8. Financial Assets**

### **(a) Loans and receivables**

#### **Trade receivables**

Trade receivables are recognised initially at fair value which agrees with their nominal value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due, according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### **(b) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

### **(c) Financial assets at fair value through profit or loss**

Folli Follie classifies its financial assets in this category that are acquired principally for the purpose of selling in the short term including also derivatives. Purchases and sales of investments are initially recognised at fair value and on trade-date. Investments are derecognised when the

rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. The fair value of quoted financial assets are based on current bid prices.

## **2.9. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost formula. The cost in progress comprises the cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## **2.10. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, current and time deposits, as formed at the closing of the period from the company and the Group.

## **2.11. Share capital**

The shares of Folli Follie are ordinary registered shares which are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

## **2.12. Income taxes**

The Group is subject to various income tax rates depending upon the country of establishment. Furthermore, it must be noted that with regards to the matter of tax audit of the companies that

participate in the consolidated statements, in the country where Folli Follie Hong Kong Ltd., Folli Follie Asia Ltd. and Bluefol Hong Kong Ltd. operate the tax audit for finalizing the fiscal period taxes is not mandatory. The authorities accept the data as declared by the companies following the audit by Certified Auditors. The tax authorities may conduct a select audit, only for the last seven fiscal years reported. After the lapse of seven years, the fiscal periods are rendered final.

The Company has been audited by the tax authorities for Fiscal Year 2005, therefore Fiscal Year 2006 is not audited at present. For Fiscal Year 2006, the Company decided not to form a relevant provision. Consequently, the subject matter presented on the Audit Report issued by the Certified Auditors relates to the un-audited Fiscal Year of the Company.

### **2.13. Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

### **2.14. Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax is determined using tax rates (and laws) that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### **2.15. Employee benefits**

#### **(a) Short - term employee benefits**

Short - term employee benefits towards the employees in money and in kind, are recognised as an expense when accrued.

**(b) Post - employment benefits**

Post - employment benefit schemes comprise both defined contribution plans (Government pension insurance) and defined benefit plans (lump sum benefit paid to employee on retirement dependent on years of service that is imposed by the L. 2112/20). Accrued cost of defined contribution plans is recognised as an expense over the vesting period.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. According to this method, the defined benefit obligations that relate to past - service at the date of value determination are accounted for separately from the expected benefits at the year after the date of value determination (employees remaining in service for a specific period of time). The most significant assumptions that were used at the two as above dates are as follows:

<b>Date of value determination</b>	<b>Discount interest rate</b>	<b>Inflation</b>	<b>Future salary increases</b>
31/12/2005	4,0%	2,5%	3,0%
31/12/2006	4,0%	2,5%	3,0%-4,0%

**2.16. Provisions**

Provisions are recognised when:

- a) There is a present legal or constructive obligation as a result of past events,
- b) It is more likely than not that an outflow of resources will be required to settle the obligation and,
- c) The required amount has been reliably estimated.

**2.17. Government grants**

No grants were received during the current year.

## 2.18. Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value - added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

### *(a) Sales of goods*

Sales of goods are recognised when the Company has delivered products to the customer; the customer has accepted the products; and collectibility of the related receivables is reasonably assured. The sales of goods – wholesale are mainly carried out on credit.

### *(b) Sales of services*

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided by Folli Follie, as a proportion of the total services to be provided.

### *(c) Interest income*

Interest income is recognised on a time - proportion basis using the effective interest method.

### *(d) Income from Rent*

Income from rent is recognised on an accrual basis in accordance with the substance of the relevant agreements.

### *(e) Dividend income*

Dividend income is recognised when the right to receive payment is established, that is when approved by the body entitled to pay them out (General Meeting).

## 2.19. Leases

### *(a) Operating leases*

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Finance leases

Finance leases are treated as hire purchase contracts, as a consequence the leased assets to be disclosed as assets of the Group (and to be depreciated), with respective recognition of the finance liability to the lessor or lessors. The finance cost is carried to the Income Statement as an expense, when accrued.

**2.20. Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the parent's separate financial statements and in the consolidated financial statements in the period in which the dividends are approved by the General Meeting of the company's Shareholders.

**2.21. New accounting standards and IFRIC interpretations**

The International Accounting Standards Board (IASB) as well as the International Financial Reporting Interpretations Committee (IFRIC) has already published a series of new accounting standards that interpretations, which are not included in the "IFRS Stable Platform 2005". The IFRS and the IFRIC are mandatory for accounting periods beginning on 1 January 2006. The Group's assessment of the impact of these new standards and interpretations is set out below:

· **IFRS 6, Exploration for and Evaluation of Mineral Resources**

The Group does not have any exploration and evaluation assets. This standard will not affect the Group's financial statements.

· **IFRIC 3, Emission Rights**

Not applicable to the Group and will not affect the Group's financial statements.

· **IFRIC 4, Determining whether an Asset contains a Lease**

Not applicable to the Group and will not affect the Group's financial statements.

· **IFRIC 5, Rights to Interests arising from Decommissioning,**

**Restoration and Environmental Rehabilitation Funds**

Not applicable to the Group and will not affect the Group's financial statements.

· **IFRIC 6, Liabilities arising from Participating in a Specific Market:**

**Waste Electrical and Electronic Equipment**

Not applicable to the Group and will not affect the Group's financial statements.

· **IFRIC 7, Applying the Restatement Approach under IAS 29**

**Financial Reporting in Hyperinflationary Economies**



Not applicable to the Group and will not affect the Group's financial statements.

· **IFRIC 8, Scope of IFRS 2**

Not applicable to the Group and will not affect the Group's financial statements.

**2.22. Contingencies**

The Group has no contingent assets and contingent liabilities.

3. Financial risk management

3.1. Financial risk factors

(a) Credit risk

The Group has no significant concentrations of credit risk since the wholesale sales of products are made to customers with an appropriate credit history, as they are airports, department stores, large airline companies and also selected new customers from which the Group receives guarantee letters for security. Thus, the credit risk is at low levels.

(b) Liquidity risk

The Group has no liquidity risk, due to the availability of significant cash and cash equivalents and sufficient credit lines.

(c) Cash flow and fair value interest rate risk

The Group has interest-bearing assets due to placing its cash and cash equivalents at bank time deposit accounts, of zero risk, at an interest rate fixed in advance, the floating of which is not significant as such to rise a cash flow and fair value interest rate risk.

The Group's interest-rate risk arises from long-term borrowings. Group policy was to maintain the total of its borrowings at floating interest rate (euribor). The department managing the cash and cash equivalents of the group with continuous following of the course of the interest rates (euribor) from the contracting of the long-term borrowings up until today, aiming to continue the best management of this risk proceeded, before the 1<sup>st</sup> upward change of the interest rate (euribor), into an Interest Rate Swap contract for a significant part of its long-term borrowings.

*(d) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising primarily with respect to the US dollar. The management's object is to hedge the risk balancing the group's receivables and liabilities per currency. The Group buys and sells foreign exchange in advance.

#### 4. Transition to IFRS

##### 4.1. Basis of transition to IFRS

###### 4.1.1 Application of IFRS 1

The Company's and the Group's financial statements for the year ended 31 December 2005 were the first annual financial statements that comply with IFRS. These financial statements had been prepared as described in Note 2.1 The Group had applied IFRS 1. The reporting date of those financial statements was 31 December 2005. The IFRS adoption date was 1 January 2005. In preparing these financial statements, the Group had applied certain of the optional exemptions from full retrospective application of IFRS.

###### 4.1.2 Consistency of estimates under Greek GAAP and IFRS and reconciliations between IFRS and Greek GAAP

The consistency of estimates between Greek GAAP and IFRS, the Table of adjustments of the period opening net equity (01.01.2005 and 01.01.2004 respectively) and the Table of adjustments of the results for the period 01.01.2004-31.12.2004 are analyzed at the annual Financial Statements of 31.12.2005, pages 24-25.

## 5. Property, plant and equipment

### The Group

	Land	Buildings & Building Installations	Plant & Machinery	Vehicles	Furniture, fittings & equipment	PPE in course of construction	Total
<b>01.01.2005</b>							
Cost	4.509.886,92	29.105.308,35	1.776.013,65	622.386,00	7.798.539,43	0,00	43.812.134,35
Additions	7.895.819,22	3.248.557,06	12.975,76	0,00	1.006.535,45	33.599,64	12.197.487,13
Disposals	0,00	583.551,38	0,00	0,00	366.574,54	0,00	950.125,92
<b>Balance 31.12.05</b>	<b>12.405.706,14</b>	<b>31.770.314,03</b>	<b>1.788.989,41</b>	<b>622.386,00</b>	<b>8.438.500,34</b>	<b>33.599,64</b>	<b>55.059.495,56</b>

<b><u>Accumulated depreciation</u></b>							
Balance							
01.01.2005	0,00	2.678.658,10	1.151.082,68	284.019,73	4.563.128,15	0,00	8.676.888,66
Depreciation charge							
	0,00	966.603,08	158.158,20	73.083,48	1.382.008,72	0,00	2.579.853,48
Decrease of Depreciation							
	0,00	489.785,24	0,00	0,00	353.797,57	0,00	843.582,81
<b>Balance 31.12.05</b>	<b>0,00</b>	<b>3.155.475,94</b>	<b>1.309.240,88</b>	<b>357.103,21</b>	<b>5.591.339,30</b>	<b>0,00</b>	<b>10.413.159,33</b>
<b>Exchange differences</b>							
	207.241,95	-672.397,03	2.160,85	4.858,55	459.558,14	1.813,04	3.235,50
<b>Net book amount</b>							
<b>31.12.2005</b>	<b>12.612.948,09</b>	<b>27.942.441,06</b>	<b>481.909,38</b>	<b>270.141,34</b>	<b>3.306.719,18</b>	<b>35.412,68</b>	<b>44.649.571,73</b>

<b><u>01.01 – 31.12.2006</u></b>							
Additions	688.759,62	3.747.938,17	300.900,77	25.438,47	3.264.636,47	851.739,59	8.879.413,09
New Subsidiaries	2.323.479,35	27.837.840,83	3.928.303,99	1.628.859,03	26.744.546,61	4.472.032,96	66.935.062,77
Disposals	0,00	557.787,56	477,00	209.836,16	932.407,50	526.669,14	2.227.177,36
Depreciation charge							
	0,00	1.719.860,03	336.959,33	52.008,00	3.484.261,75	0,00	5.593.089,11
Depreciation of New Subsidiaries							
	0,00	7.813.700,00	2.341.517,59	1.066.087,78	17.133.633,92	0,00	28.354.969,29
Decrease of depreciation							
	0,00	350.873,71	2,74	99.181,39	851.921,08	0,00	1.301.978,92
<b>Exchange differences</b>							
	-453.797,08	616.397,75	5.575,30	-10.730,53	-24.624,68	-939.934,48	-807.113,72
<b>Net book amount</b>							
<b>31.12.2006</b>	<b>15.171.389,98</b>	<b>50.404.143,93</b>	<b>2.037.738,26</b>	<b>684.957,76</b>	<b>12.592.865,49</b>	<b>3.892.581,61</b>	<b>84.783.677,03</b>

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**The Company**

	Land	Buildings & Building Installations	Plant & Machinery	Vehicles	Furniture, fittings & equipment	PPE in course of construction	Total
<b><u>01.01.2005</u></b>							
Cost	4.509.886,92	24.517.626,36	1.578.863,59	475.114,42	3.003.431,27	0,00	34.084.922,56
Additions	4.055.157,82	-1.030.346,53	7.420,00	0,00	329.926,12	0,00	3.362.157,41
Disposals	0,00	0,00	0,00	0,00	11.694,51	0,00	11.694,51
Settlement between Assets							
<b>Balance 31.12.05</b>	<b>8.565.044,74</b>	<b>23.487.279,83</b>	<b>1.586.283,59</b>	<b>475.114,42</b>	<b>3.321.662,88</b>	<b>0,00</b>	<b>37.435.385,46</b>

**Accumulated**

**depreciation**

Balance 01.01.2005	0,00	869.619,62	1.041.272,52	269.235,29	1.893.383,88	0,00	4.073.511,31
Depreciation charge	0,00	383.824,62	113.108,69	38.795,35	281.879,32	0,00	817.607,98
Decrease of Depreciation	0,00	0,00	0,00	0,00	11.694,22	0,00	11.694,22
<b>Balance 31.12.05</b>	<b>0,00</b>	<b>1.253.444,24</b>	<b>1.154.381,21</b>	<b>308.030,64</b>	<b>2.163.568,98</b>	<b>0,00</b>	<b>4.879.425,07</b>

**Net book amount**

<b>31.12.2005</b>	<b>8.565.044,74</b>	<b>22.233.835,59</b>	<b>431.902,38</b>	<b>167.083,78</b>	<b>1.158.093,90</b>	<b>0,00</b>	<b>32.555.960,39</b>
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**01.01 – 31.12.2006**

Additions	0,00	419.309,50	56.817,11	45.871,28	392.271,97	0,00	914.269,86
Disposals	0,00	0,00	0,00	29.055,88	7.517,89	0,00	36.573,77
Depreciation charge	0,00	434.617,05	97.197,62	28.806,68	357.266,74	0,00	917.888,09
Decrease of depreciation	0,00	0,00	0,00	24.418,54	612,94	0,00	25.031,48

**Net book amount**

<b>31.12.2006</b>	<b>8.565.044,74</b>	<b>22.218.528,04</b>	<b>391.521,87</b>	<b>179.511,04</b>	<b>1.186.194,18</b>	<b>0,00</b>	<b>32.540.799,87</b>
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## 6. Intangible Assets

	THE GROUP		THE COMPANY
	Special assessment	Amortisable expenses	Amortisable expenses
<b><u>01.01.2005</u></b>			
Cost		<b>9.622.004,36</b>	<b>1.399.039,19</b>
Additions		-529.792,28	9.306,26
Disposals		89.727,53	0,00
<b>Balance 31.12.05</b>		<b>9.002.484,55</b>	<b>1.408.345,45</b>
<b><u>Accumulated amortisation</u></b>			
Balance 01.01.2005		<b>2.731.082,55</b>	<b>525.716,37</b>
Amortisation charge		207.795,96	132.186,64
Decrease of amortisation		99.033,79	0,00
<b>Balance 31.12.05</b>		<b>2.839.844,72</b>	<b>657.903,01</b>
Exchange differences		-1.977.550,13	0,00
<b>Net book amount 31.12.2005</b>		<b>4.185.089,70</b>	<b>750.442,44</b>
<b><u>01.01 – 31.12.2006</u></b>			
Additions		876.254,35	12.753,60
New subsidiary		117.965.030,00	
Disposals		-739.798,54	0,00
Amortisation charge		-2.606.436,86	136.186,90
New subsidiary depreciation		-11.456.954,00	
Decrease of amortisation		703.136,56	0,00
Special assessment of New Subsidiaries	221.489.685,53	0,00	0,00
Exchange differences		-362.139,46	0,00
<b>Net book amount 31.12.2006</b>	<b>221.489.685,53</b>	<b>108.564.181,75</b>	<b>627.009,14</b>

## 7. Inventories

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Products-Merchandise-Raw materials & Packing items	126.098.481,85	72.258.888,21	14.083.250,86	14.634.365,54
Provisions for impairment of inventories	500.000,00	500.000,00	500.000,00	500.000,00
	<b>125.598.481,85</b>	<b>71.758.888,21</b>	<b>13.583.250,86</b>	<b>14.134.365,54</b>

## 8. Trade receivables

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Trade receivables	140.239.131,14	121.290.148,36	15.850.440,84	18.872.475,88

## 9. Other receivables

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Participations in related parties	0,00	0,00	387.438.470,75	41.300.601,74
Participations in associates	0,00	40.395.445,88	0,00	118.204.900,21
Other long-term receivables	6.676.684,23	6.838.204,67	293.421,34	419.574,43
Receivables from deferred taxes	2.109.039,58	2.660.750,50	352.870,16	703.225,42
Sundry debtors	20.309.012,13	3.097.109,80	1.823.541,34	1.176.636,85
Marketable securities	3.419.646,43	2.921.508,63	1.464.116,71	2.921.508,63
Other receivables	4.144.448,51	3.102.468,78	381.314,01	1.219.314,48
	<b>36.658.830,88</b>	<b>59.015.488,26</b>	<b>391.753.734,31</b>	<b>165.945.761,76</b>

## 10. Cash and cash equivalents

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Cash in hand	3.253.200,00	885.869,82	528.867,13	362.228,45
Current and time deposits	106.057.513,75	33.006.299,81	21.873.789,85	12.885.433,77
	<b>109.310.713,75</b>	<b>33.892.169,63</b>	<b>22.402.656,98</b>	<b>13.247.662,22</b>

## 11. Share capital and share premium

	Number of shares	Ordinary shares	Authorised capital	Share premium	Treasury shares	Total
31 <sup>st</sup> December 2004	32.946.875	32.946.875	9.884.062,50	62.531.731,47	0	72.415.793,97
31 <sup>st</sup> December 2005	32.946.875	32.946.875	9.884.062,50	62.531.731,47	0	72.415.793,97
31 <sup>st</sup> December 2006	32.946.875	32.946.875	9.884.062,50	62.531.731,47	0	72.415.793,97

The total authorized number of ordinary shares is 32.946.875 million shares with a par value of € 0,30 per share. All issued shares are fully paid.

## 12. Retained earnings and other reserves

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Profit carried forward	207.356.278,78	161.106.539,24	22.113.518,04	17.234.624,78
Reserves	8.832.577,14	24.513.525,66	20.184.566,82	19.679.018,84
Own Shares	-1.339.856,41	-	-108.985,61	-
Consolidation differences according to previous Accounting Standards	-88.927.927,73	-88.927.927,74	-	-
Consolidated exchange differences	<b>-32.706.043,74</b>	-12.980.009,96	-	-
Third party rights	<b>104.006.311,60</b>	5.844.540,04	-	-
	<b>197.221.339,64</b>	<b>89.556.667,24</b>	<b>42.189.099,25</b>	<b>36.913.643,62</b>

## 13. Non-current liabilities

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Provision for employee benefits	8.476.568,05	3.356.944,74	620.917,00	540.126,00
Guarantees for rent	0,00	0,00	251.428,35	240.683,52
Debenture Loan	1.295.151,81	1.526.282,82	-	-
Other – Liabilities for Leasing	799.957,11	1.258.720,49	262.209,86	359.983,10
Deferred income tax liability	15.247.131,09	1.047.943,78	1.251.176,41	1.035.080,14
Other provisions	9.010.796,11	1.029.191,60	10.615,36	97.606,20
	<b>34.829.604,17</b>	<b>8.219.083,43</b>	<b>2.396.346,98</b>	<b>2.273.478,96</b>



**14. Trade and other payables**

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Trade payables	34.806.413,96	15.829.100,60	2.874.807,77	3.487.817,55
Taxes – duties	13.776.936,38	5.855.424,27	572.196,80	1.873.784,69
Dividends payable	38.366.076,20	2.962.674,96	3.600.576,20	2.962.674,96
Other payables	13.672.127,03	9.514.877,80	663.397,58	1.216.019,95
Customers' prepayments	2.842.783,57	-	1.835.500,00	-
	<b>103.464.337,14</b>	<b>34.162.077,63</b>	<b>9.546.478,35</b>	<b>9.540.297,15</b>

**15. Liabilities to Banks**

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Non-current liabilities	406.901.777,95	125.149.592,17	341.000.000,00	119.499.958,91
Current liabilities	11.811.849,44	5.047.457,92	9.210.173,45	4.863.495,62
	<b>418.713.627,39</b>	<b>130.197.050,09</b>	<b>350.210.173,45</b>	<b>124.363.454,53</b>

**16. Deferred income tax**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

**FOLLI FOLLIE S.A.**

<b><u>COMPANY</u></b>	<b><u>31.12.2006</u></b>	<b><u>31.12.2005</u></b>
<b>Deferred tax assets:</b>		
To be recovered after more than 12 months	326.853,95	605.769,66
To be recovered within 12 months	26.016,21	97.455,76
	<u>352.870,16</u>	<u>703.225,42</u>
<b>Deferred tax liabilities:</b>		
To be recovered after more than 12 months	1.235.715,40	978.631,12
To be recovered within 12 months	15.461,01	56.449,01
	<u>1.251.176,41</u>	<u>1.035.080,13</u>

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	<b>Intangible assets</b>	<b>Provisions</b>	<b>Other</b>	<b>Total</b>
<b><u>Deferred tax assets</u></b>				
Balance 1/1/2005	606.380,95	280.429,72	2.252,61	889.063,28
Movement year 2005 (Results)	-381.181,30	197.596,05	-2.252,61	-185.837,87
Balance 31/12/2005	225.199,66	478.025,77	0,00	703.225,42
Movement period 2006 (Results)	-152.558,75	-197.796,51	0,00	350.355,26
Balance 31/12/2006	<u>72.640,91</u>	<u>280.229,25</u>	<u>0,00</u>	<u>352.870,16</u>

	<b>Tangible assets</b>	<b>Finance leases</b>	<b>Total</b>
<b><u>Deferred tax liabilities</u></b>			
Balance 1/1/2005	447.065,83	39.260,07	486.325,90
Movement year 2005 (Results)	518.855,47	29.898,76	548.754,23
Balance 31/12/2005	965.921,30	69.158,83	1.035.080,13
Movement period 2006 (Results)	210.380,50	5.715,78	216.096,28
Balance 31/12/2006	<u>1.176.301,80</u>	<u>74.874,61</u>	<u>1.251.176,41</u>

**FOLLI FOLLIE S.A.**

<b><u>GROUP</u></b>	<b><u>31.12.2006</u></b>	<b><u>31.12.2005</u></b>
<b>Deferred tax assets:</b>		
To be recovered after more than 12 months	2.003.587,60	1.619.017,71
To be recovered within 12 months	105.451,98	550.796,39
	<u>2.109.039,58</u>	<u>2.169.814,10</u>
<b>Deferred tax liabilities:</b>		
To be recovered after more than 12 months	13.911.804,68	518.928,75
To be recovered within 12 months	1.335.326,41	38.078,63
	<u>15.247.131,09</u>	<u>557.007,38</u>

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred tax assets**

	<b>Intangible assets</b>	<b>Tangible assets</b>	<b>Finance Provisions</b>	<b>leases-Other</b>	<b>Total</b>
Balance 1/1/2005			1.566.081,68	349.484,51	1.915.566,19
Movement year 2005 (Results)			218.642,95	12.026,14	230.669,09
Exchange differences year 2005			20.201,38	3.377,44	23.578,82
Balance 31/12/2005			1.804.926,01	364.888,09	2.169.814,10
Movement period 2006 (Results)			89.379,33	-150.352,45	-60.973,12
Exchange differences period 2006			9.507,87	-9.309,27	198,60
Balance 31/12/2006			<u>1.903.813,21</u>	<u>205.226,37</u>	<u>2.109.039,58</u>

**Deferred tax liabilities**

	<b>Intangible</b>			<b>Total</b>
	<b>assets</b>	<b>Tangible assets</b>	<b>Finance leases</b>	
Balance 1/1/2005	618.292,43	-280.729,42	-39.260,07	298.302,94
Movement year 2005 (Results)	-375.168,23	-457.714,21	-29.898,76	-862.781,20
Exchange differences year 2005	8.443,59	-972,71	0,00	7.470,88
Balance 31/12/2005	251.567,79	-739.416,34	-69.158,83	-557.007,38
Movement period 2006 (Results)	-175.751,29	-38.896,06	-59.405,89	-274.053,24
Movement period 2006 (Total Equity)	-14.308.152,37	0,00	0,00	-14.308.152,37
Exchange differences period 2006	-100.870,35	-3.215,54	-3.832,21	-107.918,10
Balance 31/12/2006	-14.333.206,22	-781.527,94	-132.396,93	-15.247.131,09

**17. Retirement benefit obligations (L. 2112/20)**

Based on the provisions of L. 2112/20 the company is obliged to pay to the retired employees a lump sum multiple amount of the monthly salary at the time of retirement (determined by the Law), on the basis of the years of service. These benefits were determined by an independent actuary. The main actuarial assumptions used are as follows:

	<b>2006</b>	<b>2005</b>
Discount interest rate (%)	4,0%	4,0%
Future salary increases	3,0%	3,0%

The movement of the account from 01.01.2005 to 31.12.2006 had as follows:

	<b>The Group</b>	<b>The Company</b>
<b>Balance of obligations at 01.01.2005</b>	<b>3.068.805,44</b>	<b>482.542,29</b>
Expense charged to period 2005	536.903,35	100.972,00
Paid compensation 2005 & Other Movements-Exchange Differences	-248.764,05	-43.388,29
<b>Balance of obligation at 31.12.2005</b>	<b>3.356.944,74</b>	<b>540.126,00</b>
Expense charged to period 01.01.-31.12.2006	1.185.069,04	142.823,00
Paid compensation period & Other Movements-Exchange Differences	-246.082,73	62.032,00
Acquisition of New Subsidiaries	4.180.637,00	0,00
<b>Balance of obligation at 31.12.2006</b>	<b>8.476.568,05</b>	<b>620.917,00</b>

## 18. Operating results

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
<b><u>Sales Revenue</u></b>				
Income from Sales of Inventories –F. F . Group	246.279.253,52	222.796.934,45	29.766.588,56	31.927.427,16
Income from Sales of H.D.F.S.	238.120.086,65	-	-	-
Income from Sales of services	-	-	5.265.561,67	5.053.408,70
<b>Total</b>	<b><u>484.399.340,07</u></b>	<b><u>222.796.934,45</u></b>	<b><u>35.032.150,23</u></b>	<b><u>36.980.835,86</u></b>
Other income	4.447.501,48	6.066.792,76	1.968.034,27	4.643.121,97
Income of Marketing Rights (H.D.F.S.)	12.383.646,00	-	-	-
<b>Grand Total</b>	<b><u>501.230.487,55</u></b>	<b><u>228.863.727,21</u></b>	<b><u>37.000.184,50</u></b>	<b><u>41.623.957,83</u></b>
<b><u>Expenses</u></b>				
Administrative expenses	27.589.763,56	11.586.965,70	5.517.592,12	4.793.128,43
Selling and marketing costs	134.369.191,45	61.797.910,10	12.224.539,25	10.346.725,55
Other	2.303.769,50	2.556.704,96	1.015.247,11	792.398,81
<b>Total</b>	<b><u>164.262.724,51</u></b>	<b><u>75.941.580,76</u></b>	<b><u>18.757.378,48</u></b>	<b><u>15.932.252,79</u></b>
<b><u>Analysis of Significant Expenses</u></b>				
Employer's Cost	63.410.818,09	26.481.654,17	8.671.643,74	7.553.322,95
Rent	31.156.160,44	8.648.879,06	1.660.558,39	1.263.576,56
Advertising Expenses	10.245.336,45	7.521.354,35	2.376.165,64	2.109.500,58
Depreciation	7.952.028,91	3.082.378,44	1.054.074,99	949.794,32
<b>Total</b>	<b><u>112.764.343,89</u></b>	<b><u>45.734.266,02</u></b>	<b><u>13.762.442,76</u></b>	<b><u>11.876.194,41</u></b>

## 19. Income tax expense

	<u>The Group</u>		<u>The Company</u>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
Current tax for the period	23.967.047,71	12.771.690,10	890.585,46	2.625.705,73
Deferred tax	335.026,36	619.396,42	566.451,53	734.592,10
	<b><u>24.302.074,07</u></b>	<b><u>13.391.086,52</u></b>	<b><u>1.457.037,00</u></b>	<b><u>3.360.297,83</u></b>

## 20. Earnings per share

### *Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares.

	<u>31.12.2006</u>	<u>31.12.2005</u>
<b>Net profit for the period (Group)</b>	<b>81.724.629,56</b>	<b>56.663.495,05</b>
<b>Attributable to:</b>		
Equity holders of the Company	<b>65.160.341,01</b>	<b>55.428.778,38</b>
Minority interest	16.564.288,55	1.234.716,67
Weighted average number of ordinary shares in issue	32.946.875	32.946.875
Basic earnings per share	1,98	1,68

## 21. Dividends per share

The dividends that are already paid by the Mother Company in 2006, amount to €8.566.187,50 (€ 0,26 dividend per share) and concern the year 2005 earnings. For the year 2006 the proposed dividend per share amounts to €0,12.

## 22. Related – party transactions

The following transactions concern transactions with related parties, as set out in IAS 24.

### i) Sales of goods and services

	<u>31.12.2006</u>	<u>31.12.2005</u>
Sales of goods to subsidiaries	9.804.297,54	11.156.356,10
Sales of goods to associates	546.849,51	1.802.897,60
	<u><b>10.351.147,05</b></u>	<u><b>12.959.253,70</b></u>

**ii) Year-end balances arising from sale of goods and services**

	<u>31.12.2006</u>	<u>31.12.2005</u>
Between Mother Company and Subsidiaries	5.720.240,37	8.933.488,91
Between FF Group and other related parties as set out in IFRS 24	0,00	2.725.128,03
	<u>5.720.240,37</u>	<u>11.658.616,94</u>

**iii) Acquisitions from related parties**

	<u>31.12.2006</u>	<u>31.12.2005</u>
Mother Company from Subsidiaries	670.647,91	1.414.121,63
FF Group from other related parties as set out in IFRS 24	728.000,00	5.077,60
	<u>1.398.647,91</u>	<u>1.419.199,23</u>

**iv) Payables to related parties**

	<u>31.12.2006</u>	<u>31.12.2005</u>
Mother Company to Subsidiaries	387.905,79	4.679,41
FF Group to other related parties as set out in IFRS 24	215.000,00	453.094,35
	<u>602.905,79</u>	<u>457.773,76</u>

**23. Number of employed personnel**

Average number of employed personnel at the end of the current period: Group 3.297, Company 284 persons.

**24. Real liens**

There are no real liens on the property assets of company.

**25. Contested or under arbitration disputes**

There are no contested or under arbitration disputes nor any decisions of national or arbitral courts, which may have a material effect on the financial position or operation of the company.



**26. Events after the balance sheet date**

Further to that afore-mentioned there are no events after the balance sheet at 31 December 2006, that concern either the Company or the Group, in respect of which, according to the International Financial Reporting Standards a reference should be made in these Notes.