

## **02 HELLENIC FABRICS BOARD OF DIRECTORS' REPORT OVER THE CONSOLIDATED AND PARENT FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2005 TO THE ORDINARY GENERAL ASSEMBLY OF THE SHAREHOLDERS**

### **02:1 General Review**

During the last years, the course of the market of denim has differentiated from the spinning, knitting and clothing markets. The Company adapts to and develops within the new market demands for superior fabric quality, an essential condition for the competitiveness of the European firms in the denim sector. The Company's target customers are those that apply the strictest quality standards. Thus, "HELLENIC FABRICS S.A." has given particular emphasis to the high level of specialization and production automation as well as on the product's quality control.

The year 2005 was yet another successful year for the Group. With investments in technology and specialized human resources as an edge, the application of the Group's strategy continued in 2005, having quality, innovation and flexibility as its main axes. The Company's thirty year presence in the international market and its long-term collaboration with globally recognized jeans wear companies, have led to the development of the necessary know-how required to achieve innovative and differentiated products. In addition to its geographic position, the customer-orientated approach (Customer Relations Management), the production logistics for just-in-time delivery and short lead times, ensure the capability to respond fast to the constantly changing fashion trends.

The Company's sales policy focused on the promotion of new innovative products at a high sale price, whilst withdrawing basic products of low value that did not return satisfactory profit yield. The result of the above policy was a reduction in sales volume and consequently in turnover, with parallel increase in efficiency and profits. Moreover, 2005 was marked by an increase of sales to non-traditional markets. In those markets, where gradual establishment of blue jeans is obvious, the effort to strengthen the company's presence was intensified.

The Company's investments in 2006, budgeted approximately at € 5 mln, concern application of modern technologies in the production process, energy savings and further improvement of environment protection systems.

### **02:2 Financial Figures for the Group and the parent company**

In 2005, the Group focused in its main activities and improved its function as well as the efficiency of its employed capital.

The consolidated pre-tax profits show an improvement of 37,3% from € 5,34 mln in 2004 to € 7,34 mln in 2005, with the profit margin increasing from 5,3% to 8,3%. EBITDA amounted to € 15,5 mln improved by 13%. Moreover, profit after tax and minority rights increased by 10,8% from € 4,86 mln in 2004 to € 5,39 mln in 2005. Consolidated turnover reached in 2005 the amount of € 88,2 mln, reduced by 13,1% versus 2004 and 70% of it was derived from exports. Owner's Equity reached the amount of € 86,24 mln from €

82,09 mln in 2004, shaping the ratio "Owner's Equity to Debt" to 1,05 compared to 0,94 in 2004. The efficiency of employed capital based on operational results before interest and taxes was increased from 6,96% to 7,88% and of owner's equity from 5,92% to 6,24%. Moreover, "profits per share" amounted to € 0,38 per share presenting an increase of 5% compared to the corresponding last year's period. Finally, "after taxes P/E" amounted to 7,72 while the ratio "share price over book value " (P/BV) amounted to 0,45. Productive investments in machinery amounting to € 8,1 mln have been financed by consolidated operating cash flow of € 15,2 mln, and total loans outstanding have been reduced by € 7,1 mln approximately.

For the better understanding of the parent company's Financial Statements, the following data of efficiency and economic structure are presented. In specific, EBITDA improved by 3% and amounted to € 11,24 mln. Pre tax profits were increased by 4,07%, from € 5,15 mln in 2004 to € 5,36 mln in 2005. Net profit after tax was increased by 4,02% from € 4,40 mln in 2004 to € 4,58 mln in 2005. Owner's Equity reached the amount of € 80,9 mln from € 77,6 mln in 2004, shaping the ratio "Owners' Equity to Debt" to 1,55 versus 1,38 in 2004.

For the fiscal year 2005, the Board of Directors will propose to the Ordinary General Meeting the dividend distribution of € 0,10 per share, increased by 11,1% compared to the previous fiscal period and according to the stock price as of 31.12.2005, shaping dividend yield of 3,41%.

### **02:3 Sector's Data**

The Company's main activity is the production of indigo denim fabrics used in the production of blue jeans apparel. It is a business-to-business operation, selling to globally recognized brand names. Based upon data corresponding to the last three-year period, the company's turnover is derived by 84,24% from fabric sales, 7,94% from cotton sales, 3,98% from sales of yarns and 3,84% from other sales.

In the last few years, jeans continuously gain ground in clothing preferences. Also, growth is observed in the market of high quality jeans.

Regarding the European market, the entrance of new manufacturers-competitors of denim from developing countries, is considered objectively difficult, given the requirement of high level of know-how, significant investments and specialization in the cotton market, which is a decisive factor for the quality and cost of the final product. The long-term relationship between European jeans manufacturers and denim producers, have evolved from the classic supplier-customer relation, to a permanent cooperation in research and development of products.

Based upon its vertical structure, "HELLENIC FABRICS S.A." produces yarns that are mainly used by the company for the production of denim. The main objective of the two spinning mills of the Group, is fast response to cover fabric demand with innovative and specialized yarns, through the synergies that are developed between factories.

Finally, "HELLENIC FABRICS S.A." produces in its two Ginning Mills raw cotton that is used for the production of the above-mentioned yarns.

## **02:4 Prospects and Objectives**

The Management and employees' vision is for "HELLENIC FABRICS S.A." to be the leading Denim producer in Europe, both in terms of profitability and brand awareness, while at the same time to be a major supplier of premium global jeans manufacturers.

Products with high added value in a constantly changing market, both in terms of products and distribution channels, are the Company's objective. As a prerequisite, state of the art technology is needed. This means high level of continuous investments, as well as optimal organization due to constantly changing customer preferences. For the achievement of this vision, the strategic outline that will lead to share increase in the denim market can be summarised in the following:

- Technological expertise against competition.
- Production flexibility.
- Continuous improvement of accumulated know-how.
- International partnerships.
- Swift product development and distribution.
- Just-in-time customer service.
- Strengthening of the company's competitiveness through its presence in developing and new markets.
- Continuous training and career opportunities for new managers.

With the creation of added value for the shareholders as the primary objective, Group targets in 2006 focus in the further reduction of expenses, the increase of productivity in every level and finally intensified efforts in order to enter into new markets. Group prospects remain positive and that is based on the fact that "HELLENIC FABRICS S.A." is an industry with state of the art mechanical equipment, financially strong, vertical structure, close collaboration with its well-known customers and an excellent reputation in the international denim market. It should be noted that estimations for 2006 are based on parameters, of which the Company cannot predict the positive or negative changes accurately. The most significant of these are: the development of the cotton market, the cotton yarn market, the euro/dollar exchange rate, the purchasing power of the consumers etc. Any change in the above parameters is expected to influence the Company's estimations.

## **02:5 President's Message**

The positive performance of the Company in the past few years gives us satisfaction for the achievement of our goals. Simultaneously however, it gives us additional responsibility and leads us to a constant search for new objectives, in order to successfully respond to the challenges and developments taking place in our environment.

Competition is becoming intense and involves even more fronts in a continuously expanding global market. The pace at which changes take place accelerates, whilst their magnitude renders them complicated and difficult to predict.

Our Company has by now become familiar with this unfavorable environment. It tries to predict developments and at the same time adapt at the fastest possible pace to them.

Flexibility and innovation are always our primary goals and in conjunction with our excellent human resources and the state of the art technology of our facilities, contribute to our confident advancement in the 21<sup>st</sup> century.

On behalf of the Board of Directors and our associates, I would like to express our gratitude to the personnel, our shareholders and the Company's clients for the unreserved support, which strengthens our efforts to continue the Company's growth in these difficult times we are facing.

Christos I. Accas  
President BoD

### **03:1 The decades of "HELLENIC FABRICS S.A."**

This year marks the 50-year anniversary since the beginning of the industrial activities of the Group "HELLENIC FABRICS S.A." in 1956.

It is generally ascertained that particularly in recent years, "HELLENIC FABRICS S.A." has a successful course and produces satisfactory results.

The main steps that were undertaken throughout this period indicate a conscious and systematic course of action, which led the Company to its present position.

The gradual and increasing growth was materialized with consistency, often through unfavorable conditions and structural changes in the national and international economic and political environment, which imposed essential adjustments in a constant basis.

These adjustments enabled the Company to remain "new" and to continue playing a leading role not only in the Greek but also in the European market.

In the five decades between 1956 and the present day, the following steps have been made:

#### **The 1<sup>st</sup> decade: 1956 – 1965**

Founding of a ginning mill and a seed oil unit named "MACEDONIA COTTON GINNING MILLS S.A.", in Thessaloniki for the processing of seed cotton and cottonseed. It was a natural development of cotton trading, in which the Accas family was involved for years.

#### **The 2<sup>nd</sup> decade: 1956 – 1975**

After the first involvement with the primary treatment of cotton, comes the next phase of industrialization with the foundation of "ILIOS-TEN CATE SPINNING MILLS S.A.", the first spinning mill, in the Industrial Region of Thessaloniki in Sindos, in collaboration with the Dutch group "ROYAL TEN CATE".

#### **The 3<sup>rd</sup> decade: 1976 – 1985**

This could be characterized as the most important decade in the Group's course, with the implementation of the decision for the creation of a vertical unit of production of indigo denim fabric, which included the units of spinning – yarn dyeing – weaving – finishing – quality control and packaging, located 40 kilometers west of Thessaloniki.

During this decade, collaboration with Levi Strauss and intense export activity started.

#### **The 4<sup>th</sup> decade: 1986 – 1995**

The transformation to a vertically structured organization has been completed. However, the introduction of new methods of operation and the application of new administration and management systems is required.

At the end of this period, the Company is now mature enough to further improve its organization and to develop into a large European Unit.

"HELLENIC FABRICS S.A." decides then to join the Athens Stock Exchange. The funds from the capital-raising program are being used for the realization of an important investment plan for the renovation and the modernization of its production facilities.

#### **The 5<sup>th</sup> decade: 1996 – 2005**

A new share capital increase through the Athens Stock Exchange market is realized, for the further modernization of its facilities, resulting to full automatization and to the relevant personnel specialization.

During this period, "HELLENIC FABRICS S.A." is merged by acquisition with the companies "ILIOS TEN CATE SPINNING MILLS S.A." and "MACEDONIA COTTON GINNING MILLS S.A."

Almost simultaneously two new subsidiary units are created, more specifically: "KILKIS SPINNING MILLS S.A." and "THESSALY COTTON GINNING MILLS S.A.", which supply "HELLENIC FABRICS S.A." with raw material of high quality specifications.

During this period and in order to face the competition from low cost countries, the Group further develops the department of Research and Development and differentiates its production to products of higher added value.

As a result of the above activities the creation of a close collaboration with customers is achieved, the enlargement of the customer base and the complete products' differentiation in order to satisfy the constantly changing demand.

#### **The 6<sup>th</sup> decade: 2006 – 2015**

The new decade begins with the completion of the investment programs, the focusing in marketing and the increase in efficiency.

The solid foundations that have been set with the consistent and methodic five-decade efforts permit the assumption that the Group of "HELLENIC FABRICS S.A." will continue its successful course in the future.

The Group's objectives are from now on focused in higher extraversion, which is dictated by the recent global economic developments as well as in collaborations with other pioneer enterprises of the sector abroad.

Simultaneously, it investigates every opportunity of energy saving and takes measures for further environmental protection.

Regardless of future developments, which no one can accurately predict, a tested organization has been created, that can rapidly adapt and successfully respond to the new demands and challenges.

### **03:2 Environmental care**

The Management of "HELLENIC FABRICS S.A." conveys its sensitivity for the environment in all the facilities and guides its executives and other personnel in processes and actions leading to continuous improvement of the condition of the areas where they work and operate.

The constant maintenance of the biological waste treatment installation, the electric energy and water saving programs, as well as the systematic recycling of packaging materials give important positive results regarding the correct management of the environment.

In the plants' facilities, interior and exterior, the cleaning programs, the lighting, the advanced ventilation systems, the proper signalling and the participation of workers in the endorsement of safe work regulations and industrial hygiene is another expression of sensitivity for true environmental care.

### **03:3 Corporate Social Responsibility**

The parameters that lead "HELLENIC FABRICS S.A." up till now to success, which is the Management's and employees' vision and commitment, are accompanied by corporate social responsibility.

Corporate social responsibility is based on human resources, who live and create inside an environment of respect, integrity and solid collaboration. The quality of life ensured through the initiatives and actions of the Management and the employees' sentiment of responsibility, extends beyond the working environment, with contribution to the wider community of the area where the Company operates.

This "social responsibility" is characterized by activities such as:

- The provision of a complete scholarship to students of the American Farm School. These students come from cotton-producing families in the areas of Macedonia and

Thessaly. The American Farm School is the sole non profit educational institution in our country, which educates young people on agricultural production.

- Executives' participation in the pilot application of the program "Entrepreneurship for Youngsters" in the schools of Thessaloniki, Greece. "HELLENIC FABRICS S.A." participates as a founding member in the initiative of the Federation of Greek Industries and the Pedagogical Institute, which will be included in the Middle Education schedule.
- The donations of furniture and electronic equipment to schools, social institutions and federations in the areas of Northern Greece where the Company's facilities are situated.
- The financial contribution in programs related with the improvement of cotton cultivation and the education of cotton producers.
- The volunteer work of executives in social institutions.
- The hospitality and organization of tours for students in the plant facilities, the offer of provisional work to students in various departments, technical as well as managerial, for work practice and technical assistance for their dissertations.

#### **04:1 "HELLENIC FABRICS S.A." – The Stock**

The Company is listed in the Athens Stock Exchange since 1994, and is classified in the market of mid and small capitalization. It is listed under the sub sector "Clothing and Accessories" and at the FTSE Athex Small Cap 80 and FTSE Athex 140 indexes.

The most important financial indicators show improvement as it appears in the following table:

<b>SUMMARY STOCK DATA</b>	<b>2004</b>	<b>2005</b>
NUMBER OF SHARES AT THE END OF THE FISCAL YEAR	13.222.767	13.222.767
WEIGHTED AVERAGE NUMBER OF SHARES (IAS 33)	13.306.907	13.222.767
AVERAGE DAILY TRADING VOLUME (NUMBER OF UNITS)	14.019	10.139
AVERAGE DAILY TRADING VALUE (€)	31.167	22.382
AVERAGE TRADING PRICE FOR THE FISCAL YEAR	2,04	2,16
DIVIDEND PER SHARE	0,09	0,10
DIVIDEND YIELD	4,42%	4,62%
AFTER TAX AND MINORITY RIGHTS PROFIT PER SHARE	0,36	0,38
P/E AFTER TAX AND MINORITY RIGHTS	5,63	5,70
P/BV	0,34	0,35
MARKET CAPITALIZATION / SALES	0,27	0,32

The dividend policy for the fiscal year 2005 has continued its increasing tendency. The Board of Directors intends to propose to the Ordinary General Shareholders Meeting the dividend distribution of € 0,10 per share, improved by 11,1% compared to the previous

fiscal year and based on the closing share price on the 31.12.2005 the dividend yield arises to 3,41%.

<b>COMPANY DIVIDEND POLICY FOR THE FISCAL YEARS 2004-2005</b>			
	<b>2004</b>	<b>2005</b>	<b>SUM</b>
	<b>THOUS.</b>	<b>THOUS.</b>	<b>THOUS.</b>
	<b>€</b>	<b>€</b>	<b>€</b>
PROFIT AFTER TAX AND MINORITY RIGHTS	4.816	5.016	9.832
TOTAL DIVIDEND PAID TO SHAREHOLDERS	1.190	1.322	2.512
% OF PROFIT AFTER TAX AND MINORITY RIGHTS	24,71%	26,36%	

Based on Corporate Governance, the main objective of Investor Relations is the creation of trust between the Company and the investing community through quality communication that leads to long-term increase of Company evaluation as a result of positive and systematic effort. Investor Relations does not only concern the supply of financial information, but also the clear communication between itself and the public, in point of the Company's strategy, its achievements, its prospects, its market position and its general place in society. Financial analysis methods currently employed and investing criteria adopted in stock selection are becoming even more multi-dimensional. Listed companies try to respond more intensely to the additional information level needs of the stock exchange market. Based on the above, "HELLENIC FABRICS S.A." seeks daily to further improve quality and access to Company information:

- During 2005 a smooth transition to International Accounting Standards took place, aiming at the easier comparison with other European listed companies.
- Company representatives visited Institutional Investors and Brokerage firms in order to present the Company's prospects and to get information about analysts' requests and their view about the Company.
- Estimations regarding financial information for the upcoming years and Company prospects were given to financial companies, in order to proceed to the creation of a detailed investing proposition to their customers.
- Continued the publishing and posting of the Company six-month electronic newsletter in which the latest Company news and information are reported.
- Based on the traffic increase of the Corporate web page by 33%, it proceeded to a full update of the web site's Greek version, while simultaneously enriched the English version with even more translated information.
- Increased its Press Release mailing database to approximately 8.500 recipients in Greece and approximately 1.500 internationally. This expansion covered all the major journalistic and financial agencies in Greece, as well as all international ones (Reuters, Dow Jones, Financial Times, Wall Street Journal, Forbes, Fortunes etc).

- Developed collaborations so that Company profile can be accessed through the web sites of "IMERISIA", "KERDOS", "INVESTORS INTERNET UNION" and various other organizations and financial companies. Internationally, Company profile can be accessed through "EUROMONEY", "INSTITUTIONAL INVESTOR" and "BLOOMBERG".
- In accordance to the law 3340/2005 regarding the protection of the capital market from acts based on inside information, the Company has established a protection system to cover possible similar activities. In collaboration with the Internal Audit Department, the Investor Relations Department has set rules that individuals with access to sensitive information as well as their family members, must comply with.
- The Company was represented in the task group of the Federation of Industries of Northern Greece regarding issues related with the stock exchange and the capital market.
- In the first months of 2006, the Company sold 450 thousand of its own shares (from buy back shares program) to institutional investors. As a result, the percentage of stocks held by institutional investors currently amounts to approximately 13%.