

REPORT

Of the Board of Directors of “**KARELIA TOBACCO COMPANY**” on the proceedings of financial period 2005 and annual financial statements.

To our Shareholders.

We would like to submit to you the financial statement of the Company in accordance with the International Standards of Financial Information, as these were adopted on January 1st 2005, as well as the present report of the Company for the financial period from January 1st up to December 31st, 2005. The present Report was drawn up according to the terms and conditions of article 136 Law2190/1920.

The Company draws up both consolidated and non-consolidated financial statements consequently the Report is single. Nevertheless, its main points consist of consolidated economic data of the Company and its controlled subsidiary companies. The Board of Directors of the Company has judged the reference of non-consolidated economic data on particular points of the analysis that follows as deliberate or necessary in order to assist on the comprehension of the content of the Report in question.

Financial Results of the Group.

Sales volume increased compared to 2004. In particular, the volume of exports was in accordance with our expectations.

At this point it is important to stress out the fact that the diminishing bend that prevailed in the Greek market resulted from the implementation of an obligatory minimal sum of excise tax that raised the retail price of LEADER trademark by 50 percent. Hence, the sales volume on this trademark was significantly reduced.

The turnover, the operating profit (EBITDA) and the net profit of the Group after taxes per annum, increased compared to 2004. The actual increase on turnover was 5.63 percent; the operating profit increased by 3.13 percent while the net profits increased by 14.94 percent. The total sales volume of cigarettes increased by 3.58 percent.

The turnover of the Group added up to €435.5 millions in 2005, increased 5.63 percent compared to 2004; the operational profit amounted to €9 millions, increased by 3.13 percent and the net profit after taxes amounted to €1.9 millions increased by 14.94 percent.

During 2005 the Dollar was strengthened against the Euro by roughly 13 percent. As a result, a significantly positive effect arose in the currency fluctuation adjustments therefore no radical change

was made concerning our policy of covering the currency risk and we continue to counterbalance the risk by purchasing tobacco in the same currency.

1. Financial Results of the Company.

KARELIA TOBACCO parent company's sales in 2005 reached €432 millions increased by 5.37 percent; in 2004 the sales amounted to €410 millions. The net profit after taxes amounted to €2.3 millions increased by 13.70 percent. The operating profit (EBITDA) for 2005 was €9.7 millions increased by 2.52 percent to the prior period.

2. Fixed Assets to Equity ratio.

The Fixed Assets to Equity ratio during 2005 reached 1.91 while during the prior period the ratio was 1.93.

3. Return on Equity.

The Return on Equity (the net profit before tax divided by equity) evaluated at 0.26 for 2005 while the figure for 2004 was 0.27.

4. Investments – Capital Expenditure.

The investments made during 2005 amounted to €19,375 thousands and were mainly concerned on:

- i. Cigarette-manufacturing complex
- ii. Packing complex
- iii. Packaging complex
- iv. Transformation systems to improve production procedure

5. Other Assets.

1. Land-Buildings.

- a. Urban real estate, multi-storey building, including constitutive parts and annexes, in Kalamata, in the region "Fragkolimna", with total area of plot 4,400 m² and total volume of buildings roughly 72,000 m³, acquired by the Company gradually during the period 1962-1965. The buildings suffered severe damages at 1986's earthquake and the immeasurable damages rendered the building in state of out of use.
- b. Urban real estate, factory complex, including building fixed installations, warehouses, a building for energy production, a small dimensions church, a lodge and other constitutive

parts and annexes, in the region “Paliampela” or “Liofyta” on the Kalamata-Tripoli National road, with total area of lot 67,248 m², total volume of tobacco factory buildings 206,041 m³ and tobacco storage buildings of total volume 217,843 m³, acquired by the Company gradually during the period 1966-1969.

Departments of the complex of warehouses suffered damages that are already restored. The restoration expenses amounted to €128,391.87.

Both real estates mentioned above, as well as the buildings and other including building fixed installations, are in state of mortgage in favour of the Greek State for the amount of €39,362,521.04 towards guarantying tobacco excise duty tapes provided in credit by the Kalamata Customs Office.

- c. Urban real estate, lot, in Kalamata, near Eleftherias Sq. (former V. Georgiou Sq.) and Giarakou St., of total area 611 m², acquired by the Company in 1975.
- d. Urban real estate, apartment No.7 on the 4th floor of multi-storey building, in Athens, 26 Amalias Av., of total area 179.24 m², acquired by the Company in 1964.
- e. Urban real estate, shop No.1 on the ground floor of multi-storey building, including loft above the shop, in Thessalonica, region Nea Mainemeni, 244 Toumpas St., of total area 583.30 m², acquired by the Company on August 20th 1981.
- f. Urban real estate, lot, in Athens, region Vouthoulas, Athinon Av. (former Kavalas Av.), of total area 2,203.02 m², acquired by the Company in 1988.
- g. Six-storey office block with two basement garages, in Athens, region Vouthoulas, 100 Athinon Av. (former Kavalas Av.), of total area 6,582.21 m². The construction of the particular building has been started in 1989 and has been completed in 1994. From the six floors in total, in use are the ground floor (storage place for finished products) and the 5th floor (accommodates the Company's branch in Athens). The 2nd, 3rd and 4th floors are not yet completed. The 1st floor which was completed in 1996 costing €125,779.50 and was offered for use to MERIDIAN S.A.

2. Investments in subsidiaries.

KARELIA TOBACCO COMPANY participates in other companies as well. The Company has the possession of:

- i. 99.54 percent of MERIDIAN S.A. subsidiary company in Athens
- ii. 85 percent of KARELIA EPENDITIKI S.A. subsidiary company in Kalamata
- iii. 100 percent of KARELIAS TOBACCO Co. (UK) LTD, in London

3. Cash and cash equivalents.

On 31st December 2005, the Company's total amount of cash, at hand and in bank, and other cash equivalents added up to €82,266,972.46 while the same figure in 2004 was €69,892,259.73.

4. Portfolio.

The Company's portfolio comprises of:

- i. 24,826 ALPHA BANK shares of value €246,432.94
- ii. 18 AGROTIKI BANK common shares
- iii. 9,184 ANEN shares, ship owning company, not listed in the stock market
- iv. Bond funds of estimated value on 31/12/05 €2,907,135.54

5. Dividend.

The Board of Directors of KARELIA TOBACCO COMPANY after taking under consideration the results of 2005, the financial position of the Company, the future perspectives as well as the data of the broader financial environment, intends to suggest on the next Shareholders' Meeting which will be held on 28/06/06 dividend payable of €8,059,200.00 in total which is equivalent to €2.92 per share. The suggested dividend is increased by €0.32 and forms a net dividend yield of 5.21 percent on the price of the share on 30/12/05.

1. Growth Strategy and Expectations for 2006.

In order to accomplish our future goals and achieve continuous growth for both the Company and the Group, our course of action is based on:

- Systematic strengthening of Company's activities on specialized sectors of advanced technology. In this way and in combination with its high dynamics on the production procedure (which reflects the important investments made during recent years), the specialized knowledge, the experience attained through the years and the potentiality for new innovated products, the Company is able to offer to its costumers alternatives and also a significant additional value on their business planning. In this framework, the Company completed during 2005 the designing and development of a new class of products that is expected to be embraced by the consumers.
- Continuous improvement on the organization structure aiming a further increase of efficiency, a continuous and increasing information transfer throughout all the departments of the Company and the Group, and a further decrease of costs with parallel retention and

improvement on the standards of services provided. This will be accomplished via constant upgrading in communication and computer infrastructures.

- As far as our sales abroad are concerned, it is worth noting that the competition on economical classes of products is anticipated to be very strong during 2006, exerting strong pressures on the economical trademarks of the Company; these are the trademarks that contribute 30 percent of the turnover. At the same time, trademarks of economical class imported in some countries are highly sensitive on variations on local legislations concerning custom duties and special consumption taxes on imported cigarettes since the elasticity of price in this case is high. In contrast, trademarks of premium class are expected to continue increasing in sales volume. This is important since the sales volume of these trademarks with a relatively slight increase can confine the losses of the anticipated earnings resulting by the significant decrease in sales volume of economical trademarks. Note that premium class products are the ones that offer high international recognition to KARELIA TOBACCO COMPANY, which is a necessary factor to any company of consumer goods that operates beyond the Greek borders.

2. Promotion of Sales – Advertising.

The advertising promotion of the Company, despite all the banning via electronic and press publishing, continues to remain strong both inland and abroad. Since 2005, the Company collaborates with new advertising companies targeting to increase recognition of our products. Also, the participation on exhibitions that take place all around the world improves the acceptance and recognition of our trademarks in a global level.