

F.G. EUROPE S.A.
SOCIETE ANONYME OF ELECTRIC AND ELECTRONIC APPLIANCES

DIRECTORS REPORT FOR FISCAL YEAR 2005
OF THE BOARD OF DIRECTORS OF F.G. EUROPE S.A.
TO THE
GENERAL ASSEMBLY OF SHAREHOLDERS

Dear Shareholders,

The Company for the first time in 2005 (according to the provisions of L. 2992/2002, 3148/2003, and the P.D. 360/1985 and the decision 17/336/21-04-2005 of the Capital Market Committee), fully adopted and prepared the Company and consolidated Financial Statements according to International Financial Reporting Standards (IFRS).

General

The Group of F.G. EUROPE today activates in two main business segments. The import and distribution of long living consumer goods and the distribution of products and services of mobile telephony. Through its subsidiaries additional fields are covered like logistics, after sale service and energy production from renewable energy sources.

The business of long living consumer goods covers:

- The sales of air conditioners for home and professional use that comprise the main business of the Group contributing the most significant part of the Groups results,
- The sales of white electrical goods under the brand name ESKIMO, and
- The sales of Consumer Electronics products of SHARP, activity that started the last four months of 2005.

In the field of air conditioners, F.G. EUROPE A.E. activates also outside of Greece in Italy, Germany, the Czech Republic, Spain and the wider area of the Balkans.

In the field of products and services of mobile telephony the Group realized besides its business on the Greek market exports of mobile telephony products to Cyprus in 2005.

Sales

The Groups total sales for 2005 amounted to EURO 161,12 mil., compared to EURO 208,36 mil. in 2004, which corresponds to a decrease of 22,67%.

The decrease in sales is mainly due to the decrease in sales of mobile telephony products that were reduced from EURO 151,94 mil. in 2004 to EURO 107,70 mil., in 2005 or 29,12%.

The reduction of mobile telephony sales and especially those concerning prepaid scratch cards is a strategic decision of the management because of the low margins of this category of products and the aim to focus on product sales with higher returns.

In the air conditioners business sales amounted in 2005 to EURO 42,42 mil. compared to EURO 49,43 mil. in 2004, decreased by 14,18%. The decrease in air conditioners sales is mainly due to not realization of exports to countries like Spain where the Group in 2004 realized exports of EURO 16 mil. to cover extraordinary demand because of extreme weather conditions. The exports of air conditioners to Italy decreased from EURO 10,56 mil. in 2004 to EURO 6,56 mil. (-37,8%) in 2005. On the other hand exports to the Balkan countries increased by 3% amounting in 2005 to EURO 6,8 mil., compared to EURO 6,6 mil. in 2004.

The total exports of the Group in 2005 amounted to EURO 33,08 mil. compared to EURO 35,87 mil. in 2004, of which EURO 20,73 mil. are exports of air conditioners and EURO 12,35 mil., are exports of mobile telephony products.

The sales of air conditioners on the domestic market though two main retail chains were lost realized a significant increase (59,9%) amounting in 2005 to EURO 21,69 mil. compared to EURO 13,56 mil. in 2004.

The sales of white electrical appliances posted an increase of 2,1% amounting in 2005 to EURO 6,71 mil. compared to EURO 6,57 mil. in 2004.

A significant achievement for the Company and the Group is considered the agreement about the exclusive distribution on the Greek market of Consumer Electronics of SHARP, the sales of which started the last 4 months of 2005 and amounted to EURO 3,35 mil.

Gross Profit

The gross profit decreased by 16% and amounted in 2005 to EURO 13,86 mil. compared to EURO 16,50 mil. in 2004. The lower decrease of gross profit, than the decrease in sales is mainly due to the increase in gross margin which in 2005 amounts to 8,60% compared to 7,92% in 2004, primarily due to the change in sales mix and the addition of SHARP products.

EBITDA

The earnings before interest, taxes, depreciation and amortization as percentage of sales amounted to 3,18% compared to 3,23% in 2004, realizing a decrease of EURO 1,6 mil. (-23,77%), mainly due to promotional expenses of EURO 1 mil. for the placement of the SHARP products.

Administrative – Distribution Expenses

The administrative – distribution expenses in 2005 totaled to EURO 10,45 mil. Compared to EURO 9,31 mil. in 2004, posting an increase of 12,24%, that is primarily due to the increase of EURO 1 mil. approximately for the promotion of the SHARP products.

Financial Results

The net financial expenses, significantly increased and amounted in 2005 to EURO 3,28 mil. Compared to financial income of EURO 0,38 mil. in 2004, primarily due to the increased foreign exchange differences that amounted to expenses of over EURO 1 mil. in 2005 compared income of EURO 1,5 mil. in 2004, but also due to the increase in short term bank borrowings, that is due to the increase in receivables resulting from the increase in sales on the domestic market where a longer credit period is granted to the customers and the decrease in short term liabilities other than to banks that were financed through short term bank borrowings.

Long Term Liabilities

The long term liabilities decreased because of the conversion of 48.840 bonds of the convertible bond loan of the Company, that increased the shareholders equity by EURO 4,88 mil. and the repayment of EURO 2 mil. of the first tranche of the bonded loan that was issued in 2004 by the Company.

Total Liabilities

The Groups total liabilities decreased by 8,5% and totaled in 2005 to EURO 71,27 mil., compared to EURO 77,89 mil. in 2004.

Earnings before Taxes

Earnings before taxes in 2005 amounted to EURO 1,63 mil. Compared to EURO 6,99 mil. in 2004 realizing a decrease by 76,68% and resulting as a percentage of sales to 1,01% compared to 3,35% in 2004.

Net Earnings after Taxes and Minority interest

Present a decrease by 76,58% amounting to EURO 1,04 mil. compared to EURO 4,44 mil. in 2004.

Other Information

In 2005 we completed the restructuring of two subsidiaries that presented satisfactory earnings for the fiscal year 2005. Hydroelectrical Ahaias with earnings before taxes of EURO 282 thousand for the fiscal year 2005 (share 55.25%) has started the electric power production within the year 2005 and F.G. Logistics signed significant agreements in the field of logistics resulting to earnings before taxes of EURO 63 thousand for the fiscal year 2005.

Moreover F.G. EUROPE sold its stake in the Italian subsidiary F.G. ITALIA, (share 98%) and outsourced the services for sales promotion and marketing of the Company's products in Italy to a local specialized Company.

On February 3, 2006 another conversion of 14.457 bonds of the convertible bond loan took place that increased again the shareholders equity of the Company by EURO 1,45 mil.

On February 8, 2006 the repurchase period of treasury shares ended that was decided by the Extraordinary General Assembly of shareholders on February 8, 2005. Totally 1.780.220 treasury shares were purchased that correspond to 3,28% of the total shares of the Company with average purchase price of EURO 3,14 per share.

The achievements during the related period in the Company but also in its controlled subsidiaries is significant and sets the preconditions for a successful path in the future.

For the year 2006 we expect an increase in profitability and operating cash flow for the Group. Sales of air conditioners on the domestic market are expected to increase because of the consumers' turn from no-name to branded and high technology products like FUJITSU. This turn was initiated by the search for reliable alternative heating solutions because of the high oil prices, which are expected to remain constant during the next years by international analysts. Finally, very important for the Company is the cooperation with SHARP, considering that in the next years studies predict an explosive increase in the demand for LCD TVs, a market that is dominated by SHARP on a world-wide level with a market share of 25%. These sales are expected to increase significantly our sales and the results of the Group.

Concluding, we would like to mention that for the fiscal year 2005, despite the existence of profits, the retained earnings of the Company are marginal negative (EURO 57 thousand) because of the application of IFRS and therefore the Board of Directors will not propose a dividend distribution to the General Assembly of Shareholders for the fiscal year 2005.

All the above information about the financial position of the Company and the Group can be confirmed by the Financial Statement for 2005 that were prepared according to IFRS.

Glyfada, February 14, 2006

THE
CHAIRMAN OF THE BOARD OF DIRECTORS

GEORGIOS FIDAKIS