# Annual Consolidated Financial Statements for the year ended 31 December 2011 (1/1/2011-31/12/2011) in accordance with the International Financial Reporting Standards (I.F.R.S.)

# C O N T E N T S

**Page**

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## MANAGEMENT REPORT OF THE BOARD OF DIRECTORS TO THE REGULAR ANNUAL SHAREHOLDERS GENERAL ASSEMBLY REGARDING THE FINANCIAL YEAR 1.1.2011 - 31.12.2011

Dear Shareholders,

We have the honor to submit for approval, according to legislation and the Company's articles of association, the separate and consolidated Financial Statements of "Leaf Tobacco A. Michailides S.A." for the period 01.01.2011 – 31.12.2011, which have been prepared in accordance with the International Financial Reporting Standards. The present management report provides information regarding the Group's structure, comment of financial position and results, financial risk management, important events occurred during the closing year, important events occurred during the time period between the end of the closing year until the submission of this report, conclusions, forecasted prospects and direction of the Company and the Group operations and proposed dividend policy.

### Group's structure

The Group **"Leaf Tobacco A. Michailides S.A."** consists of the following Companies:

| Company | REGISTERED OFFICE | PRINCIPAL ACTIVITY | PARTICIPATION PERCENTAGE | CONSOLIDATION METHOD | TYPE OF PARTICIPATION |
|---|---|---|---|---|---|
| LEAF TOBACCO A. MICHAILIDES S.A. | Greece (Thessaloniki) | Tobacco processing of american & oriental type | Parent | Full | - |
| ***I. Subsidiary Companies*** | | | | | |
| LEAF TOBACCO A.MICHAILIDES AD SANDANSKI BULGARIA | Bulgaria | Tobacco processing of oriental type | 98,3% | Full | Direct |
| STRUMICA TABAK AD | F.Y.R.O.M. | Tobacco processing of oriental type | 83,1% | Full | Direct |
| MIKAKORCA Sh .P.K. | Albania | Tobacco processing of oriental type | 62,0% | Full | Direct |
| MICHAILIDES TOBACCO MOLDOVA S.A. | Moldova | Tobacco processing of american & oriental type | 99,9% | Full | Direct |
| ARIS TOBACCO SPOL S.R.O. | Slovakia | Tobacco processing of oriental type | 100,0% | Full | Indirect |
| A.J.MICHAILIDES COMMERCIAL ENTERPRISES LTD | Cyprus | Holding Company | 100,0% | Full | Direct |
| TRADE & BROKERAGE | U.K. (C.I.) | Tobacco trading | 100,0% | Full | Direct |
| LEAF TOBACCO A. MICHAILIDES ALGERIA-TABACS D'ORIENT S.P.A. | Algeria | Tobacco processing of oriental type | 75,0% | Full | Direct |
| FERMENT TUTUN SA DROCHIA | Moldova | Tobacco processing of american & oriental type | 95,2% | Full | Indirect |
| AGREXTENT S.A. | Greece (Thessaloniki) | Insects Extermination, Agricultural Medicines, Tobacco trading | 100,0% | Full | Direct |

(Amounts are expressed in thousands Euro, unless otherwise stated)

| Company | REGISTERED OFFICE | PRINCIPAL ACTIVITY | PARTICIPATION PERCENTAGE | CONSOLIDATION METHOD | TYPE OF PARTICIPATION |
|---|---|---|---|---|---|
| ATLAS TOBACCO ALGERIA | Algeria | Tobacco processing of oriental type | 56,7% | Full | Direct |
| MICHAILIDES ML ORIENTAL TOBACCO PVT LTD. | India | Tobacco processing of oriental type | 55,0% | Full | Direct |

In the closing period the participating interests of the Group in subsidiaries and associates has not been changed.

## Comment of financial position – results

As indicated by the financial statements the Group presented after tax profits amounting to € 21.630 compared to € 25.095 in the previous fiscal year mainly due to increase in taxes and financial expenses related with the "Greek Debt" crisis. Revenues amounted to € 168.233 compared to € 137.570 in the previous fiscal year reflecting the strong position of the Group. Administrative Expenses amounted to € 6.670 compared to € 6.107 in the previous fiscal year, Sales & Marketing Expenses amounted to € 8.310 compared to € 3.549 in the previous fiscal year and Financial Expenses amounted to € 19.606 compared to € 17.806 in the previous fiscal year.

## General Comments

The key elements of the Company's financial statements and the accounting principles applied by the Company are described in detail in the notes to the financial statements which represent an integral part of the annual financial statements.

## Important events occurred during the period

The Group started August 2011 the purchases of crop 2011 for the first time during its long history following encouragement of main customer. In Greece, Moldova, Bulgaria, Albania, FYROM and India by the end of the reporting year all tobacco quantities planned to be purchased by the Group companies were in the warehouses of the Group.

In January 2011 the construction of the Building of the Group's new modern factory and new warehouse in Sandanski, Bulgaria were completed, new machinery, a Soft Dryer and a cardboard press have been installed.

In May 2011, a major investment in our Group's factory in Strumica FYROM has been completed with new buildings, improved infrastructure in existing buildings, new machinery a Soft Dryer and a cardboard press.

The upgrading of warehouses in Korca, Albania has been completed.

Negotiations were completed and the Group signed a Revolving Borrowing Base Facility Agreement with Amsterdam Trade Bank N.V, amounting up to € 50.000 th.

Negotiations were completed and the Group signed a four year Revolving Borrowing Base Facility Agreement with FBN Bank (UK) Limited, amounting up to € 64.000 th.

Negotiations were completed and the Group signed a Facility Agreement relating to a euro short-term secured loan facility of up to € 60.000 th. with Sumitomo Mitsui Banking Corporation Europe.

Facilities with Societe Generale in Bulgaria, FYROM and Moldova have been signed.

Negotiations were completed and undergoing and the Group extended the facilities with Greek banks guaranteed by the Greek State for another six years, now till 2022.

The Group maintained its excellent position with its customers.

**Important events occurred during the time period between the end of the period and the submission of this report.**

The “Greek Debt” crisis continues to have substantial implications and has led to increased cost of financing for the Group .Substantial receivables from the Greek State (mainly VAT refund) are expected to be collected during 2012 . As of today there is no amount due for payment to the Greek State , reflecting the responsibility shown by the Group under difficult times .

Discussions have started with Deutche Bank for a new syndicated facility agreement (to be one of two pillars for the Group ) and we expect the current participating banks to show their support in the business of the Group and not the difficult environment it operates since a 100% export Group having strong support of all the cigarette manufacturers in the world is not related with any “country risk” and is natural immune .

No other significant events occurred that should be mentioned in this report .

**Conclusions / Forecasted Prospects & Direction**

The Group is amending its corporate structure so to continue its smooth and efficient cooperation with both its customers and financiers. Thorough examination and consult in this direction is undergoing .

The Group’s confirmed sales for the next twelve months exceed € 234 million.

The fulfilled investments and the development policy are expected to bring improved results during the current and forthcoming years. The Group is strengthening its position in tobacco leaf processing and its customers show a growing satisfaction and support. Moreover the Group has shown its capability in adapting to the new conditions and requirements in production and distribution of oriental type tobacco and is competent to withstand competition successfully.

Thessaloniki, March 09, 2012

| THE PRESIDENT AND C.E.O. | MEMBER AND C.F.O. | THE CHIEF ACCOUNTANT |
|---|---|---|
| **ALEXANDROS MICHAILIDES ( A.Δ.T. AH 199791)** | **ARISTIDES CHATZISTEFANOU ( A.Δ.T. AH 199564)** | **ANTONIOS STAMNAS ( A.Δ.T. X 224716 ) ( A.M.O.E. 2876 )** |

**Audit Report of Annual Financial Statement**
**To the Shareholders of "*LEAF TOBACCO A. MICHAILIDES S.A.*"**

*Report on the separate and consolidated Financial Statements*

We have audited the accompanying separate and consolidated financial statements of the Company "LEAF TOBACCO A. MICHAILIDES S.A." (the "Company") and its subsidiaries (the "Group"), which comprise the separate and consolidated statement of financial position as at December 31, 2011, the separate and consolidated statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Separate and Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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 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 of the financial statements, 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 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.

*Basis for Qualified Opinion*

Based on our audit, the following issue was emerged:

The balance of the consolidated assets' account "Deferred tax assets", € 13.892 th., mainly refers to deductible temporary tax differences on deferred expenses, according to the statutory (tax) books and elements kept by the companies of the Group, which have been expensed in these consolidated financial statements. The expected tax benefit for the Group from these deferred expenses and the recovery of this deferred tax asset, requires the generation of sufficient taxable profits from the companies of the Group in the forthcoming years.

*Qualified Opinion*

In our opinion, except for the possible effect on the financial statements of the matter mentioned in the paragraph “Basis for Qualified Opinion”, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2011, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Report on Other Legal and Regulatory Requirements*

We confirm that the information given in the Director’s Report is consistent with the accompanying separate and consolidated financial statements and complete in the context of the requirements of articles 43a, 107 and 37 of Codified Law 2190/1290.

Thessaloniki, 09 March 2012

BDO

Delta Certified Public Accountants S.A
8 Achilleos Str & L. Katsoni Str, 17674 Kallithea
SOEL Reg. Number 153

The Certified Public Accountant

Margarita Konstantia Vasiliadou
Reg. Number 12861

# Annual Consolidated Financial Statements

## for the year ended 31 December 2011 (1/1/2011-31/12/2011)

## in accordance with the International Financial Reporting Standards (I.F.R.S.)

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| | Notes | GROUP 1/1-31/12/2011 | GROUP 1/1-31/12/2010 | COMPANY 1/1-31/12/2011 | COMPANY 1/1-31/12/2010 |
|---|---|---|---|---|---|
| **STATEMENT OF COMPREHENSIVE INCOME** | | | | | |
| Revenue | 8 | 168.233 | 137.570 | 136.714 | 92.687 |
| Minus: Cost of Sales | 9 | (105.380) | (79.536) | (91.691) | (62.037) |
| Gross Profit | | 62.853 | 58.034 | 45.023 | 30.650 |
| Other Income | 10 | 1.121 | 536 | 525 | 1.359 |
| | | 63.974 | 58.570 | 45.548 | 32.009 |
| Administrative Expenses | 11 | (6.670) | (6.107) | (4.282) | (4.071) |
| Sales, Marketing & Distribution Expenses | 12 | (8.310) | (3.549) | (6.773) | (2.701) |
| Other Operating Expenses | 13 | (2.085) | (4.213) | (326) | (655) |
| Operating Results | | 46.909 | 44.701 | 34.168 | 24.581 |
| Financing Cost (net) | 14 | (19.606) | (17.806) | (18.221) | (17.387) |
| Ordinary Activities Results | | 27.303 | 26.896 | 15.947 | 7.194 |
| Investments' Income | 15 | 0 | 582 | (804) | (166) |
| **Results Before Taxes** | | **27.303** | **27.478** | **15.144** | **7.028** |
| Income Taxes | 16 | (5.674) | (2.382) | (5.477) | (2.635) |
| **Results After Taxes** | | **21.630** | **25.095** | **9.667** | **4.393** |
| **Attributable to:** | | | | | |
| - Owners of the parent | | 21.357 | 26.209 | 9.667 | 4.393 |
| - Minority interests | | 272 | (1.114) | 0 | 0 |
| **Other total comprehensive income after taxes:** | | | | | |
| Revaluation of fair value in fixed assets | | 10 | 20.992 | 0 | 17.657 |
| Foreign exchange differences | | 605 | 7 | 0 | 0 |
| Tax income on other operating income | | (1) | (3.717) | 0 | (3.930) |
| **Total comprehensive income after taxes** | | **614** | **17.282** | **0** | **13.728** |
| **Aggregated total comprehensive income after taxes** | | **22.243** | **42.377** | **9.667** | **18.120** |
| **Attributable to:** | | | | | |
| - Owners of the parent | | 21.956 | 43.336 | 9.667 | 18.120 |
| - Minority interests | | 288 | (959) | 0 | 0 |
| **Earnings / Loss Per Share (€ per share)** | | | | | |
| Basic | 17 | **11,0440** | **13,5529** | **4,9986** | **2,2716** |

The notes from page 18 up to page 80 represent an integral part of the annual condensed financial statements.

(Amounts are expressed in thousands Euro, unless otherwise stated)

| STATEMENT OF FINANCIAL POSITION | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| **ASSETS** | **Note** | **31/12/2011** | **31/12/2010** | **31/12/2011** | **31/12/2010** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 18 | 102.037 | 104.499 | 66.806 | 69.872 |
| Intangible assets | 19 | 56 | 21 | 40 | 10 |
| Investments in subsidiaries | 20 | 0 | 0 | 9.346 | 10.150 |
| Investment property | 21 | 9.163 | 9.159 | 2.343 | 2.343 |
| Other non-current assets | | 236 | 191 | 217 | 168 |
| Deferred tax assets | 16 | 13.892 | 10.554 | 12.788 | 9.623 |
| ***Total non-current assets*** | | ***125.384*** | ***124.424*** | ***91.540*** | ***92.167*** |
| **Current assets** | | | | | |
| Inventories | 23 | 331.155 | 310.917 | 307.469 | 282.679 |
| Trade and other receivables | 24 | 153.688 | 115.456 | 138.334 | 116.167 |
| Cash and cash equivalents | 25 | 2.880 | 2.566 | 2.495 | 1.008 |
| ***Total Current Assets*** | | ***487.723*** | ***428.939*** | ***448.298*** | ***399.853*** |
| **TOTAL ASSETS** | | **613.107** | **553.363** | **539.837** | **492.020** |
| **EQUITY & LIABILITIES** | | | | | |
| **EQUITY** | | | | | |
| Share capital | 26 | 56.758 | 56.758 | 56.758 | 56.758 |
| Paid in surplus | | 5.088 | 5.088 | 5.088 | 5.088 |
| Reserves | 27 | 76.473 | 75.731 | 67.507 | 67.552 |
| Retained earnings (losses) | | 63.522 | 42.308 | 4.024 | (5.688) |
| **Total equity attributable to equity holders of the company** | | **201.841** | **179.885** | **133.376** | **123.709** |
| Minority interests in equity | | 5.515 | 5.228 | 0 | 0 |
| **TOTAL EQUITY** | | **207.356** | **185.112** | **133.376** | **123.709** |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Loans | 28 | 59.931 | 114.006 | 55.404 | 109.527 |
| Deferred tax liabilities | 16 | 36.364 | 28.456 | 33.037 | 25.169 |
| Other provisions | 29 | 4.628 | 4.164 | 4.628 | 4.164 |
| Government grants | 30 | 198 | 249 | 198 | 249 |
| Provision for retirement benefit obligation | 31 | 742 | 705 | 701 | 685 |
| ***Total non-current liabilities*** | | ***101.865*** | ***147.580*** | ***93.968*** | ***139.795*** |
| **Current liabilities** | | | | | |
| Trade and other payables | 32 | 65.397 | 29.048 | 91.507 | 45.529 |
| Loans | 28 | 58.431 | 100.809 | 54.505 | 96.866 |
| Current portion of non-current liabilities | 28 | 174.946 | 84.340 | 161.995 | 79.949 |
| Current tax liabilities | | 5.113 | 6.473 | 4.487 | 6.171 |
| ***Total current liabilities*** | | ***303.887*** | ***220.670*** | ***312.493*** | ***228.516*** |
| **TOTAL LIABILITIES** | | **405.752** | **368.251** | **406.461** | **368.310** |
| **TOTAL EQUITY AND LIABILITIES** | | **613.107** | **553.363** | **539.837** | **492.020** |

The notes from page 18 up to page 80 represent an integral part of the annual condensed financial statements.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

**STATEMENT OF CHANGES IN SHARHOLDERS' EQUITY**

| | Share capital | Paid in surplus | Statutory reserve | Tax reserves | Property, plan and equipment fair value reserve | Retained earnings | Exchange rate differences from foreign subsidiaries | Minorities interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance, January 1st 2010 in accordance with I.F.R.S.** | **56.758** | **5.088** | **884** | **12.601** | **48.820** | **12.334** | **58** | **6.068** | **142.612** |
| Total comprehensive income for the year 2010 after income taxes | 0 | 0 | 154 | 0 | 13.311 | 29.970 | (98) | (959) | **42.377** |
| Acquisition of minority interests in existing subsidiaries | 0 | 0 | 0 | 0 | 0 | 5 | 0 | 119 | **123** |
| **Balance, 31st December 2010, in accordance with I.F.R.S.** | **56.758** | **5.088** | **1.038** | **12.601** | **62.131** | **42.308** | **(40)** | **5.228** | **185.112** |
| **Balance, January 1st 2011 in accordance with I.F.R.S.** | **56.758** | **5.088** | **1.038** | **12.601** | **62.131** | **42.308** | **(40)** | **5.228** | **185.112** |
| Total comprehensive income for the year 2011 after income taxes | 0 | 0 | 0 | 0 | 6 | 21.357 | 593 | 288 | **22.243** |
| Formation of reserves | 0 | 0 | 144 | 0 | 0 | (144) | 0 | 0 | **0** |
| **Balance, 31st December 2011 in accordance with I.F.R.S.** | **56.758** | **5.088** | **1.182** | **12.601** | **62.137** | **63.522** | **553** | **5.515** | **207.356** |

The notes from page 18 up to page 80 represent an integral part of the annual condensed financial statements.

***(Amounts are expressed in thousands Euro, unless otherwise stated)***

**STATEMENT OF CHANGES IN SHARHOLDERS' EQUITY (COMPANY)**

| | Share capital | Paid in surplus | Statutory reserve | Tax reserves | Property, plan and equipment fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance, January 1st 2010 in accordance with I.F.R.S.** | **56.758** | **5.088** | **705** | **20.817** | **34.474** | **(12.253)** | **105.589** |
| Total comprehensive income for the year 2010 after income taxes | 0 | 0 | 0 | 0 | 11.556 | 6.565 | **18.120** |
| **Balance, 31st December 2010, in accordance with I.F.R.S.** | **56.758** | **5.088** | **705** | **20.817** | **46.030** | **(5.688)** | **123.709** |
| **Balance, January 1st 2011 in accordance with I.F.R.S.** | **56.758** | **5.088** | **705** | **20.817** | **46.030** | **(5.688)** | **123.709** |
| Total comprehensive income for the year 2011 after income taxes | 0 | 0 | 0 | 0 | 0 | 9.667 | **9.667** |
| **Balance, 31st December 2011 in accordance with I.F.R.S.** | **56.758** | **5.088** | **705** | **20.817** | **46.030** | **3.978** | **133.376** |

The notes from page 18 up to page 80 represent an integral part of the annual condensed financial statements.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| **CASH FLOW STATEMENT** | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| **Cash Flows from operating activities:** | | | | |
| Results before taxes | 27.303 | 27.478 | 15.144 | 7.028 |
| **Plus (minus) adjustments for:** | | | | |
| Depreciation & Amortization | 5.769 | 4.772 | 3.707 | 2.992 |
| Provisions | 4.132 | 3.117 | 3.894 | 3.097 |
| Losses (Profits) from Fixed Assets Disposal | (23) | 536 | (158) | (1.019) |
| Losses (Profits) from reverse of the unused provisions | 0 | 0 | 0 | 0 |
| Amortization of State Grants for Investments in Fixed Assets | (51) | (51) | (51) | (51) |
| Loss / (gain) from valuation of ow ner occupied property | (0) | 939 | (0) | 41 |
| Loss / (gain) from valuation of investment property | 0 | 582 | 0 | (134) |
| Investments' Income | 0 | 0 | 804 | 300 |
| Interest & Financial Expenses | 19.606 | 17.806 | 18.221 | 17.387 |
| | 56.736 | 55.178 | 41.561 | 29.641 |
| **Plus (Minus) adjustments for changes in working capital or related to operating activities:** | | | | |
| Decrease / (Increase) in Inventories | (21.638) | (25.039) | (26.190) | (25.350) |
| Decrease / (Increase) in Receivables | (45.699) | (37.521) | (24.655) | (30.050) |
| Decrease / (Increase) in Long Term Receivables | 434 | (483) | (48) | 20 |
| Decrease / (Increase) in Liabilities (Except Bank Loans) | 42.970 | (9.809) | 45.978 | 10.602 |
| (Minus): | | | | |
| Paid Interest & Financial Expenses | (19.623) | (17.828) | (18.225) | (17.401) |
| Paid Taxes | (1.990) | (1.480) | (1.985) | (1.292) |
| **Total Inflows / (Outflows) from Operating Activities (a)** | **11.189** | **(36.981)** | **16.435** | **(33.830)** |
| **Cash Flows from investment activities:** | | | | |
| Acquisitions of subsidiaries, associates and other investments | 0 | 0 | 0 | (140) |
| Acquisition of tangible and intangible fixed assets | (5.305) | (5.635) | (949) | (671) |
| Income from Sale/Disposal of Tangible & Intangible Fixed Assets | 521 | 1.725 | 437 | 1.569 |
| Interest Received | 17 | 23 | 4 | 14 |
| **Total Cash Flows from investing activities (b)** | **(4.767)** | **(3.887)** | **(509)** | **771** |
| **Cash Flows from financing activities:** | | | | |
| Increase / (Decrease) in Bank Liabilities | (6.107) | 29.678 | (14.439) | 22.062 |
| Increase / (Decrease) in Financial Leasing Liabilities | 0 | 0 | 0 | 0 |
| **Total Inflows / (Outflows) from financing activities (c)** | **(6.107)** | **29.678** | **(14.439)** | **22.062** |
| **Net Increase / Decrease in cash & cash equivalents of the year (a)+(b)+(c)** | **314** | **(11.190)** | **1.487** | **(10.997)** |
| **Cash & cash equivalents at the beginning of the year** | **2.566** | **13.756** | **1.008** | **12.005** |
| **Cash & cash equivalents at the end of the year** | **2.880** | **2.566** | **2.495** | **1.008** |

The notes from page 18 up to page 80 represent an integral part of the annual condensed financial statements.

**Company's details**

| | |
|---|---|
| Board of Directors: | ALEXANDROS MICHAILIDES (President & CEO) |
| | ARISTEIDIS HATZISTEFANOU (Vice President) |
| | IOANNIS MICHAILIDES (Vice President) |
| | MANOLIS KAZANTZIDIS (Member) |
| | IOANNIS MANOUSIS (Member) |
| | SYNTHIA – KONSTANTINA MICHAILIDOU (Member) |
| | EKATERINI MICHAILIDOU (Member) |
| | ELEFTHERIOS XANTHIS (Member) |
| | PANAGIOTIS GIATAGANZIDIS (Member) |
| Company Headquarters: | 43 October 26th Str.<br>54 627 Thessaloniki<br>Greece |
| S.A. Registration No.: | 31161/62/B/94/0125 |
| Auditing Firm: | BDO Delta Certified Public Accountants S.A<br>8 Achilleos Str & L.Katsoni Str<br>17674 Kallithea<br>Greece |

## 1. Business

### 1.1 General Group and Company information

The **"Leaf Tobacco A. Michailides S.A."** Group of Companies, is operating in the industry of trading and processing tobacco of American and oriental type.

The Headquarters of the parent Company of the Group are located in Thessaloniki and in particular in 43 October 26th street, PO BOX 10487, Post Office Code 54627

We will continue to work with our customers to meet all their needs as their buying patterns and business models change while continuing to be a provider of quality tobacco products and innovative solutions.

### 1.2 The Business

The Company purchase, process, pack and store tobacco to cigarette manufacturers and other consumer tobacco products throughout the world. In an increasing number of markets, we also provide agronomy expertise and assistance for growing leaf tobacco. Our revenues are primarily comprised of sales of processed tobacco and fees charged for processing and related services (like warehousing) to these manufacturers of tobacco products. We do not manufacture cigarettes or other consumer tobacco products. We deal primarily in oriental, flue-cured and burley tobaccos that are used in international brand cigarettes.

***Purchasing***

We purchase tobacco directly from farmers and we assume the risk of matching the quantities and grades required by our customers to the entire crop we purchase under contracts. In some cases, we buy tobacco from local entities that have purchased tobacco from farmers and supervise the processing of that tobacco .

Our arrangements with suppliers vary from area to area depending on our predictions of future supply and demand, local historical practice and availability of capital.
In certain jurisdictions, we provide seeds, fertilizers, pesticides and other products related to tobacco growing and advance them to suppliers, which represents prepaid inventory. The suppliers then utilize these inputs to grow tobacco, which we are contractually obliged to purchase. The advances of inputs for the current crop generally include the original cost of the inputs plus a mark-up and interest as it is earned.

Our agronomists maintain frequent contact with suppliers prior to and during the growing and curing seasons to provide technical assistance to improve the quality and yield of the crop. As a result of various factors including weather, not all suppliers are able to settle the entire amount of advances through delivery of tobacco in a given crop year. Throughout the crop cycle, we monitor events that may impact the suppliers' ability to deliver tobacco.

***Processing***

We process tobacco to meet each customer's specifications as to quality, yield, chemistry, particle size, moisture content and other characteristics. Unprocessed tobacco is a semi-perishable commodity that generally must be processed within a relatively short period of time to prevent fermentation or deterioration in quality. The processing of leaf tobacco facilitates shipping and prevents spoilage and is an essential service to our customers because the quality of processed leaf tobacco substantially affects the quality of the manufacturer's end product. Accordingly, we have located our production facilities in proximity to our principal sources of tobacco.

We process tobacco in 5 owned and 1 third party facilities around the world including Albania , Bulgaria , FYRoM , Greece ,Moldova and India .These facilities encompass all leading export locations of oriental , flue-cured and burley tobaccos. In addition, we have entered into contracts, joint ventures and other arrangements for the purchase of tobacco grown in substantially all other countries that produce export-quality oriental , flue-cured and burley tobacco.

Upon arrival at our processing plants, flue-cured and burley tobacco is first reclassified according to grade. Most of that tobacco is then blended to meet customer specifications regarding color, body and chemistry, threshed to remove the stem from the leaf and further processed to produce strips of tobacco and sieve out small scrap. We also sell a small amount of processed but un-threshed flue-cured and burley tobacco in loose-leaf and bundle form to certain customers. Oriental tobaccos are handled and processed in a similar manner other than that the tobaccos are not threshed to remove stems.

Processed Oriental , flue-cured and burley tobacco is re-dried to remove excess moisture so that it can be held in storage by customers or us for long periods of time. After re-drying, whole leaves, bundles, strips or stems and scrap where applicable are separately packed in cartons or bales for storage and shipment. Packed oriental , flue-cured and burley tobacco generally is transported in the country and exports are moved by ship. Prior to and during processing, steps are taken to ensure consistent quality of the tobacco, including re-grading and removal of undesirable leaves, dirt and other non-tobacco related material. Customer representatives are frequently present at our facilities to monitor the processing of their particular orders. Throughout the processing, our technicians use quality control laboratory test equipment to ensure that the product meets all customer specifications.

***Selling***

We ship tobacco to manufacturers of cigarettes and other consumer tobacco products located in many countries around the world as designated by these manufacturers. We recognize sales revenue when persuasive evidence of an arrangement exists, the price to the customer is fixed, collectability is reasonably assured and title and risk of ownership is passed to the customer, which is upon shipment or delivery. Individual shipments may be large, and since the customer typically specifies shipping dates, our financial results may vary significantly between reporting periods due to timing of sales. In some markets we process tobacco that is owned by our customers, and revenue is recognized when the processing is completed.

The consumer tobacco business is dominated by a relatively small number of large multinational cigarette manufacturers and by government controlled entities. Including their respective affiliates, accounting for more than 84% of our revenues were each of Philip Morris , British American Tobacco, Imperial Tobacco , Japan Tobacco, for the year ended December 31, 2011.

***Seasonality***

The purchasing and processing activities of our tobacco business are seasonal. During the purchasing, processing and marketing seasons, inventories of unprocessed tobacco, inventories of re-dried tobacco and trade accounts receivable normally reach peak levels in succession. Current liabilities, particularly advances from customers and short-term notes payable to banks, normally reach their peak in this period as a means of financing the seasonal expansion of current assets. At the end of our fiscal year, the seasonal components of our working capital reflect primarily the operations related to foreign grown tobacco.

***Competition***

The Company is one of the biggest global leaf tobacco producer and exporter . We expect to maintain a major position in most major tobacco growing regions in the world, including the principal export markets for oriental , flue-cured and burley tobacco and we are well suited to serve the needs of all manufacturers of cigarettes and other consumer tobacco products.

The leaf tobacco industry is highly competitive and competition is based primarily on the price charged for products and services as well as the merchant's ability to meet customer specifications in the buying, processing, residue compliance and financing of tobacco. Recent vertical integration initiatives and other changes in customer buying patterns have resulted in a more dynamic and competitive operating environment. There is also competition in all countries to buy the available leaf tobacco and in many areas, total leaf tobacco processing capacity exceeds demand.

## 2. Basis of preparation

### 2.1 General

The attached annual corporate and consolidated financial statements for the year ended 31/12/2011 (1/1-31/12/2011) have been prepared in accordance with the historical cost principle, with the exception of specific categories of property, plant and equipment (buildings, land and machinery) and certain investments in property t that were valued at fair value. Also, the aforementioned financial statements have been prepared on the basis of the going concern principle.

The attached financial statements have been prepared in accordance with the International Financial Reporting Standards (I.F.R.S.) as published by the International Accounting Standards Board and have been adopted by the European Union as well as the Notes - Interpretations published by the Standards Interpretations Committee and were in force at 31 December 2011.

All figures in the annual financial statements are expressed in thousands of euro. It is noted that minor deviations are due to rounding up of figures.

### 2.2 Statutory Financial Statements

The Company and its domestic subsidiaries keep their accounting books according to the Greek Commercial Law (C.L. 2190/1920) and the current tax legislation. The foreign subsidiaries of the Company record their accounting data and prepare their financial statements according to the applicable rules and regulations and in compliance with the current legislation of the countries that they are operating.

Consequently and regarding to the consolidated financial statements preparation, the financial statements of the foreign subsidiaries and the tax financial statements of the parent Company and the Greek subsidiaries are reformed and adjusted with "out of books" accounting entries so as to become compliant with the I.F.R.S..

**2.3 Use of estimates**

The preparation of the financial statements according to the I.F.R.S. requires the Management of the Company to proceed in making estimations and assumptions, that influence the accounts' balances on the balance sheet and the income statement, as well as the announcement of contingent receivables and liabilities at the date of the financial statements. These estimates and assumptions are based on past experience and other factors and data which are considered reasonable and revised in regular time intervals. The effect of the revisions of the adopted estimates and assumptions is recognized in the year that they are realised or even in the next if the revision influences not only the present but also the next years. The areas that require higher degree of judgment as well as the areas where the assumptions and the estimates are significant to the financial statements are analyzed in paragraph "Important accounting estimates, assumptions and judgements of the Management" at Note 6.

**2.4 Approval of the Financial Statements**

The annual financial statements of the year ended 31st December 2011 (1/1-31/12/2011) have been approved for publication by the Board of Directors on 09 March 2012.

**2.5 New standards, interpretations and amendments of existing standards**

The International Accounting Standards Board along with the Standards Interpretations Committee have issued a number of new financial reporting standards and interpretations, as well as amendments of existing standards, whose adoption is mandatory for the accounting periods beginning at 1st January 2011 and thenceforth (unless mentioned otherwise below). The assessment of the Company's Management regarding the adoption effect of these new standards and interpretations is stated bellow:

***A) New standards, amendments to existing standards and interpretations which are effective for the financial year beginning January 1, 2011 and have not been early adoptedby the Group***

***IFRS 3, Business combinations – improvement (effective from July 1, 2010).***

(a)Transition requirements for contingent consideration from a business combination that occurred before the effective date of t he revised IFRS. Clarifies that the amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 32, 'Financial instruments: Presentation', and IAS 39, 'Financial instruments: Recognition and measurement', that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). (b) Measurement of non-controlling interests. The choice of measuring non- controlling interests at fair value or at the proportionate share of the acquirer's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. (c) Un-replaced and voluntarily replaced share-based payment awards. The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards. The amendment does not have any impact on the Group's and Company's accompanying financial statements.

***IFRS 7, Financial instruments: Disclosures– improvement (effective from January 1, 2011).***

The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. As the improvement only results in additional disclosures there is no impact on the Group's and Company's financial statements.

***IAS 1, Presentation of financial statements– improvement (effective from January 1, 2011).***

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. As the improvement only results in additional disclosures there is no impact on the Group's and Company's financial statements.

***IAS 24 Related party disclosures – revised (effective from January 1, 2011).***

This revision attempts to relax disclosures of transactions between government-related entities and clarify related-party definition. More specifically, it removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities, clarifies and simplifies the definition of a related party and requires the disclosure not only of the relationships, transactions and outstanding balances between related parties, but of commitments as well in both the consolidated and the individual financial statements. As the revision only results in additional disclosures there is no impact on the Group's and Company's financial statements.

***IAS 27, Consolidated and separate financial statements– improvement (effective from July 1, 2010).***

The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21, 'The effect of changes in foreign exchange rates', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier. The amendment does not have any impact on the Group's and Company's accompanying financial statements.

***IAS 34, Interim financial reporting – improvement (effective from January 1, 2011).***

The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: (a) The circumstances likely to affect fair values of financial instruments and their classification, (b) Transfers of financial instruments between different levels of the fair value hierarchy, (c) Changes in classification of financial assets, (d) Changes in contingent liabilities and assets. The amendment does not have any impact on the Group's and Company's accompanying financial statements.

***(b) Standards, amendments and improvements to existing standards and interpretations effective in 2011 but not relevant to the Group (although they may affect the accounting for future transactions and events)***

The following new standards, amendments and improvements to existing standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2011, but are not currently relevant to the Group.

***IFRS 1, First-time adoption of International Financial Reporting Standards – amendment (effective from July 1, 2010).***

The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the amendments to IFRS 7. Also clarifies the transition provisions of the amendments to IFRS 7.

***IFRS 1, First-time adoption of International Financial Reporting Standards –***

***improvement (effective from January 1, 2011).***

(a) Accounting policy changes in the year of adoption. Clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34, 'Interim financial reporting', it should explain those changes and update the reconciliations between previous GAAP and IFRS. (b) Revaluation basis as deemed cost. Allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such remeasurement occurs after the date of transition to IFRSs, but during the period covered by its first IFRS financial statements, any subsequent adjustment to that event-driven fair value is recognized in equity. (c) Use of deemed cost for operations subject to rate regulation. Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under IAS 36 at the date of transition.

***IAS 32, Financial instruments: Presentation - amendment (effective from February 1, 2010).***

This amendment clarifies how certain rights issues should be classified. In particular, based on this amendment, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

***IFRIC 13, Customer loyalty programmes – improvement (effective from January 1, 2011).***

The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

***IFRIC 14, The limit on a defined benefit asset, minimum funding requirements and their interaction - amendment (effective from January 1, 2011).***

The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

***IFRIC 19, Extinguishing financial liabilities with equity instruments (effective from July***

***1, 2010).***

This interpretation addresses the accounting by the entity that issues equity instruments to a creditor in order to settle, in full or in part, a financial liability.

***(c) New standards, new interpretations and amendments to existing standards which are not effective for the financial year beginning January 1, 2011 and have not early adopted***

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning January 1, 2011 and have not been early adopted.

***IFRS 1, First-time adoption of International Financial Reporting Standards – amendments (effective from July 1, 2011).***

These amendments include two changes to IFRS 1. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to IFRSs’, thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. These amendments are not relevant to the Group and have not yet been endorsed by the EU.

***IFRS 7, Financial instruments: Disclosures - amendment (effective from July 1, 2011).***

An entity may enter into an arrangement, such as debt factoring, where the related accounting may or may not result in the financial assets subject to the arrangement being transferred to another party (either in whole or in part). The amendment requires the disclosure of information in respect of all transferred financial assets that are not derecognised, and for any continuing involvement in transferred assets which are derecognised, which exists at the reporting date, irrespective of when the related transfer transaction occurred. The Group is yet to assess the full impact of the amendment and will apply these changes from their effective date.

***IFRS 7, Financial instruments: Disclosures - amendment (effective from January 1,***

***2015).***

With the amendments to IFRS 9, 'Financial instruments' entities applying IFRS 9 do not need to restate prior periods but are required to provide modified disclosures. The new disclosures include but are not limited to:

- Changes in the classifications of financial assets and financial liabilities, showing separately тhe changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 and тhe changes in the carrying amounts arising from a change in measurement attribute, such as from amortised cost to fair value, on transition to IFRS 9.

- The following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9: (a) тhe fair value of the financial assets or financial liabilities at the end of the reporting period, (b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified., (c) the effective interest rate determined on the date of reclassification, (d) the interest income or expense recognised.

The Group is yet to assess the full impact of the amendment and cannot currently early adopt it as it has not yet been endorsed by the EU.

***IFRS 7, Financial instruments: Disclosures - amendment (effective from January 1, 2013).***

The amendment require the disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities. The Group is yet to assess the full impact of the amendment and cannot currently early adopt it as it has not yet been endorsed by the EU.

***IFRS 9, Financial instruments (effective from January 1, 2015).***

IFRS 9 is the first part of Phase 1 of the Board's project to replace IAS 39. IFRS 9 states that financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Subsequently financial assets are measured at amortized cost or fair value and depend on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes; in this case, the entity is required to reclassify affected financial assets prospectively. IFRS 9 states explicitly that the following are not changes in business model: (a) a change in intention relating to particular financial assets (even in circumstances of significant changes in market conditions), (b) a temporary disappearance of a particular market for financial assets and (c) a transfer of financial assets between parts of the entity with different business models.

IFRS 9 classification principles indicate that all equity investments should be measured at fair value. However, management has an option to present in other comprehensive income unrealised and realised fair value gains and losses on equity investments that are not held for trading. Such designation is available on initial recognition on an instrument-by-instrument basis and is irrevocable. There is no subsequent recycling of fair value gains and losses to profit or loss; however, dividends from such investments will continue to be recognised in profit or loss. IFRS 9 removes the cost exemption for unquoted equities and derivatives on unquoted equities but provides guidance on when cost may be an appropriate estimate of fair value.

The Group is currently investigating the impact of IFRS 9 on its financial statements. The Group cannot currently early adopt IFRS 9 as it has not yet been endorsed by the EU. Only once approved will the Group decide if IFRS 9 will be adopted prior to 1 January 2015.

***IFRS 9, Financial instruments - amendment (effective from January 1, 2015).***

IFRS 9 contained requirements for the classification and measurement of financial assets. Equivalent requirements for financial liabilities were added, with most of them being carried forward unchanged from IAS 39. In consequence, a financial liability is measured as at fair value through profit or loss (FVTPL) if it is held for trading, or is designated as at FVTPL using the fair value option and other liabilities are measured at amortised cost  In contrast to the requirements for financial assets, the bifurcation requirements for embedded derivatives have been retained.

IFRS 9 requires that changes in the fair value of financial liabilities designated as at FVTPL which relate to changes in an entity's own credit risk should be recognised directly in other comprehensive income. However, as an exception, where this would create an accounting mismatch (which would be where there is a matching asset position that is also measured as at FVTPL), an irrevocable decision can be taken to recognise the entire change in fair value of the financial liability in profit or loss.

The Group is currently investigating the impact of IFRS 9 on its financial statements. The Group cannot currently early adopt IFRS 9 as it has not yet been endorsed by the EU. Only once approved will the Group decide if IFRS 9 will be adopted prior to 1 January 2015.

***IFRS 9, Financial instruments - amendment (effective from January 1, 2015).***

The amendment changes the effective date so that IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2015. Early application is permitted. The amendment also modifies the relief from restating prior periods. Entities that initially apply IFRS 9 in periods beginning: (a) before 1 January 2012 need not restate prior periods and are not required to provide modified disclosures, (b) on or after 1 January 2012 and before 1 January 2013 must elect either to provide the modified disclosures or to restate prior periods, (c) on or after 1 January 2013 are required to provide modified disclosures and need not restate prior periods.

The Group is currently investigating the impact of IFRS 9 on its financial statements. The Group cannot currently early adopt IFRS 9 as it has not yet been endorsed by the EU. Only once approved will the Group decide if IFRS 9 will be adopted prior to 1 January 2015.

***IFRS 10 Consolidated financial statements (effective from January 1, 2013).***

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC 12. The new standard changes the definition of control for the purpose of determining which entities should be consolidated. This definition is supported by extensive application guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). Under IFRS 10, an investor is required to consolidate an investee when all three of the following criteria are met: (a) the entity has power over the investee, (b) the investor has exposure, or rights to variable returns from involvement with the investee, (c) the investor has the ability to use its power to affect returns.

The revised definition of control focuses on the need to have both power (the current ability to direct the activities that significantly influence returns) and variable returns (can be positive, negative or both) before control is present. The new standard also includes guidance on participating and protective rights, as well as on agency/ principal relationships.

The Group is yet to assess the full impact of IFRS 10 and cannot currently early adopt it as it has not yet been endorsed by the EU. Only once approved will the Group decide if IFRS 10 will be adopted prior to 1 January 2013.

***IFRS 11, Joint arrangements (effective from January 1, 2013).***

IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The types of joint arrangements are reduced to two: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today. The standard also provides guidance for parties that participate in joint arrangements but do not have joint control. The Group is yet to assess the full impact of IFRS 11 and cannot currently early adopt it as it has not yet been endorsed by the EU.

***IFRS 12, Disclosure of interests in other entities (effective from January 1, 2013).***

IFRS 12 requires entities to disclose information, including significant judgments and assumptions, which enable users of financial statements to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. An entity can provide any or all of the above disclosures without having to apply IFRS 12 in its entirety, or IFRS 10 or 11, or the amended IAS 27 or 28. This standard has not yet been endorsed by the EU. The Group is yet to assess the full impact of IFRS 12 and cannot currently early adopt it as it has not yet been endorsed by the EU.

***IFRS 13, Fair value measurement (effective from January 1, 2013).***

IFRS 13 provides new guidance on fair value measurement and disclosure requirements. These requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. Disclosure requirements are enhanced and apply to all assets and liabilities measured at fair value, not just financial ones. The Group is yet to assess the full impact of IFRS 13 and cannot currently early adopt it as it has not yet been endorsed by the EU.

***IAS 1, Presentation of financial statements – amendment (effective from July 1, 2012).***

The amendments made to IAS 1 focus on how entities present items of OCI. The amendments do not alter guidance on which items should or should not be included in OCI or whether these items might subsequently be reclassified through profit or loss. The main change requires entities to present line items for OCI amounts by nature and to group items presented in OCI into two categories: (a) those that could subsequently be reclassified to profit or loss (reclassification adjustments) and (b) those that that will not be reclassified.

IAS 1 permits entities to present components of OCI either net of related tax effects or before tax with one amount shown for the aggregate amount of income tax relating to those components. Entities will continue to have this choice of tax presentation. However, if an entity presents OCI items before related tax effects then tax is required to be allocated and disclosed separately for each of the two OCI groups. The Group is yet to assess the full impact of the amendment.

***IAS 12, Income taxes – amendment (effective from January 1, 2012).***

Amendments have been made to IAS 12 'Income taxes' in respect of the measurement of deferred tax when investment property is measured using the fair value model in IAS 40 'Investment property'. An exception has been introduced to incorporate a presumption that the carrying amount of an investment property is recovered entirely through sale. In addition, the requirements of SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets, which address similar issues involving non-depreciable assets, measured using the revaluation model in IAS 16 Property, Plant and Equipment, have been incorporated into IAS 12. The Group is yet to assess the full impact of the amendment and cannot currently early adopt it as it has not yet been endorsed by the EU.

***IAS 19, Employee benefits - amendment (effective from January 1, 2013).***

The amendment requires entities to recognise all changes in the defined benefit obligations and in the fair value of related plan assets when those changes occur. This eliminates the 'corridor' approach which permitted entities to leave actuarial gains and losses unrecognised if they were within a corridor (being the greater of 10 per cent of the plan assets and 10 per cent of the plan liabilities) and to defer recognition of actuarial gains and losses outside of that corridor. The amendment requires entities to split the changes in the net defined benefit liability (asset) into three components,: (a) Service cost, (b) net interest on the net defined benefit liability (asset) –both presented in profit or loss; and (c) remeasurement of the net defined benefit liability (asset) – presented in other comprehensive income and not recycled through profit or loss.

Additionally enhanced disclosures are required with a focus on the following specified objectives: (a) the characteristics of an entity's defined benefit plans and the amounts in the financial statements that result from those plans, (b) risks arising from defined benefit plans, including a sensitivity analysis for each significant actuarial assumption, (c) participation in multi-employer plans. The Group is yet to assess the full impact of the amendment.

***IAS 27, Separate financial statements – amendment (effective from January 1, 2013).***

This standard is issued concurrently with IFRS 10 and together, the two IFRSs supersede IAS 27 'Consolidated and separate financial statements'. The amended IAS 27 prescribes the accounting and disclosure requirements for investment in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. At the same time, the Board relocated to IAS 27 requirements from IAS 28 'Investments in associates' and IAS 31 'Interests in joint ventures' regarding separate financial statements. The Group is yet to assess the full impact of the amendment and cannot currently early adopt it as it has not yet been endorsed by the EU.

***IAS 28, Investments in associates and joint ventures – amendment (effective from January 1, 2013).***

IAS 28 'Investments in associates and joint ventures' replaces IAS 28 'Investments in associates'. The objective of this standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures, following the issue of IFRS 11. The Group is yet to assess the full impact of the amendment and cannot currently early adopt it as it has not yet been endorsed by the EU.

***IAS 32, Financial instruments: presentation – amendment (effective from January 1, 2014).***

The amendments address inconsistencies in current practice when applying the offsetting criteria. They clarify the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendments are part of the IASB's offsetting project and have not yet been endorsed by the EU.

***IFRIC 20, Stripping cost in the production phase of a surface mine (effective from***

***January 1, 2013).***

The IFRIC clarifies when and how to account for stripping costs. It applies to surface mining operations, where entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. The interpretation is not relevant to the Group and has not yet been endorsed by the EU.

***(d) Proposed improvements to International Financial Reporting Standards***

On June 2011the IASB published an exposure draft which sets out proposed amendments to IFRS under the annual improvements project. The effective date for each of the following IASB's proposed amendments, if finalized, would be annual periods beginning on or after 1 January 2013, with earlier adoption permitted.

***IFRS 1, First-time adoption of International Financial Reporting Standards.***

The amendment would clarify that an entity is required to apply IFRS 1 when its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs. This would apply even if the entity had applied IFRS 1 in a previous reporting period.

The amendment would clarify that an entity that capitalized borrowing costs in accordance with its previous GAAP before the date of transition to IFRS may carry forward, without adjustment, the amount previously capitalized in the opening statement of financial position at the date of transition. It also proposes to clarify that borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition would be accounted for (that is, capitalized) in accordance with IAS 23 Borrowing Costs.

***IAS 1, Presentation of financial statements.***

The amendment would clarify the IAS 1 requirements for comparative information when an entity prepares financial statements that include more than the minimum comparative information requirements. If additional information is provided it should be prepared in accordance with IFRSs and comparative information should be provided in the related notes for those additional statements.

The amendment would also address two aspects of the requirements in specific cases where an entity changes accounting policies, or makes retrospective restatements or reclassifications. They are that: (a) The opening statement of financial position should be presented as at the beginning of the comparative period required by IAS 1 (and not, as at present, at the beginning of the earliest comparative period) and (b) Related notes are not required to accompany this opening statement of financial position other than as required by IAS 1 (which deal with comparative information for reclassified amounts) and IAS 8. The amendment would update the objective of financial statements to reflect the Conceptual Framework issued in September 2010.

***IAS 16, Property, plant and equipment.***

The amendment would clarify that servicing equipment should be classified as property, plant and equipment when an entity expects to use them during more than one period and classified as inventory when not.

***IAS 32, Financial instruments: presentation.***

The amendments would clarify that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. As a result, depending on the circumstances these items of income tax might be recognised in equity or in profit or loss.

***IAS 34, Interim financial reporting.***

The amendment would clarify that total assets for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. Currently there is no reference to the amounts being regularly provided to the chief operating decision maker.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 3. Group structure

The Group **"Leaf Tobacco A. Michailides S.A."** consists of the following Companies:

| Company | REGISTERED OFFICE | PRINCIPAL ACTIVITY | PARTICIPATION PERCENTAGE | CONSOLIDATION METHOD | TYPE OF PARTICIPATION |
|---|---|---|---|---|---|
| LEAF TOBACCO A. MICHAILIDES S.A. | Greece (Thessaloniki) | Tobacco processing of american & oriental type | Parent | Full | - |
| ***I. Subsidiary Companies*** | | | | | |
| LEAF TOBACCO A.MICHAILIDES AD SANDANSKI BULGARIA | Bulgaria | Tobacco processing of oriental type | 98,3% | Full | Direct |
| STRUMICA TABAK AD | F.Y.R.O.M. | Tobacco processing of oriental type | 83,1% | Full | Direct |
| MIKAKORCA Sh .P.K. | Albania | Tobacco processing of oriental type | 62,0% | Full | Direct |
| MICHAILIDES TOBACCO MOLDOVA S.A. | Moldova | Tobacco processing of american & oriental type | 99,9% | Full | Direct |
| ARIS TOBACCO SPOL S.R.O. | Slovakia | Tobacco processing of oriental type | 100,0% | Full | Indirect |
| A.J.MICHAILIDES COMMERCIAL ENTERPRISES LTD | Cyprus | Holding Company | 100,0% | Full | Direct |
| TRADE & BROKERAGE | U.K. (C.I.) | Tobacco trading | 100,0% | Full | Direct |
| LEAF TOBACCO A. MICHAILIDES ALGERIA-TABACS D'ORIENT S.P.A. | Algeria | Tobacco processing of oriental type | 75,0% | Full | Direct |
| FERMENT TUTUN SA DROCHIA | Moldova | Tobacco processing of american & oriental type | 95,2% | Full | Indirect |
| AGREXTENT S.A. | Greece (Thessaloniki) | Insects Extermination, Agricultural Medicines, Tobacco trading | 100,0% | Full | Direct |
| ATLAS TOBACCO ALGERIA | Algeria | Tobacco processing of oriental type | 56,7% | Full | Direct |
| MICHAILIDES ML ORIENTAL TOBACCO PVT LTD. | India | Tobacco processing of oriental type | 55,0% | Full | Direct |

In the closing period the participating interests of the Group in subsidiaries and associates has not been changed.

## 4. Summary of significant accounting policies

The basic accounting policies that have been adopted for the preparation of the attached financial statements, have been applied consistently for all years and by all companies that are included in these and are set out below.

### 4.1 Consolidation basis

The annual consolidated financial statements of the Group for the year ended 31st December 2011 include the Company and its subsidiaries.

Subsidiaries are all companies over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

In the financial statements of the Parent Company, investments in subsidiaries are evaluated at acquisition cost less any cumulative impairment losses.

**4.2 Investment in Associates**

Associates are all entities over which the group exercises significant influence but do not qualify the conditions to be classified as subsidiaries. The consolidated financial statements of the Group include the Group proportion of profits and losses of associate companies, under on the equity method, from the date that the Group acquires significant influence until the date that this influence ceases to exist. When the proportional share of the Group in the loss of the associated company exceeds the accounting value of the investment, the carrying value of the investment falls to zero and the recognition of further losses ceases, unless the Group has undertaken liabilities or contingent liabilities of the associate company, other than those arising from the ownership status.

Investments in associates are valued in the statutory financial statements of the Parent Company at acquisition cost less any accumulated impairment losses.

**4.3 Operating and presentation currency and conversion of foreign currencies**

The operating and presentation currency of the Parent Company and its subsidiaries is the Euro. Foreign currency transactions are converted into Euro using the exchange rates applicable at the dates of the transactions. At the balance sheet date, the monetary assets and liabilities denominated in foreign currencies are adjusted to reflect current exchange rates.

Gains and losses arising from transactions in foreign currencies and by year-end valuation of monetary items in foreign currencies are recorded in the attached income statement. The operating currency of foreign subsidiaries of the Group is the official currency of the country each one operates in, which is also the Euro. Therefore, at every balance sheet date, there is no need to convert the Group’s foreign subsidiaries’ financial statements into Euro.

**4.4 Property, plant and equipment**

The property, plant and equipment are shown in the financial statements at acquisition cost, excluding land, buildings and machinery that were valued at fair value, based on estimations by independent real estate valuators, which take place periodically every 2-3 years, unless the valuation carried out in a shorter time period is deemed essential by the applicable market conditions at each statement of financial position date, less depreciation for buildings and machinery. Accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation.

The historical acquisition cost of land-building, machinery or equipment includes purchase price plus import tariffs and non refundable purchase taxes, as well as any necessary costs for rendering the asset operational and ready for its intended use.

Subsequent expenses, made in relation to tangible assets, are capitalized only when they increase the future economic benefits expected to arise from the operation of the affected assets. All repairs and maintenance are expensed when they incur.

Upon retirement or sale of an asset, the relevant cost and the accumulated depreciation are eliminated from the respective accounts at the time of the retirement or sale and the relevant gains or losses are recognised in the income statement.

Residual values and useful lives of tangible fixed assets are reassessed at each balance sheet date. When the carrying value of tangible assets exceeds their recoverable value, the difference (impairment) is recognized immediately as an expense in the income statement.

Depreciation is charged to the income statement, under the straight-line method, throughout the duration of the expected useful lives of the respective assets. Land is not depreciated. The estimated duration of the useful life, for different asset categories, is as follows:

| | | |
|---|---|---|
| Buildings | 50 | years |
| Machinery & equipment | 3-15 | years |
| Tobacco processing machinery | 10 | years |
| Transportation means | 5-7 | years |
| Furniture & office equipment | 3-10 | years |

### 4.5 Intangible Assets

#### 4.5.1 *Software Programs*

Software programs refer to the acquisition cost or self supply of software such as overheads, materials, services, as well as every expenditure that has been realized upon software development in order that this is set in use. Expenditures that enhance or broaden the performance of software programs beyond their original specifications and capabilities, are recognized as capital expenditures and increase the initial cost of the software.

The amortization expenses of software programs are charged to the income statement, under the straight-line method, throughout the duration of their useful lives. The estimated duration of their useful life is as follows:

| | |
|---|---|
| Software | 3-4 years |

#### 4.5.2 *Business combinations, Goodwill and changes in minority interests*

Business combinations are accounted for by applying the purchase method, according to which the assets and liabilities (including contingent liabilities) of the acquired company recognized at fair value at the acquisition date. The goodwill that comes from business combinations represents the difference between the acquisition cost and the fair value of the Group's percentage on the net assets of every subsidiary at the acquisition date. After the acquisition date, the recognized goodwill is measured at acquisition cost less any accumulated impairment losses.

The emerging goodwill from the acquisition of subsidiary companies is not amortized but rather tested for impairment at least annually or more frequently if events or changes in circumstances indicate that it might be impaired. At the acquisition date the goodwill is allocated to the cash flow generating units which are expected to benefit from the synergies of the business combination. For the acquired goodwill impairment test, the recoverable amount of each cash flow generating unit related to it is determined. In cases when the recoverable amount of a cash flow generating unit is less than its book value plus goodwill, then an impairment loss is recognised equal to their difference and is recognized in the statement of comprehensive income of the respective year or period.

When a cash flow generating unit (or a part of it), which goodwill has been allocated to, is sold, the allocated goodwill is included in the carrying amount of the sold cash flow generating unit in order to determine the result of the sale.

When the Group increases the participation percentage in the associated companies (minority interest acquisition) the difference between the acquisition cost and the carrying amount of the minority interest acquired, is recognized either as goodwill in the consolidated balance sheet, when the acquisition cost exceeds the carrying amount of minority interest, or as negative goodwill in the income statement, when the acquisition cost is less than the respective carrying amount of minority interest. In correspondence with the above mentioned, whenever minority interests are sold, without losing the control of the subsidiary company, then the relative profit or loss from the sale is recognized in the income statement.

**4.6 Impairment of non-financial assets**

Property, plant and equipment, intangible assets and other non current assets are tested for the possibility of impairment loss whenever events or changes in circumstances indicate that their currying value may not be recoverable. Whenever the carrying amount of any asset exceeds its recoverable amount, the corresponding impairment loss is recognized in the income statement. The recoverable value of an asset is the largest amount between its estimated net selling price and its value in use. Net selling price is the possible revenue obtainable from the sale of an asset in a mutual transaction between knowledgeable, willing parties, after deducting any direct incremental selling costs. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. If there is no ability to estimate the recoverable amount of an asset for which there is an indication of value impairment, then the recoverable amount of the cash generating unit in which the asset is grouped, is estimated instead.

Reversal of the impairment loss of assets which was accounted for in previous years, only occurs when there are sufficient indications that this impairment no longer exists or has been decreased. In such occasions the above mentioned reversal is recognized as a gain in the income statement.

**4.7 Investment property**

Investment in real estate property is acquired for the purpose of obtaining benefit by collecting rents and by increase of their market value. The remaining privately owned buildings and land are used for serving the Group’s operations as well as for administrative purposes. Investments in real estate property are monitored as long-term investments and valued at fair value, which is equal to their current price as estimated by independent real estate valuators. Changes in the fair value of investments in buildings and land are recognized in the statement of comprehensive income.

### 4.8 Inventories

Inventories are measured at the lowest between acquisition or production cost and net realizable value. The inventory cost is computed according to the weighted average cost method and includes acquisition expenses and transportation costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The net realizable value of raw material and packaging material is the expected cost of replacement in the normal operation of the Group. Impairment of the value of the inventories that have become obsolete is performed only if necessary. At 31/12/2011 and at 31/12/2010 there were no inventories valued at their net realizable value.

### 4.9 Financial instruments

Financial instrument is every contract that creates a financial asset in a company and a financial liability or equity holding in another company.

The financial instruments of the Group and the Company are classified in the following categories based on the substance of the contract and the purpose for which they were acquired.

#### 4.9.1 *Financial assets at fair value through profit or loss*

These are financial assets that meet any of the following conditions:

- Financial assets held for trading (including derivatives, except those designated as effective hedges, those that are acquired or created with the intent of sale or re-purchase and finally those that are part of a portfolio of recognised financial instruments).
- Upon initial recognition, the company specifies it as an item measured at fair value by recording the changes in the income statement.

Any realized on non realized profit or loss arisen from changes in the fair value of financial assets is recognized in the results of the period they have incurred.

#### 4.9.2 *Loans and receivables*

These consist of non-derivative financial assets with fixed or determined payments, which are not traded in active markets. In this category (loans and receivables) are not included:

- Receivables from advance payments for the purchase of goods or services,
- Receivables involving tax transactions, which have been imposed by the state through legislation,
- Anything not covered by an agreement, that would give the company the right to receive cash or other financial assets.

Loans and receivables are recognised at net value under the effective interest rate method.

Loans and receivables are included in current assets, except those with maturity greater than 12 months from the balance sheet date. The latter are included in non current assets.

**4.9.3** ***Investments held to maturity***

These include non-derivative financial assets with fixed or determined payments and maturity, which the Company has the intention and capability to hold until their maturity. The Group and the Company do not hold any investments of this category.

**4.9.4** ***Financial assets available for sale***

These include non-derivative financial assets which, are either identified in this category or cannot be included in any of the above.

Trading in this category of investments is recorded at the date of the transaction, which is the date that the Group commits itself to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. Unrealized profits or losses arising from changes in fair value of the financial assets available for sale are recognized in equity.

The fair value of the financial assets is determined by the current demand prices or by cash flow analysis. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques such as price to earnings or price to cash flow ratios adjusted to the specific circumstances of the issuer. Financial instruments which cannot be determined in a reliable way, are evaluated at acquisition cost, less any impairment loss. When shares of companies classified as financial assets available for sale are sold or impaired, the accumulated fair value adjustments are carried over to the results as gains or losses from investments

**4.9.5** ***Offset of financial assets and liabilities***

Where a legitimate executable right to offset recognised financial assets and financial liabilities exists, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

**4.10 Trade and other receivables**

Receivables from customers are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less impairment losses. Impairment losses (losses from bad debts) are recognized only when there is significant proof that the Group in not in the position of collecting all the amounts due under contractual terms. The amount of the impairment loss is the difference between the book value of the receivables and the present value of estimated future cash flows, discounted by the effective interest rate. The amount of the impairment loss is recognized in the income statement as an expense.

**4.11 Cash and cash equivalents**

Cash also include cash equivalents such as bank overdraft accounts, time deposits and short term deposits. Bank overdrafts, payable at first demand, which are inseparable part of the Group's managerial policy of cash and cash equivalents are included, for the purpose of the preparation of the cash flow statements, as elementary part of cash and cash equivalents

**4.12 Share capital**

Common shares are characterized as capital. The increased external costs directly attributable to the issuance of new shares is presented in share capital, deductively from the receivable amount.

When acquiring own shares, the price paid, including all relative expenses, is deducted from the total equity.

**4.13 Loans**

Loans are initially recognized at cost, which is fair value less the relative expenses of the contract. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest rate method. Any difference between the amount received (less transaction costs) and the repayment value is recognized in the income statement during the period of the loans.

**4.14 Financial & operating leases**

Financial leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are recognized as assets at fair value of the leased asset or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are allocated between to finance charges and to reduction of the lease liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are directly recognized as expenses. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease period.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expenses in the income statement on a straight line basis over the lease period.

**4.15 Income taxes (current and deferred)**

Current and deferred income taxes are calculated according to the carrying amounts of the financial statements, in accordance with the tax legislation in force in each country each company of the Group is located. Income tax expense refers to taxes attributable to the taxable profits of the Group as adjusted according to the requirements of tax legislation and computed by the effective tax rate.

Deferred income taxation is computed, using the liability method, on all temporary differences at the balance sheet date between the tax base and book value of assets and liabilities.

The expected tax results resulting from the temporary tax differences are recognized and appeared as future (deferred) tax payables or receivables.

Deferred tax receivables are recognized for all the tax free temporary differences for tax purposes and taxable losses brought forward, to the extend of an available potential taxable profit against which the recognized temporary tax differences can be utilized, is expected to exist.
The book value of the deferred tax receivables is revised at each balance sheet date and reduced to the extent where it is not considered possible that enough potential taxable profits will be presented that a part or the total of the deferred tax assets can be utilised against them.

Current income tax receivables and payables concerning current and previous years are measured at the amount of the tax payable to the tax authorities (or are recovered by them), with the use of tax rates (and tax laws) that are currently in force, or will be in force, at the balance sheet date.

**4.16 Retirement benefit obligations**

The Group’s obligation towards its personnel, for future payment of benefits according to each employees’ working experience, is estimated and recorded on the basis of the expected to be paid earned right of each employee, at the balance sheet date, discounted at its present value, in relation to its expected time of payment. The discount rate that is used in this case is equal to the return, at the balance sheet date of the long-term Greek State bonds.

The relative obligation is calculated according to the financial and actuarial assumptions that are analyzed in Note 31 and are determined using the Projected Unit Method. The net costs of retirement of the period are included in the wages cost in the attached income statement and are constituted by the present value of benefits that got accrued in the duration of period, the interest on the liabilities of benefits, the cost of previous employment, the actuarial profits or losses and other retirement costs. The costs of previous employment are recognized on a constant basis over the average period until the benefits of the program are established. The non acceptable actuarial profits and losses, are recognized over the in average remaining duration of the period of services of the active employees and are included as part of the net cost of retirement of each period, if at the beginning of the period they exceed the 10% of future appreciated benefit liabilities. The liabilities for benefits of retirement are not funded.

**4.17 Government grants**

Government grants are initially recognized at fair value when there is reasonable assurance that the funding will be received and that the Group will comply with the requirements and conditions attached to them.

Government grants regarding current expenses are recognized in the income statement over the period necessary to match them with the related costs that they are intended to compensate.

Government grants regarding purchases of tangible assets are included in the non-current liabilities as deferred income and recognized as income in the income statement, during the useful life of the granted asset.

**4.18 Provisions for other liabilities and charges**

Provisions are made when the Group has legal or constructive liability, as a result of past events, and is speculated that an outflow of resources will be required so that the obligation is settled, and a reliable estimate of the obligation amount can be made. The provisions are re-examined at every balance sheet date. Regarding provisions expected to be settled in the long run, meaning that the time value of money is material, the respective amounts are measured by discounting the expected cash flows by a pre-tax discounted rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Contingent liabilities are not disclosed in the financial statements but rather announced, unless the probability for an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements, but are announced provided that the inflow of the economic benefits will be possible.

**4.19 Revenue Recognition**

The Company recognizes revenue from the sale of tobacco when persuasive evidence of an arrangement exists, the price to the customer is fixed or determinable, collectibility is reasonably assured and title and risk of ownership is passed to the customer, which is upon shipment or delivery. The Company requires that all customer specific acceptance provisions be met at the time title and risk of ownership passes to the customer. Furthermore, the Company's sales history indicates customer returns and rejections are not significant.

Under the guidance provided in the IAS 18, revenue for Bill & Hold sales is recognized when the buyer takes title, provided:

a) it is probable that delivery will be made,

b) the items is on hand, identified and ready for delivery to the buyer at the time the sale is recognized,

c) the buyer specifically acknowledges the deferred delivery instructions,

d) the usual payment terms apply

Revenue is not recognize when there is simply an intention to acquire or manufacture the goods in time for delivery and the corresponding receivables is included in the item "Customers" in the account "Trade and other receivables".

Interest income is recognized on a time proportion basis, taking into consideration the remaining balance of the initial amount and the existing rate for the period up to its ending, when it is defined that such income is payable to the Group.

Income from dividends is recognized as income at the approval date of its appropriation

**4.20 Expenses**

**4.20.1 *Operating leases***

Lease payments under operating leases are recognized in the income statement as expenses during the period of use of the leased asset

**4.20.2 *Finance leases***

Finance leases, are recognized as loan contracts, resulting in recognizing (and depreciating) the leased assets as Group assets, with respective recognition of the finance liability to the leaser. The finance cost is recognized in the income statement as expense, at the time it is accrued.

**4.20.3 *Finance cost***

The net finance cost is defined by the accrued interest expense on the existing loans, which is computed by the effective interest rate method.

**4.21 Earnings (losses) per share**

Basic earnings (losses) per share are calculated by dividing net profit of the period by the average number of common shares outstanding during the relevant period, excluding the mean of common shares of the parent Company that were acquired by the companies of the Group as treasury shares.

**4.22 Segment analysis of the group's activities**

The Board of Directors is the chief decision maker. The Board makes use of available internal information with a view to assess the efficiency and resource allocation. Group's Management, which defines the lines of business based on internal information, distinguishes the activities of the Group into the following segments:

- **Greece**
- **E.U. Countries**
- **Other than Countries**

The Board assesses the profitability of each segment based on its realized sales and operating results as well as by take into consideration its E.B.I.T.D.A. (Earnings Before Interest, Taxes, Depreciation and Amortization - Profit / (loss) before interest, taxes, finance income and total depreciation).

The Board computes E.B.I.T.D.A. as: earnings before taxes for the period, adding financial and finance income and the overall depreciation of tangible and amortization of intangible assets during the corresponding period. The "financial results and investment" for income, expenses, gains and losses related to the time value of money (interest on deposits, loans etc.) and capital investment. The term "investment capital" means the placement of business in tangible and intangible assets (investment and owner-occupied). The line includes, among others, interest income on deposits, interest expense lending, non functional exchange losses, dividend income, gains / losses from sale, remission, impairment, reversal of impairment and valuation of securities, tangible and intangible assets. The line of "depreciation" added to earnings before taxes, is what appears after clearing the depreciation of tangible fixed assets (expense), the amortization of any grants (revenue) received for these assets elements.

Any other information available to the Board evaluated in a manner consistent with the method of preparation.

## 5. Financial Risk Management

The Group is exposed to a variety of financial risks, main of which are the unforeseen interest rates fluctuations, credit risk, price risk and liquidity risk. The Group's risk management policies are aiming to minimise the negative effects of the aforementioned risks in the financial performance and position of the Group.

Risk management is carried out by a central finance administration (Group finance administration) under policies approved by the Board of Directors. Group finance administration identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

### 5.1 Market Risk

#### 5.1.1 *Exchange Rate Risk*

The Group is exposed in exchange rate risk mainly due to investments in Companies that are located and operating abroad and due to a limited amount of transactions made in currency other than the operating currency (€) of the Group.

The parent company of the Group does not have any significant portions of its assets and liabilities in a currency different than the operating currency and as a result there is not any significant exchange rate risk associated with these. Regarding the limited amount of transactions made in currency other than the operating, the Group has adapted a policy of making these transactions after collecting all the relevant payment in advance, aiming to limit the exchange rate differences.

The Group has particular investments in foreign subsidiaries that their assets are exposed to exchange rate risks.

On the 31st of December 2011, if the ALL compared to the Euro has been depreciated/appreciated by 10%, then the Group's net profit for the particular fiscal year would have been lower/higher by € 15 respectively due to the conversion of the statement of the financial position of the subsidiary MIKAKORCA SH.P.K. from their operating currency into Euro. At the aforementioned date, if the ALL compared to the Euro has been depreciated/appreciated by 10%, then the equity inflows to the Group would have been lower/higher by € 77.

On the 31st of December 2011, if the BGN compared to the Euro has been depreciated/appreciated by 10%, then the Group's net profit for the particular fiscal year would have been lower/higher by € 53 due to the conversion of the statement of the financial position of the subsidiary LEAF TOBACCO A.MICHAILIDES AD from its operating currency into Euro. At the aforementioned date, if the BGN compared to the Euro has been depreciated/appreciated by 10%, then the equity inflows to the Group would have been lower/higher by € 75.

On the 31st of December 2011, if the MKD compared to the Euro has been depreciated/appreciated by 10%, then the Group's net profit for the particular fiscal year would have been lower/higher by € 91 due to the conversion of the statement of the financial position of the subsidiary STRUMICA TABAK AD from its operating currency into Euro. At the aforementioned date, if the MKD compared to the Euro has been depreciated/appreciated by 10%, then the equity inflows to the Group would have been lower/higher by € 17.

On the 31st of December 2011, if the MDL compared to the Euro has been depreciated/appreciated by 10%, then the Group's net profit for the particular fiscal year would have been lower/higher by € 45 due to the conversion of the statement of the financial position of the subsidiaries MICHAILIDES TOBACCO MOLDOVA S.A. and FERMENT TUTUN SA DROCHIA from its operating currency into Euro. At the aforementioned date, if the MDL compared to the Euro has been depreciated/appreciated by 10%, then the equity inflows to the Group would have been lower/higher by € 72.

On the 31st of December 2011, if the DZD compared to the Euro has been depreciated/appreciated by 10%, then the Group's net profit for the particular fiscal year would have been lower/higher by € 40 due to the conversion of the statement of the financial position of the subsidiaries ATLAS TOBACCO ALGERIA and LEAF TOBACCO A. MICHAILIDES ALGERIA-TABACS D'ORIENT S.P.A. from its operating currency into Euro. At the aforementioned date, if the DZD compared to the Euro has been depreciated/appreciated by 10%, then the equity inflows to the Group would have been lower/higher by € 34.

On the 31st of December 2011, if the INR compared to the Euro has been depreciated/appreciated by 10%, then the Group's net profit for the particular fiscal year would have been lower/higher by € 0 due to the conversion of the statement of the financial position of the subsidiary MICHAILIDES ML ORIENTAL TOBACCO PVT LTD. from its operating currency into Euro. At the aforementioned date, if the INR compared to the Euro has been depreciated/appreciated by 10%, then the equity inflows to the Group would have been lower/higher by € 1.

**5.1.2 *Price Risk***

The Group is exposed to real estate price risk because of its significant investments in real estate property, which are included in the consolidated statement of financial position under tangible assets and investment property items. The Group's relative exposure is significantly limited due to the fact that almost the total of these assets is related to real estate property that the Group is employing for the exercise of its operating activities and as a consequence there are not any immediate plans in the foreseeable future regarding the disposal or sale of these assets Also, the respective risk arising from the investment property portfolio of the Group is limited as it represents a relatively small percentage of real estate.

The Group is exposed to fluctuations in the prices of the merchandise (Oriental and American type tobacco). This specific risk is managed with a respective change in the sale price of the aforementioned merchandise.

**5.1.3 *Cash flow and fair value interest rate risk***

As the Group has no significant interest-bearing assets, the Group's income and relative operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term and short-term bank loans. These bank liabilities are subject to volatile interest rates and as a result this exposes the Group to interest rate cash flow risk.

The management monitors on a continuing basis the interest rates fluctuations and its financing needs and evaluates per case the duration of the loans and the relation between fixed and variable rates.

At 31st of December 2011, if the interest rates of the loan liabilities were 0,50% higher/lower and the rest of the related variables remained unchanged, the after tax results of the closing year and the equity of the Group would be lower/higher by the amount of € 1.481 approximately, mainly due to the higher/lower interest expenses that would have been arisen from the loan liabilities with variable interest rates.

**5.2 Credit Risk**

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits in banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and executed transactions.

The Group's receivables are highly concentrated mainly due to the fact that these are related to a limited number of customers that either are highly acclaimed multinational companies or are related parties as defined to IAS 24 and as a result the existence of credit risk is limited.

**5.3 Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash availability and having financing availability through adequate credit facilities. The Group due to the dynamic nature of its activities maintains flexibility in funding by maintaining credit availability under committed credit lines and solid financial institutions. The approved and not used credit lines at the end of the closing year were amounted to € 37.800 (31/12/2010: € 35.100). The management monitors the rolling estimates of the liquid reserves available based on the Group's expected cash flows.

At the end of the closing year, bank liabilities totalling to € 202.295 (31/12/2010: € 194.641) were subject to specific covenants (EBITDA/Financing Cost, EBITDA/Interest Payable, Total equity attributable to equity holders of the company/Total loans). The management estimates that the Group will continue to fully meet all the obligations that emerge from bank facilities contracted up to 31/12/2011, ensuring timely availability of all the necessary funds for the Group's going concern operation in the future.

An analysis of the financial liabilities according to their contractual settlement dates is presented on the following table.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| At 31/12/2011 | Up to 1 year | From 1 until 2 years | From 2 until 5 years | Over 5 years |
|---|---|---|---|---|
| Loans | 233.377 | 32.867 | 8.990 | 18.074 |
| Suppliers & other liabilities | 65.397 | 0 | 0 | 0 |

| At 31/12/2010 | Up to 1 year | From 1 until 2 years | From 2 until 5 years | Over 5 years |
|---|---|---|---|---|
| Loans | 185.149 | 25.677 | 84.132 | 4.197 |
| Suppliers & other liabilities | 29.048 | 0 | 0 | 0 |

### 5.4 Capital Risk Management

The Group's objectives when managing capital are to preserve the Group's going concern ability, provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure so as to reduce the cost of capital.

The capital is monitored based on the leverage ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position plus net debt. More specifically:

| | | GROUP | |
|---|---|---|---|
| | Note | At 31/12/2011 | At 31/12/2010 |
| Total Loans | 28 | 293.308 | 299.155 |
| **Minus:** Cash & cash equivalents | 25 | (2.880) | (2.566) |
| **Net Debt** | | **290.428** | **296.589** |
| Total equity | | 207.356 | 185.112 |
| **Total capital employed** | | **497.784** | **481.701** |
| **Leverage ratio** | | **58,34%** | **61,57%** |

The change of the leverage ratio in mainly attributed to: (a) the decrease of the net debt by the amount of € 6.161 due to disposal of total loans of the Group and (b) the increase of the equity resulted from the profitable results of a total amount of € 22.243.

### 5.5 Fair Value

The fair value of financial instruments traded in active markets (such as real estate investments, trading, available-for sale securities and investment property) is based on quoted market prices at the date of the statement of financial position. The quoted market price used for financial assets held by the Group is the current supply (bid) price.

The fair value of financial instruments that are not traded in an active market is determined by using the proper for each case valuation technique. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

**6. <u>Important accounting estimates, assumptions and judgements of the Management</u>**

The management of the Group proceeds in estimates, assumptions, judgements and evaluations in order to select the most suitable accounting principles and rules concerning the future development of events and of the in progress conditions and transactions. These estimates, judgements and assumptions are re-examined periodically so that they correspond to the current facts and reflect the current risks and are based on the previous experience of the Management of the Group concerning the nature and the level of the relative transactions and facts.

The basic estimates and evaluative judgements regarding data, the development of which could influence the financial statements for the next twelve months are as following:

**Inventories**

Costs included in inventory include processed tobacco inventory, unprocessed tobacco inventory and other inventory costs. Inventories are valued at the lower of cost or market, which requires us to make significant estimates in assessing our inventory balances for potential lower of cost or market adjustments. We evaluate our inventories for lower of cost or market adjustments by country and type of inventory. Therefore, processed tobacco and unprocessed tobacco are evaluated separately for lower of cost or market purposes.

We compare the cost of our processed tobacco to market values based on recent sales of similar grades when evaluating those balances for lower of cost or market adjustments. We also consider whether our processed tobacco is committed to a customer, whereby the expected sales price would be utilized in determining the market value for committed tobacco.

We review data on market conditions in performing our lower of cost or market evaluation for our unprocessed tobacco. Further, we identify the tobacco cost plus estimated costs to complete and compare those costs to the current market prices based on purchase commitments in determining whether an lower of cost or market adjustment is needed on our unprocessed tobacco.

***Provision for bad and doubtful debt***

The Company and the Group impair the value of trade receivables when there is evidence or indication that the collection of each receivable in whole or up to a percentage is not feasible. The Management proceeds to periodic revaluation of the formulated provision for doubtful debts in relation with the credit policy and data from the Law Department, which arise from processing past data and recent developments of each case.

***Deferred tax receivables on temporarily deductible differences***

A deferred tax receivable is recognized for all the temporarily deductible differences arising from expenses that have been expensed during the drafting of the financial statements of the relevant financial year. The determination of the amount of the deferred tax receivables that can be recognized, requires critical estimates, judgments and assumptions by the management, which are based on the available data and facts regarding the forecasted future tax gains in combination with the future tax strategies that will be followed. The future tax benefits for the Company and the Group by the particular temporarily deductible differences suggests the creation of adequate tax gains from the Companies of the Group in the next years.

***Provision for income tax***

The provision for income tax under I.F.R.S. 12 is calculated by an estimate of payable taxes to tax authorities and includes the current income tax for each use, and provision for additional taxes that might arise in future tax audits. In order for the relative provision for income taxes to be determined, significant understanding of the above is required. The final statement of income taxes may differ from the amounts which are recorded in the financial statements and these differences will affect the income tax and provisions for deferred taxes.

***Estimated useful life of assets***

The Group's Management reviews the useful lives of tangible and intangible fixed assets which are recognized either through acquisition or through business combinations. Those estimates are reviewed at least annually, taking into account the data and current market conditions.

***Provisions for staff retirement indemnities***

Provision for staff living indemnities is calculated to the discounted present value of the future benefits that will be accrued at the end of the fiscal year under the hypothesis that these benefits are accrued from the employees equally during the their working life. The calculation of the liabilities resulted from aforesaid benefits is based on financial and actuarial assumptions that require from the Management to make respective assumptions concerning the discount rates, the percentage of wage increases, the mortality and disability, the retirement ages and other factors.

Changed in these fundamental assumptions may have a substantial effect to the respective liability and the respective costs of each period. The net cost of the period consisted by the present value of the accrued benefits, the capitalizing interest of the future liability and the actuarial profits or losses. Due to the long-term horizon of these programs the aforementioned assumptions are underlined to a high level of uncertainty.

***Revaluation of the fair value of the privately owned assets and investment property***

The most appropriate indication of the fair value of the investment property are the current values which are valid in an active market of relevant contracts. If the collection of this kind of information is not feasible the Group determines the value within a range of logical estimations of the fair value based on the advices of independent estimators. The major assumptions establish the estimations of the Management on the determination of the fair value are these which are related with the receipt of rents, future rents, maintenance liabilities, as well as discount rates.

## 7. Segment analysis of the Group's activities

The provided information regarding segment reporting is the information segmentation prepared for the board of directors and chief executive officers, so that they can allocate the available resources and assess the performance of the various Segments of the company.

The Group's Management, which determines the segments based on internal information, distinguishes the geographical segments of the Group in the following:

- **Greece**
- **E.U. Countries**
- **Other than Countries**

With respect to the information about geographical areas, sales are allocated to countries based on the location of the customer and non-current asset are disclosed according to the physical location of these assets.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 7.1 Analysis by geographical area

### 7.1.1 Information for the period 1/1-31/12/2011

| | Greece | E.U. Countries | Other than Countries | GROUP TOTAL |
|---|---|---|---|---|
| Sales to third parties | 1.931 | 89.953 | 76.349 | 168.233 |
| **Minus:** Total cost of sales | (1.740) | (58.696) | (44.944) | (105.380) |
| **Gross profit (loss)** | 191 | 31.257 | 31.405 | **62.853** |
| Other income | | | | 1.121 |
| Administrative expenses | | | | (6.670) |
| Sales, marketing & distribution expenses | | | | (8.310) |
| Other operating expenses | | | | (2.085) |
| Operating profit (loss) | | | | 46.909 |
| Financing cost | | | | (19.606) |
| **Results before taxes** | | | | **27.303** |
| Income Taxes | | | | (5.674) |
| **Results after taxes** | | | | **21.630** |
| ***Other Comprehensive Income Statement Information*** | | | | |
| Depreciation & Amortization | | | | 5.769 |

### 7.1.2 *Information for the period 1/1-31/12/2010*

| | Greece | E.U. Countries | Other than Countries | GROUP TOTAL |
|---|---|---|---|---|
| Sales to third parties | 5.654 | 92.456 | 39.460 | 137.570 |
| **Minus:** Total cost of sales | (3.745) | (48.912) | (26.879) | (79.536) |
| **Gross profit (loss)** | 1.909 | 43.544 | 12.580 | **58.034** |
| Other income | | | | 536 |
| Administrative expenses | | | | (6.107) |
| Sales, marketing & distribution expenses | | | | (3.549) |
| Other operating expenses | | | | (4.213) |
| Operating profit (loss) | | | | 44.701 |
| Financing cost | | | | (17.806) |
| Ordinary activities results | | | | 26.896 |
| Investments income | | | | 582 |
| **Results before taxes** | | | | **27.478** |
| Income Taxes | | | | (2.382) |
| **Results after taxes** | | | | **25.095** |
| ***Other Comprehensive Income Statement Information*** | | | | |
| Depreciation & Amortization | | | | 4.772 |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 7.2 Other Financial Position information

### 7.2.1 *Other financial position information (at 31/12/2011)*

| | Greece | E.U. Countries | Other than Countries | Intra-Company Transactions Elimination | GROUP TOTAL |
|---|---|---|---|---|---|
| Investments in fixed assets | 896 | 4.409 | 0 | 0 | 5.305 |
| Property, plant and equipment | 66.806 | 15.081 | 20.692 | (542) | 102.037 |
| Intangible assets | 40 | 0 | 17 | 0 | 56 |
| Investments | 10.150 | 3.405 | 920 | (14.475) | 0 |
| Other assets | 463.222 | 38.086 | 107.410 | (97.703) | 511.014 |
| Total Liabilities | (407.049) | (33.326) | (48.670) | 83.293 | (405.752) |
| Total Equity | **133.168** | **23.246** | **80.369** | **(29.427)** | **207.356** |

### 7.2.2 *Other financial position information (at 31/12/2010)*

| | Greece | E.U. Countries | Other than Countries | Intra-Company Transactions Elimination | GROUP TOTAL |
|---|---|---|---|---|---|
| Investments in fixed assets | 660 | 4.975 | 0 | 0 | 5.635 |
| Property, plant and equipment | 69.872 | 16.060 | 19.109 | (542) | 104.499 |
| Intangible assets | 10 | 0 | 11 | 0 | 21 |
| Investments | 10.150 | 3.405 | 920 | (14.475) | 0 |
| Other assets | 412.736 | 26.891 | 123.359 | (114.143) | 448.843 |
| Total Liabilities | (369.215) | (23.562) | (60.796) | 85.322 | (368.251) |
| Total Equity | **123.553** | **22.793** | **82.604** | **(43.838)** | **185.112** |

## 8. Revenues (sales)

The revenues (sales) are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| Oriental type tobacco | 161.850 | 135.003 | 130.331 | 90.119 |
| American type tobacco | 6.383 | 2.568 | 6.383 | 2.568 |
| **Balance** | **168.233** | **137.570** | **136.714** | **92.687** |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 9. Cost of sales

The cost of sales is analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| Cost of finished goods & merchandise sold | 85.346 | 61.834 | 74.072 | 53.636 |
| Packaging material cost | 1.597 | 1.132 | 1.437 | 738 |
| Expandable material cost | 2.285 | 1.591 | 2.044 | 295 |
| Personnel fees & expenses | 9.475 | 9.982 | 8.095 | 3.999 |
| Third parties fees & expenses | 1.377 | 795 | 1.213 | 497 |
| Insurance expenses | 548 | 345 | 485 | 109 |
| Storage facilities rents | 14 | 40 | 14 | 29 |
| Transportation costs | 1.141 | 645 | 1.050 | 215 |
| Duties & Taxes | 1.159 | 75 | 921 | 32 |
| Repair & maintenance expenses | 624 | 415 | 580 | 331 |
| Utilities expenses | 674 | 775 | 667 | 307 |
| Various expenses | 1.138 | 1.907 | 1.112 | 1.849 |
| **Total** | **105.380** | **79.536** | **91.691** | **62.037** |

## 10. Other income

The other income is analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| Special grants | 200 | 3 | 200 | 3 |
| Storage facilities rents | 308 | 0 | 0 | 0 |
| Other extraordinary income | 353 | 411 | 6 | 279 |
| Income from State grants | 51 | 51 | 51 | 51 |
| Profits from disposal of fixed assets | 98 | 64 | 158 | 1.019 |
| Income from provisions for other liabilities and charges of prior years | 110 | 6 | 110 | 6 |
| **Total** | **1.121** | **536** | **525** | **1.359** |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 11. Administrative expenses

Administrative expenses are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| Personnel fees & expenses | 2.285 | 2.541 | 1.366 | 1.503 |
| Third parties fees & expenses | 1.207 | 1.245 | 881 | 898 |
| Insurance expenses | 707 | 422 | 655 | 416 |
| Travel expenses | 617 | 292 | 585 | 217 |
| Training expenses | 59 | 14 | 58 | 13 |
| Depreciation | 772 | 348 | 516 | 198 |
| Duties & Taxes | 92 | 300 | 9 | 205 |
| Financial leasing expenses | 19 | 298 | 0 | 298 |
| Provision for personnel retirement indemnities | 16 | 62 | 16 | 41 |
| Various expenses | 895 | 585 | 194 | 282 |
| **Total** | **6.670** | **6.107** | **4.282** | **4.071** |

## 12. Sales, marketing & distribution expenses

The sales, marketing & distribution expenses are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| Personnel fees & expenses | 1.041 | 485 | 846 | 345 |
| Third parties fees & expenses | 638 | 785 | 245 | 546 |
| Marketing & promotion expenses | 1.151 | 40 | 1.073 | 40 |
| Transportation means insurance and expenses | 1.897 | 1.238 | 1.656 | 985 |
| Travel expenses | 117 | 264 | 116 | 256 |
| Duties & Taxes | 2 | 4 | 0 | 0 |
| Depreciation | 40 | 0 | 0 | 0 |
| Doubtful debts provision | 2.705 | 157 | 2.487 | 157 |
| Various expenses | 720 | 577 | 350 | 373 |
| **Total** | **8.310** | **3.549** | **6.773** | **2.701** |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 13. Other operating expenses

The other operating expenses are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1-1-31/12/2011 | 1-1-31/12/2010 | 1-1-31/12/2011 | 1-1-31/12/2010 |
| Tax & social security penalties | 234 | 24 | 234 | 18 |
| Loss from useless materials disposal | 0 | 495 | 0 | 164 |
| Loss from fixed assets disposal | 22 | 903 | 0 | 10 |
| Tax & social security penalties of previous fiscal years | 28 | 394 | 28 | 394 |
| Provision for inventory value impairment | 12 | 258 | 0 | 0 |
| Other previous years expenses | 63 | 27 | 63 | 27 |
| Loss from valuation of fixed assets at fair values | 1.601 | 2.110 | 0 | 41 |
| Other extraordinary expenses | 125 | 1 | 1 | 0 |
| **Total** | **2.085** | **4.213** | **326** | **655** |

## 14. Financing Cost (net)

The financial cost (net) are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| Bank loans interest expenses | 15.475 | 16.589 | 13.916 | 14.579 |
| Other financial expenses | 4.574 | 483 | 4.441 | 382 |
| Exchange rate differences of loans | 1.555 | 3.137 | 1.073 | 3.134 |
| Other exchange rate differences | 731 | 2 | 344 | 185 |
| **Total financial expenses** | **22.335** | **20.211** | **19.774** | **18.280** |
| | | | | |
| Interest income | 17 | 23 | 4 | 14 |
| Exchange rate differences of loans | 731 | 2 | 209 | 2 |
| Other exchange rate differences | 1.981 | 2.381 | 1.340 | 877 |
| **Total financial income** | **2.729** | **2.406** | **1.554** | **893** |
| | | | | |
| **Net financial income (expenses)** | **(19.606)** | **(17.806)** | **(18.221)** | **(17.387)** |

## 15. Investments income (expense)

The investment income (expenses) is analyzed as follows:

***(Amounts are expressed in thousands Euro, unless otherwise stated)***

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **1/1-31/12/2011** | **1/1-31/12/2010** | **1/1-31/12/2011** | **1/1-31/12/2010** |
| Profits from valuation of investment property at fair value | 0 | 582 | 0 | 134 |
| **Total income from investments** | **0** | **582** | **0** | **134** |
| Investments' impairment provision | 0 | 0 | 804 | 300 |
| **Total expenses from investments** | **0** | **0** | **804** | **300** |
| **Net income (expenses) from investments** | **0** | **582** | **(804)** | **(166)** |

The impairment loss on investment, amounting to € 804, concern the respective impairment loss accounted for the Company's subsidiary "ATLAS TOBACCO SPA" (see Note 20)

## 16. Income taxes

The income tax charges in the statement of comprehensive income are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **1/1-31/12/2011** | **1/1-31/12/2010** | **1/1-31/12/2011** | **1/1-31/12/2010** |
| Income taxes | 329 | 81 | 0 | 20 |
| Tax provision for unaudited fiscal period | 474 | 343 | 474 | 343 |
| Tax provision for changes accounting estmates | 0 | (3.349) | 0 | (3.349) |
| Prior year's tax audit differences | 0 | 2.890 | 0 | 2.883 |
| Extraordinary tax contribution | 0 | 1.633 | 0 | 1.633 |
| Other taxation | 301 | 0 | 301 | 0 |
| Deferred Income tax | 4.570 | 783 | 4.702 | 1.104 |
| **Total income taxes in Statement of Comprehensive Income** | **5.674** | **2.382** | **5.477** | **2.635** |

| | **1/1-31/12/2011** | **1/1-31/12/2010** | **1/1-31/12/2011** | **1/1-31/12/2010** |
|---|---|---|---|---|
| Profits before taxes | 27.303 | 27.478 | 15.144 | 7.028 |
| Tax calculated according to the Company's tax rate (2011: 24 %, 2010: 25 %) | 5.461 | 6.595 | 3.029 | 1.687 |
| Expenses not deductible from Income taxation | (562) | (5.730) | 1.674 | (563) |
| Tax provision for unaudited fiscal period | 474 | 343 | 474 | 343 |
| Tax provision for changes accounting estimates | 0 | (3.349) | 0 | (3.349) |
| Prior year's tax audit differences | 0 | 2.890 | 0 | 2.883 |
| Extraordinary tax contribution | 0 | 1.633 | 0 | 1.633 |
| Other taxation | 301 | 0 | 301 | 0 |
| Income free of income taxation | 0 | 0 | 0 | 0 |
| **Total taxes in Statement of Comprehensive Income** | **5.674** | **2.382** | **5.477** | **2.635** |

***(Amounts are expressed in thousands Euro, unless otherwise stated)***

The fact that in certain occasions income and expenses are recognized in a different period than that when the income is taxed and the expenses are deducted for the purpose of taxable income determination, arises the necessity for recognition of deferred tax receivables or deferred tax payables. The realised by the Group deferred tax receivables (payables) is analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **At 31/12/2011** | **At 31/12/2010** | **At 31/12/2011** | **At 31/12/2010** |
| Deferred tax assets | 13.891 | 10.554 | 12.788 | 9.623 |
| Deferred tax liabilities | (36.364) | (28.456) | (33.037) | (25.169) |
| **Total deferred tax in Statement of Financial Position** | **(22.473)** | **(17.902)** | **(20.249)** | **(15.546)** |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **At 31/12/2011** | **At 31/12/2010** | **At 31/12/2011** | **At 31/12/2010** |
| Beginning balance | (17.903) | (13.402) | (15.546) | (10.512) |
| Tax charged to Statement of Comprehensive Income | (4.570) | (783) | (4.702) | (1.104) |
| Tax directly attributed in Equity | (1) | (3.717) | 0 | (3.930) |
| **Ending balance** | **(22.473)** | **(17.902)** | **(20.249)** | **(15.546)** |

| | GROUP | | | |
|---|---|---|---|---|
| | **31/12/2010** | **(Debits)/ Credits of Statement of Comprehensive Income** | **Debits (Credits) of Equity** | **31/12/2011** |
| **Deferred tax liabilities** | | | | |
| De-recognition of long term depreciation expenses | (14.789) | 11 | (1) | (14.779) |
| Fixed assets depreciation | (1.993) | (55) | 0 | (2.048) |
| De-recognition of long term depreciation expenses | (758) | (416) | 0 | (1.173) |
| Recognition of exchange rates differences | (2) | (98) | 0 | (99) |
| Recognition of sales | (290) | (6.279) | 0 | (6.569) |
| Inventories value adjustment | (10.553) | (1.069) | 0 | (11.623) |
| Result from the sale from assets | 0 | (1) | 0 | (1) |
| Revaluation of investment property at fair value | (72) | 0 | 0 | (72) |
| | **(28.456)** | **(7.907)** | **(1)** | **(36.364)** |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| | | | | |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| De-recognition of long term depreciation expenses - liabilities | 657 | 0 | 0 | 657 |
| Fixed assets depreciation - assets | 1.189 | 353 | 0 | 1.542 |
| Accounts receivable adjustment | 1.507 | 497 | 0 | 2.004 |
| Provision for personnel retirement indemnities | 139 | 5 | 0 | 144 |
| State Grants for investment in fixed assets | 50 | (10) | 0 | 40 |
| Recognition of exchange rates differences | 1 | 0 | 0 | 1 |
| Recognition of sales | 1 | 0 | 0 | 1 |
| Result from the sale from assets | 210 | 13 | 0 | 223 |
| Increases | 41 | (22) | 0 | 19 |
| Consortium loan interest adjustment | 739 | 277 | 0 | 1.016 |
| Recognition of expenses in the income statement | 5.810 | 2.064 | 0 | 7.874 |
| Revaluation of owner occupied property at fair value | 211 | 160 | 0 | 371 |
| | **10.554** | **3.337** | **0** | **13.891** |
| **Net deferred tax liabilities in Statement of Financial Position** | **(17.903)** | **(4.570)** | **(1)** | **(22.473)** |

| | | |
|---|---|---|
| **Disclosure in Statement of Financial Position** | | |
| Deferred tax assets | 10.554 | 13.892 |
| Deferred tax liabilities | (28.456) | (36.364) |
| | **(17.902)** | **(22.473)** |

| | COMPANY | | | |
|---|---|---|---|---|
| | **31/12/2010** | **(Debits)/ Credits of Statement of Comprehensive Income** | **Debits (Credits) of Equity** | **31/12/2011** |
| **Deferred tax assets** | | | | |
| De-recognition of long term depreciation expenses | (11.593) | 11 | 0 | (11.581) |
| Fixed assets depreciation | (1.562) | (17) | 0 | (1.579) |
| Tangible assets financial leasing | (387) | 0 | 0 | (387) |
| De-recognition of long term depreciation expenses | (758) | (416) | 0 | (1.173) |
| Recognition of exchange rates differences | 0 | (98) | 0 | (98) |
| Recognition of sales | (290) | (6.279) | 0 | (6.569) |
| Inventories value adjustment | (10.553) | (1.069) | 0 | (11.623) |
| Revaluation of investment property at fair value | (26) | (0) | 0 | (27) |
| | **(25.169)** | **(7.868)** | **0** | **(33.037)** |
| **Deferred tax liabilities** | | | | |
| De-recognition of long term depreciation expenses | 657 | 0 | 0 | 657 |
| Fixed assets depreciation | 573 | 345 | 0 | 918 |
| Accounts receivable adjustment | 1.507 | 497 | 0 | 2.004 |
| Provision for personnel retirement indemnities | 137 | 3 | 0 | 140 |
| State Grants for investment in fixed assets | 50 | (10) | 0 | 40 |
| Result from the sale from assets | 104 | 11 | 0 | 115 |
| Increases | 41 | (22) | 0 | 19 |
| Consortium loan interest adjustment | 739 | 277 | 0 | 1.016 |
| Recognition of expenses in the income statement | 5.807 | 2.064 | 0 | 7.871 |
| Revaluation of investment property at fair value | 8 | 0 | 0 | 8 |
| | **9.623** | **3.165** | **0** | **12.788** |
| **Net deferred tax assets in Statement of Financial Position** | **(15.546)** | **(4.702)** | **0** | **(20.249)** |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| | | |
|---|---|---|
| **Disclosure in Statement of Financial Position** | | |
| Deferred tax assets | 9.623 | 12.788 |
| Deferred tax liabilities | (25/169) | (33.037) |
| | (15.546) | (20.249) |

## 17. Earnings (losses) per share

The calculation of the basic earnings (losses) per share has as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| Net profits attributable to common equity holders of the parent | 21.357 | 26.209 | 9.667 | 4.393 |
| Weighted average number of shares outstanding | 1.933.837 | 1.933.837 | 1.933.837 | 1.933.837 |
| **Less:** Weighted average number of treasury shares | 0 | 0 | 0 | 0 |
| Total weighted average number of shares outstanding | 1.933.837 | 1.933.837 | 1.933.837 | 1.933.837 |
| **Basic Earnings (losses) per share (in €)** | **11,0440** | **13,5529** | **4,9986** | **2,2716** |

## 18. Property, plant and equipment

The Property, plant and equipment of the Group and the Company are analyzed as follows:

| | GROUP | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Buildings & Facilities | Machinery & Mechanical Equipment | Transportation Means | Furniture & Office Equipment | Assets under construction or establishment | Total |
| **Acquisition or valuation cost** | | | | | | | |
| **At 31/12/2010** | 15.539 | 60.180 | 13.300 | 1.526 | 8.989 | 6.710 | 106.245 |
| Exchange difference | 15 | 192 | 25 | (7) | (9) | (45) | 170 |
| **At 1/1/2011** | **15.554** | **60.372** | **13.324** | **1.519** | **8.980** | **6.665** | **106.415** |
| Additions in period 1/1-31/12/2011 | 97 | 2.777 | 4.737 | 155 | 495 | 3.649 | 11.909 |
| Disposals in period 1/1-31/12/2011 | 0 | (43) | (754) | (133) | (164) | (6.665) | (7.759) |
| Revaluation at fair value | 0 | (1.601) | 0 | 0 | 0 | 0 | (1.601) |
| **Total at 31/12/2011** | **15.651** | **61.505** | **17.308** | **1.541** | **9.311** | **3.648** | **108.964** |
| **Accumulated depreciation** | | | | | | | |
| **At 31/12/2010** | 0 | 45 | 379 | 1.221 | 100 | 0 | 1.746 |
| Exchange difference | 0 | 5 | 0 | 31 | 2 | 0 | 37 |
| **At 1/1/2011** | **0** | **49** | **379** | **1.252** | **102** | **0** | **1.783** |
| Additions in period 1/1-31/12/2011 | 0 | 1.218 | 2.576 | 128 | 1.818 | 0 | 5.740 |
| Disposals in period 1/1-31/12/2011 | 0 | (15) | (385) | (123) | (73) | 0 | (596) |
| **Total at 31/12/2011** | **0** | **1.252** | **2.571** | **1.256** | **1.848** | **0** | **6.927** |
| **Net Book Value** | | | | | | | |
| **At 31/12/2010** | **15.539** | **60.136** | **12.920** | **305** | **8.889** | **6.710** | **104.499** |
| **At 31/12/2011** | **15.651** | **60.253** | **14.737** | **284** | **7.463** | **3.648** | **102.037** |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| | COMPANY | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Buildings & Facilities | Machinery & Mechanical Equipment | Transportation Means | Furniture & Office Equipment | Assets under construction or establishment | Total |
| **Acquisition or valuation cost** | | | | | | | |
| **At 31/12/2010** | 11.156 | 39.190 | 10.324 | 1.060 | 8.723 | 300 | 70.753 |
| Additions in period 1/1-31/12/2011 | 0 | 283 | 621 | 5 | 267 | 271 | 1.446 |
| Disposals in period 1/1-31/12/2011 | 0 | 0 | (272) | (97) | (4) | (550) | (923) |
| **Total at 31/12/2011** | **11.156** | **39.473** | **10.673** | **969** | **8.985** | **21** | **71.277** |
| **Accumulated depreciation** | | | | | | | |
| **At 31/12/2010** | 0 | 0 | 0 | 881 | 0 | 0 | 881 |
| Additions in period 1/1-31/12/2011 | 0 | 784 | 1.032 | 69 | 1.798 | 0 | 3.684 |
| Disposals in period 1/1-31/12/2011 | 0 | 0 | (3) | (91) | (0) | 0 | (94) |
| **Total at 31/12/2011** | **0** | **784** | **1.029** | **859** | **1.798** | **0** | **4.471** |
| **Net Book Value** | | | | | | | |
| **At 31/12/2010** | **11.156** | **39.190** | **10.324** | **179** | **8.723** | **300** | **69.872** |
| **At 31/12/2011** | **11.156** | **38.689** | **9.643** | **109** | **7.187** | **21** | **66.806** |

Depreciation and amortization in the accompanying financial statements is analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1-1-31/12/2011 | 1-1-31/12/2010 | 1-1-31/12/2011 | 1-1-31/12/2010 |
| Depreciation on property, plant and equipment (Note 18) | 5.766 | 4.765 | 3.684 | 2.986 |
| Amortization of intangible assets (Note 19) | 28 | 8 | 24 | 6 |
| | 5.794 | 4.772 | 3.707 | 2.992 |
| **Less:** | | | | |
| Amounts charged to production cost | (5.022) | (4.424) | (3.191) | (2.793) |
| **Depreciation and amortization included in Administrative expenses (Note 10)** | **772** | **348** | **516** | **198** |

Pre-notices over the fixed assets of the Group amounting to € 52.781 (2010: € 52.781) have been placed as security for loan facilities.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 19. Intangible assets

The intangible assets are analyzed as follows:

| | GROUP | | | COMPANY | | |
|---|---|---|---|---|---|---|
| | Software | Assets under construction or establishment | Total | Software | Assets under construction or establishment | Total |
| **Acquisition cost** | | | | | | |
| **At 31/12/2010** | 65 | 0 | 65 | 29 | 0 | 29 |
| Exchange difference | 34 | 0 | 34 | 0 | 0 | 0 |
| **At 1/1/2011** | **99** | **0** | **99** | **29** | **0** | **29** |
| Additions in period 1/1-31/12/2011 | 61 | 0 | 61 | 53 | 0 | 53 |
| Disposals in period 1/1-31/12/2011 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total at 31/12/2011** | **160** | **0** | **160** | **82** | **0** | **82** |
| **Accumulated depreciation** | | | | | | |
| **At 31/12/2010** | 43 | 0 | 43 | 19 | 0 | 19 |
| Exchange difference | 32 | 0 | 32 | 0 | 0 | 0 |
| **At 1/1/2011** | **76** | **0** | **76** | **19** | **0** | **19** |
| Additions in period 1/1-31/12/2011 | 28 | 0 | 28 | 24 | 0 | 24 |
| Disposals in period 1/1-31/12/2011 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total at 31/12/2011** | **104** | **0** | **104** | **42** | **0** | **42** |
| **Net Book Value** | | | | | | |
| **At 31/12/2010** | **21** | **0** | **21** | **10** | **0** | **10** |
| **At 31/12/2011** | **56** | **0** | **56** | **40** | **0** | **40** |

## 20. Investments in subsidiaries

The Company's investments in subsidiaries as well as their movements during the current fiscal year are analyzed as follows:

| COMPANY | Balance at 31/12/2010 | Additions / (Disposals) | Impairments | Balance at 31/12/2011 |
|---|---|---|---|---|
| STRUMICA TABAK AD | 3.435 | 0 | 0 | **3.435** |
| MIKAKORCA SH.P.K. | 865 | 0 | 0 | **865** |
| MICHAILIDES TOBACCO MOLDOVA S.A. | 770 | 0 | 0 | **770** |
| A.J.MICHAILIDES COMMERCIAL ENTERPRISES LTD | 3.277 | 0 | 0 | **3.277** |
| SANDANSKI BT LTD | 850 | 0 | 0 | **850** |
| LEAF TOBACCO A. MICHAILIDES ALGERIA-TABACS D'ORIENT S.P.A. | 9 | 0 | 0 | **9** |
| ATLAS TOBACCO SPA | 804 | 0 | (804) | **0** |
| MICHAILIDES ML ORIENTAL TOBACCO PVT LTD. | 140 | 0 | 0 | **140** |
| | **10.150** | **0** | **(804)** | **9.346** |

During the closing year the subsidiary of the company "Atlas Tobacco Spa" presented objective impairment indications due to accumulated losses, a fact which is estimated to affect its financial position in the future. Therefore the company assigned to an independent valuer the estimation of the recoverable amount of the subsidiary based on the provision of I.A.S. 36. The recoverable amount of the unit was determined based on the value in use. According to the valuation, the recoverable amount of the subsidiary was less than the book value and therefore an impairment charge of € 804 was recognized in the Statement of Comprehensive Income.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 21. Investment property

The investment properties are monitored as long term investments and valued at fair value, which equals the fair value as determined by independent property valuators. Change in the fair value of the investment properties are recognized in the statement of comprehensive income.

The Group's investment property concerns privately owned buildings by the subsidiary companies: (a) a owned Warehouse Complex by the subsidiary LEAF TOBACCO A.MICHAILIDES AD SANDANSKI BULGARIA located at Svoboda, (b) a owned Hotel by the subsidiary STRUMICA TABAK AD. located at Bansko and (c) a owned Industrial Complex and Warehouse by the subsidiary MIKAKORCA Sh .P.K. located at Berat.

The Company's investment property concerns: (a) a owned Warehouse Complex located at Kastanousa, in Serres and (b) a owned Warehouse Complex "Simha" located in Xanthi.
The change of investment property is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| **Beginning balance** | 9.159 | 0 | 2.343 | 0 |
| Additions | 0 | 8.577 | 0 | 2.210 |
| Exchange differences | 5 | 0 | 0 | 0 |
| Gain / (loss) from revaluation | 0 | 582 | 0 | 134 |
| **Ending Balance** | **9.163** | **9.159** | **2.343** | **2.343** |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 22. Financial instruments by category

Financial instruments by category for the Group are analyzed as follows:

| **Assets as appearing in the Statement of Financial Position of 31st December 2011** | **Loans and receivables** | **Financial assets valued at fair value through profit or loss** | **Investments held to maturity** | **Derivatives used for cash flow hedging** | **Available-for-sale financial assets** | **Total** |
|---|---|---|---|---|---|---|
| Available-for-sale financial assets | 0 | 0 | 0 | 0 | 0 | **0** |
| Derivatives financial instruments | 0 | 0 | 0 | 0 | 0 | **0** |
| Trade and other receivables | 153.688 | 0 | 0 | 0 | 0 | **153.688** |
| Financial assets valued at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | **0** |
| Cash and cash equivalents | 2.880 | 0 | 0 | 0 | 0 | **2.880** |
| **Total** | **156.567** | **0** | **0** | **0** | **0** | **156.567** |

| **Assets as appearing in the Statement of Financial Position of 31st December 2010** | **Loans and receivables** | **Financial assets valued at fair value through profit or loss** | **Investments held to maturity** | **Derivatives used for cash flow hedging** | **Available-for-sale financial assets** | **Total** |
|---|---|---|---|---|---|---|
| Available-for-sale financial assets | 0 | 0 | 0 | 0 | 0 | **0** |
| Derivatives financial instruments | 0 | 0 | 0 | 0 | 0 | **0** |
| Trade and other receivables | 115.456 | 0 | 0 | 0 | 0 | **115.456** |
| Financial assets valued at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | **0** |
| Cash and cash equivalents | 2.566 | 0 | 0 | 0 | 0 | **2.566** |
| **Total** | **118.022** | **0** | **0** | **0** | **0** | **118.022** |

| **Liabilities as appearing in the Statement of Financial Position of 31st December 2011** | **Liabilities at fair value through profit or loss** | **Derivatives used for cash flow hedging** | **Other financial liabilities** | **Total** |
|---|---|---|---|---|
| Long-term Bank Loans | 0 | 0 | 59.931 | **59.931** |
| Long term liabilities payable in the next fiscal year | 0 | 0 | 174.946 | **174.946** |
| Short-term Bank Loans | 0 | 0 | 58.431 | **58.431** |
| **Total** | **0** | **0** | **293.308** | **293.308** |

| **Liabilities as appearing in the Statement of Financial Position of 31st December 2010** | **Liabilities at fair value through profit or loss** | **Derivatives used for cash flow hedging** | **Other financial liabilities** | **Total** |
|---|---|---|---|---|
| Long-term Bank Loans | 0 | 0 | 114.006 | **114.006** |
| Long term liabilities payable in the next fiscal year | 0 | 0 | 84.340 | **84.340** |
| Short-term Bank Loans | 0 | 0 | 100.809 | **100.809** |
| **Total** | **0** | **0** | **299.155** | **299.155** |

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 23. Inventories

The inventories are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **At 31/12/2011** | **At 31/12/2010** | **At 31/12/2011** | **At 31/12/2010** |
| Merchandise | 86.931 | 103.844 | 94.715 | 110.838 |
| Products (final & semi finished) | 130.403 | 128.606 | 126.986 | 103.590 |
| Production in progress | 97.393 | 62.922 | 71.911 | 54.773 |
| Raw materials, expendables and auxiliary materials | 15.787 | 15.251 | 13.499 | 13.477 |
| Advances for inventory purchases | 641 | 294 | 358 | 0 |
| **Total** | **331.155** | **310.917** | **307.469** | **282.679** |

Merchandise and products amounting to € 265.834 (2010: € 215.285) have been pledged to the banks as security for loan facilities.

## 24. Trade and other receivables

The trade and other receivables are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **At 31/12/2011** | **At 31/12/2010** | **At 31/12/2011** | **At 31/12/2010** |
| Customers | 111.466 | 63.918 | 68.245 | 17.857 |
| Cheques receivable | 375 | 377 | 356 | 359 |
| Short term receivables from subsidiaries | 0 | 0 | 54.492 | 75.550 |
| Short term receivables from other related companies | 1.519 | 1.636 | 1.464 | 1.636 |
| Other debtors | 35.105 | 34.885 | 16.185 | 14.336 |
| Long term receivables collectable in the next fiscal year | 8 | 8 | 8 | 8 |
| Supplier's advances | 7.363 | 7.355 | 0 | 0 |
| Credit & advances | 2.763 | 3.430 | 2.763 | 3.410 |
| Deferred expenses | 482 | 837 | 0 | 0 |
| Other prepayments & accrued income | 4.846 | 10.544 | 4.842 | 10.544 |
| | **163.926** | **122.990** | **148.355** | **123.700** |
| **Minus:** Provisions | (10.239) | (7.534) | (10.021) | (7.534) |
| **Balance** | **153.688** | **115.456** | **138.334** | **116.167** |

The book values of the above receivables represent their fair value. The total of the trade account receivables of the Group and the Company is analyzed as follows:

***(Amounts are expressed in thousands Euro, unless otherwise stated)***

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **At 31/12/2011** | **At 31/12/2010** | **At 31/12/2011** | **At 31/12/2010** |
| Customers | 111.466 | 63.918 | 68.245 | 17.857 |
| Cheques receivable | 375 | 377 | 356 | 359 |
| | **111.840** | **64.295** | **68.601** | **18.215** |
| **Minus: Provisions** | (4.698) | (3.854) | (4.698) | (3.854) |
| **Balance** | **107.143** | **60.441** | **63.903** | **14.361** |

The trade account receivables which were consistent with the predetermined by the Company credit policy, mainly up to four months, at 31/12/2011 were amounting to € 105.851 (2010: € 58.835).

As at 31/12/2011, the trade account receivables of the Company which were overdue but not impaired were totalling to the amount of € 1.292 (2010: € 1.606). These trade account receivables concern a limited number of customers which are highly acclaimed multinational Companies and have not presented in the past financial results that might indicate insolvency. The ageing of the trade account receivables which were overdue but not impaired as at 31/12/2011 is as follows:

| | **At 31/12/2011** | **At 31/12/2010** |
|---|---|---|
| Up to 4 months | 0 | 0 |
| From 4 up to 12 months | 558 | 694 |
| Over 12 months | 734 | 912 |
| | **1.292** | **1.606** |

Also, trade account receivables amounting to € 844 (2010: € 108) have been impaired during the current fiscal period. The total impairment provision of the trade account receivables as at 31/12/2011 totaled to the amount of € 4.698 (2010: € 3.854). The ageing of the particular trade account receivables which concern customers that are in a difficult financial position, is as follows:

| | **At 31/12/2011** | **At 31/12/2010** |
|---|---|---|
| Up to 4 months | 0 | 0 |
| From 4 up to 12 months | 0 | 0 |
| Over 12 months | 4.698 | 3.854 |
| | **4.698** | **3.854** |

The majority of the Group's and the Company's trade accounts receivables is denominated in Euro.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

The movement of the impairment provision of the trade account receivables has as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| **Beginning balance** | 3.854 | 3.746 | 3.854 | 3.746 |
| Provision for doubtful debts of the current fiscal year | 844 | 108 | 844 | 108 |
| Provision for doubtful debts of acquired companies | 0 | 0 | 0 | 0 |
| Current fiscal year receivables write offs as non collectables | 0 | 0 | 0 | 0 |
| Reversal of unused provisions | 0 | 0 | 0 | 0 |
| **Ending Balance** | **4.698** | **3.854** | **4.698** | **3.854** |

The movement of the impairment provision of the other receivables has as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| **Beginning balance** | 3.679 | 4.034 | 3.679 | 3.630 |
| Provision for doubtful other debts of the current fiscal year | 1.861 | 49 | 1.644 | 49 |
| Provision for doubtful debts of acquired companies | 0 | 0 | 0 | 0 |
| Current fiscal year receivables write offs as non collectables | 0 | 0 | 0 | 0 |
| Reversal of unused provisions | 0 | (404) | 0 | 0 |
| Collection discount | 0 | 0 | 0 | 0 |
| **Ending Balance** | **5.541** | **3.679** | **5.323** | **3.679** |

Additional impairment provisions of trade accounts receivables are included in the account "Sales, marketing and distribution expenses" (see note 12).

## 25. Cash and cash equivalents

The cash and cash equivalents are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| Cash in hand | 21 | 28 | 15 | 22 |
| Current time and overdraft bank accounts | 2.859 | 2.538 | 2.480 | 986 |
| **Balance** | **2.880** | **2.566** | **2.495** | **1.008** |

## 26. Share Capital

The total share capital of the company consists of 1.933.837 common shares of par value of (amount in euro) € 29,35 each. The total share capital of the company did not change during the period from 1st January 2011 until the day of the approval of the annual financial statements.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

According to the Register of Company shareholders, at 31/12/2011, the shareholders holding more than 5,0% on the paid in share capital, were the following:

| SHAREHOLDERS | NUMBER OF SHARES HELD | PARTICIPATION PERCENTAGE AT 31/12/2011 |
|---|---|---|
| ALEXANDROS I. MICHAILIDES | 1.111.199 | 57,5% |
| IOANNIS A. MICHAILIDES OF KAREN | 255.083 | 13,2% |
| BCO HOL. LTD | 247.439 | 12,8% |
| EKATERINI MICHAILIDOU | 127.983 | 6,6% |
| OTHERS (WITH PERCENTAGE LESS THAN 5%) | 192.133 | 9,9% |
| **TOTAL** | **1.933.837** | **100,0%** |

It is noted that among of the members of the Board of Directors and the Executives of the Management of the Company, Mr. Alexandros Michailides (President of BoD & CEO), held 1.111.199 shares representing 57,5% of the paid in share capital, Mrs. Synthia Michailidou and Mr. Ioannis Michailides (members of the BoD) held 58.800 and 255.083 shares respectively representing 3,0 % and 13,2% of the paid in share capital as at 31/12/2010.

## 27. Reserves

The reserves are analyzed as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/1-31/12/2011 | 1/1-31/12/2010 | 1/1-31/12/2011 | 1/1-31/12/2010 |
| Statutory reserve | 1.182 | 1.038 | 705 | 705 |
| Special reserves | 1.753 | 1.753 | 1.753 | 1.753 |
| Extraordinary reserves | 28 | 28 | 0 | 0 |
| Tax free and specially taxed reserves | 9.734 | 9.734 | 12.744 | 12.744 |
| Revaluation differences of participations & investments | 483 | 483 | 6.320 | 6.320 |
| Property, Plant and Equipment fair value reserve | 62.137 | 62.131 | 45.381 | 45.426 |
| Other grants | 604 | 604 | 604 | 604 |
| Exchange rate differences from foreign subsidiaries | 553 | (40) | 0 | 0 |
| **Balance** | **76.473** | **75.731** | **67.507** | **67.552** |

According to the provisions of the Greek corporate legislation, companies are required to transfer a minimum of 5% of their annual after tax profit as reflected in their statutory books to a statutory reserve, until such reserve equals to one-third of the paid-in share capital. The above reserve can be distributed only at the liquidation of the company; it can nevertheless be offset with accumulated losses.

The account "Extraordinary Reserves" refers to reserves that have been formed according to the provisions of various tax laws.

The account "Special law provisions Tax free reserves" refers to reserves which have been formed according to the provisions of the tax legislation that either provide the option of transferring the taxation of certain incomes at the time of their appropriation to the shareholders, or provide tax benefits as incentives for investments.

The account "Revaluation differences of participations & investments" refers to reserves that have been resulted from the valuation of the participations and investments of the Company.

The "Property, Plant and Equipment fair value reserve" refers to reserve that has been resulted from the revaluation of tangible fixed assets (land-buildings-machinery) at their fair value.

The tax liability that will be accumulated at the appropriation of the above tax free reserves is estimated to be on 31st of December 2011, € 2.424, and will be recognized when and if this appropriation will be taken place.

**28. <u>Loans</u>**

The Group's loans have been issued by banks in Greece and abroad and are denominated in Euro. The amounts that are due to be paid within a year after the statement of financial position date are characterized as short term liabilities while amounts payable on a later period are characterized as long-term liabilities. The Group's and the Company's long term loans are analyzed, by main debtors, as follows:

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| | GROUP | | | |
|---|---|---|---|---|
| | At 31/12/2011 | | At 31/12/2010 | |
| **Bank** | **Long term liabilities** | **Long term liability payable in the next fiscal year** | **Long term liabilities** | **Long term liability payable in the next fiscal year** |
| ALPHA BANK | 6.736 | 166 | 5.098 | 1.149 |
| MARFIN EGNATIA BANK | 3.297 | 131 | 2.753 | 883 |
| ATTICA BANK | 273 | 11 | 229 | 80 |
| NATIONAL BANK OF GREECE | 5.534 | 375 | 4.765 | 1.345 |
| ATE BANK | 4.677 | 322 | 4.083 | 1.159 |
| PIRAEUS BANK | 5.110 | 210 | 4.056 | 1.149 |
| AMSTERDAM TRADE BANK EURO | 10.000 | 0 | 0 | 0 |
| STOPANSKA BANK | 742 | 0 | 738 | 0 |
| MOBIASBANCA | 239 | 260 | 741 | 0 |
| EFG PRIVATE BANK | 0 | 2.943 | 1.541 | 1.600 |
| OHRIDSKA BANKA | 2.546 | 3.690 | 0 | 0 |
| DEUTCHE BANK | 19.776 | 115.000 | 87.001 | 13.256 |
| SGExpressBank | 1.000 | 9.000 | 3.000 | 4.391 |
| SUMITOMO | 0 | 42.837 | 0 | 59.328 |
| **Total Loans** | **59.931** | **174.946** | **114.006** | **84.340** |

| | COMPANY | | | |
|---|---|---|---|---|
| | At 31/12/2011 | | At 31/12/2010 | |
| **Bank** | **Long term liabilities** | **Long term liability payable in the next fiscal year** | **Long term liabilities** | **Long term liability payable in the next fiscal year** |
| ALPHA BANK | 6.736 | 166 | 5.098 | 1.149 |
| MARFIN EGNATIA BANK | 3.297 | 131 | 2.753 | 883 |
| ATTICA BANK | 273 | 11 | 229 | 80 |
| NATIONAL BANK OF GREECE | 5.534 | 375 | 4.765 | 1.345 |
| ATE BANK | 4.677 | 322 | 4.083 | 1.159 |
| PIRAEUS BANK | 5.110 | 210 | 4.056 | 1.149 |
| AMSTERDAM TRADE BANK EURO | 10.000 | 0 | 0 | 0 |
| EFG PRIVATE BANK | 0 | 2.943 | 1.541 | 1.600 |
| OHRIDSKA BANKA | 0 | 0 | 0 | 0 |
| DEUTCHE BANK | 19.776 | 115.000 | 87.001 | 13.256 |
| SUMITOMO | 0 | 42.837 | 0 | 59.328 |
| **Total Loans** | **55.404** | **161.995** | **109.527** | **79.949** |

The balance of short term loans of the Group as at 31/12/2011 was amounted to € 58.431 (31/12/2010 : € 100.809).

During the year, the Company proceeded in contracting a discount invoice agreement with the FBN Bank (UK) Ltd. The Company has request the Bank to discount the receivable payable under specific invoices issued by the Company. The Bank has agreed to discount 90% of such receivables on a without recourse basis and will pay to the Company an amount equal to the without Recourse Portion of Company's Invoice value of the Discount

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

Receivable discounted by the interest rate. The interest rate shall be equal to corresponding LIBOR as determined by the Bank plus 5% per annum.

The Group has accounted for provisions regarding the accrued interest payments of the loans and recognizes them at the income statements of each fiscal period.

The majority of the loans are denominated in € and USA Dollar. The book value of the loans represents their fair value. As a security for the credit facilities provided by the banks the company has placed pre-notices over its tangible assets amounting to € 52.781 (2010: 52.781) and pledges over products and merchandise amounting to € 265.834 (2010: € 215.285).

## 29. Other provisions

Other provisions relate to formulated provisions for the additional taxes that are may arise from the tax audit of unaudited fiscal years by the tax authorities. More specifically:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| Provisions for other liabilities and charges | 93 | 203 | 93 | 203 |
| Extraordinary tax contribution | 100 | 0 | 100 | 0 |
| Provisions for additional taxes from unaudited fiscal years | 4.435 | 3.961 | 4.435 | 3.961 |
| **Balance** | **4.628** | **4.164** | **4.628** | **4.164** |

## 30. Government grants

Government grants are related to investments in fixed assets and are recognized as income in parallel with the depreciation of the assets - mainly mechanical equipment – that were granted.

The amount of the grant that was recognized to the income statement was € 51 (2010: € 51). Depending on the terms of the law that is applicable for the grant, there are certain restrictions and limitations regarding the transfer of the subsided machinery and the differentiation of the legal form of the subsided Company. During the audits performed by proper authorities, a situation of non compliance with these restrictions has not yet been identified.

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

## 31. Provision for retirement benefit obligation

The obligation of both the Group and the Company towards employees working in Greece for the future provision of benefits relative to their employment period, is accounted for and represented on the basis of the expected earned benefit to be paid of every employee, at the balance sheet date, discounted at its present value, relative to its foreseen time of payment. The annual discount rate that was used at the balance sheet date is equal to the yield of the long term government bonds.

**Number of employees and payroll cost:**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| **Personnel:** | | | | |
| On a regular salary basis | 491 | 384 | 375 | 282 |
| On a daily rate basis | 1.010 | 1.097 | 1 | 0 |
| **Total** | **1.501** | **1.481** | **376** | **282** |
| **Personnel cost analysis:** | | | | |
| Payroll expenses | 14.253 | 15.192 | 9.431 | 10.312 |
| Personnel remuneration expenses | 107 | 198 | 4 | 198 |
| Provision for personnel retirement indemnities | 121 | 259 | 100 | 238 |
| **Total cost** | **14.481** | **15.649** | **9.535** | **10.748** |

The movement of the net pension obligation is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| **Net liability at the beginning of the year** | 705 | 644 | 685 | 644 |
| Total granted benefits | (84) | (198) | (84) | (198) |
| Staff retirement indemnities of new subsidiaries | 0 | 0 | 0 | 0 |
| Expenses realesed in the Statement of Comprehensive Income | 121 | 259 | 100 | 238 |
| **Net liability at the end of the year** | **742** | **705** | **701** | **685** |

The Group's and the Company's liability for compensation payment to its retiring personnel was calculated on the basis of an actuarial study which was conducted by an independent company of actuaries. The basic financial items and assumptions of this actuarial study on the 31st of December 2011 are as follows:

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| Present value of liability | 874 | 827 | 825 | 806 |
| Unrecognised actuarial profits (losses) | (132) | (122) | (124) | (122) |
| **Net liability in the Statement of financial position** | **742** | **705** | **701** | **685** |
| **Retirement cost analysis in the Income Statement:** | | | | |
| Service cost | 41 | 87 | 28 | 67 |
| Financial cost | 16 | 33 | 14 | 33 |
| Actuarial profits (losses) | 61 | 131 | 55 | 131 |
| Cost of merged companies | 4 | 8 | 3 | 8 |
| Cost of extra benefits | 0 | 0 | 0 | 0 |
| **Total charge in the Statement of Comprehensive Income** | **121** | **259** | **100** | **238** |
| **The liabilities from personnel benefits have changed in the current fiscal year as follows:** | | | | |
| Net liability at the beginning of the fiscal year | 705 | 644 | 685 | 644 |
| Employment cost | 41 | 87 | 28 | 67 |
| Financial cost | 16 | 33 | 14 | 33 |
| Cut back effect | 61 | 131 | 55 | 131 |
| Actuarial profits (losses) | 4 | 8 | 3 | 8 |
| Total benefits paid during the current fiscal year | (84) | (198) | (84) | (198) |
| Provision for personnel retirement indemnities of merged companies | 0 | 0 | 0 | 0 |
| Cost of additional benefits to the personnel | 0 | 0 | 0 | 0 |
| **Net liability at the end of the fiscal year** | **742** | **705** | **701** | **685** |

**Actuarial study basic assumptions:**

| | |
|---|---|
| Actuarial valuation method | Projected Unit Method |
| Average annual long term inflation growth rate | 2,0% |
| Average annual long term GDP growth rate | 3,0% |
| Assets for compensations by Law 2112/20 | Zero |

## 32. Trade and other payables

The trade and other payables of the Group towards suppliers and other third parties are analyzed as follows:

| | GROUP | | GROUP | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| Suppliers | 28.592 | 7.948 | 17.423 | 2.196 |
| Notes payable | 2.491 | 2.602 | 2.491 | 2.602 |
| Customer advances | 1.573 | 718 | 1.544 | 600 |
| Social security insurance | 3.569 | 3.874 | 3.317 | 3.740 |
| Dividends payable | 52 | 52 | 52 | 52 |
| Other creditors | 27.719 | 11.994 | 11.608 | 12.029 |
| Liabilities to subsidiaries | 0 | 0 | 53.742 | 23.020 |
| Liabilities to other related companies | 1.178 | 1.140 | 1.178 | 1.140 |
| Accrued and deferred income | 1 | 463 | 0 | 0 |
| Current fiscal year accrued expenses | 35 | 74 | 0 | 0 |
| Other accrued and deferred income | 187 | 182 | 151 | 151 |
| **Balance** | **65.397** | **29.048** | **91.507** | **45.529** |

## 33. Related parties transactions and balances

The Group considers as related parties the members of Boards of Directors (including their related parties) of the parent and its subsidiaries and affiliated Companies, as well as the shareholders holding a percentage higher than 5% of the respective share capitals. The Group's transactions and balances, during the period 1/1-31/12/2011 and on the 31st of December 2011, respectively, have as follows:

| RELATED PARTIES | GROUP<br>During the year 1/1-31/12/2011<br>Revenue to related parties | Purchases from related parties | At 31/12/2011<br>Receivables from related parties | Payables to related parties |
|---|---|---|---|---|
| | *Amounts in thousands Euro* | | | |
| **A. Related Parties** | | | | |
| RODOP TUTUN SANAYINE TIGARET SA | 0 | 0 | 76 | 534 |
| LTAM ROMANIA | 0 | 0 | 626 | 0 |
| SLITO S.R.L. ITALIA | 0 | 0 | 816 | 644 |
| ATLAS TOBACCO ALGERIA | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **1.519** | **1.178** |

| RELATED PARTIES | COMPANY<br>During the year 1/1-31/12/2011<br>Revenue to related parties | Purchases from related parties | At 31/12/2011<br>Receivables from related parties | Payables to related parties |
|---|---|---|---|---|
| | *Amounts in thousands Euro* | | | |
| **A. Related Parties** | | | | |
| AGREXTENT S.A. | 878 | 0 | 387 | 6 |
| RODOP TUTUN SANAYINE TIGARET SA | 0 | 0 | 76 | 534 |
| MIKAKORCA Sh .P.K. | 204 | 2.773 | 5.571 | 3.304 |
| LEAF TOBACCO A.MICHAILIDES AD SANDANSKI BULGARIA | 3.130 | 17.220 | 7.606 | 18.045 |
| MICHAILIDES TOBACCO MOLDOVA S.A. | 26 | 13.360 | 13.339 | 11.221 |
| LTAM ROMANIA | 0 | 0 | 573 | 0 |
| A.J. MICHAILIDES-COMMERCIAL | 0 | 0 | 6 | 0 |
| SLITO S.R.L. ITALIA | 0 | 0 | 816 | 644 |
| STRUMICA TABAK AD | 259 | 17.485 | 9.752 | 5.485 |
| ARIS TOBACCO S.R.O. | 0 | 441 | 728 | 1.126 |
| TRADE & BROKERAGE | 5.221 | 254 | 16.613 | 14.512 |
| LEAF TOBACCO A. MICHAILIDES ALGERIA-TABACS D'ORIENT S.P.A. | 0 | 21 | 489 | 0 |
| FERMENT TUTUN SA DROCHIA | 176 | 0 | 0 | 0 |
| ATLAS TOBACCO ALGERIA | 0 | 2 | 0 | 43 |
| **Total** | **9.894** | **51.556** | **55.957** | **54.920** |

Key Management Personnel and those closely related to them are defined in accordance with IAS 24 "Related Party Disclosures". Fees and payroll cost of the members of the Board of Directors and Key Management Personnel of the Group including the employers' social security contributions are amounted € 674 (2010: € 311)..

As at 31/12/2011 amounts owed to Group and the Company from the members of the Board of Directors and Key Management Personnel amounts to € 2.123 (31/12/2010: € 2.747).

In addition as at 31/12/2011 amounts owed by the Group and the Company to the members of the Board of Directors and Key Management Personnel amounts to € 227 (31/12/2010: € 183)

## 34. <u>Commitments and contingent liabilities</u>

### 34.1 Potential liabilities from judicial or under arbitration differences

The Company and its subsidiaries are parties to various lawsuits (as a defendant or as a plaintiff) and arbitration proceedings in the normal course of business. Management and the Company's legal advisors estimate that all of the lawsuits are expected to be settled without any material adverse effect on the Group's or the Company's financial position or results of operations.

### 34.2 Contingent liabilities from financial covenants

At the end of the closing period, bank liabilities totalling € 202.295 (2010: € 194.641) were subject to specific covenants (EBITDA/Net interest Payable, EBITDA/Interest Payable, Consolidated Tangible Net Worth/Total loans etc). The management estimates that the Group will continue to fully meet all the obligations that emerge from bank loans contracted up to 31/12/2011, ensuring timely availability of all the necessary funds for the Group's going concern operation in the future.

### 34.3 Other contingent liabilities

The Group has issued letters of guarantee regarding the proper execution of contracts as at 31/12/2011 amounting to € 2.945 (2010: € 1.105).

As of December 31, 2011, the Group has entered into a number of operating lease agreements relating to the rental of transportation equipment which expire on various dates through 2015. Rental expense included in the income statement for the annual period ended December 31, 2011, amounted to € 420 (2010: € 299). Future minimum rentals payable under non-cancelable operating leases as at December 31, 2011 and at December 31, 2010, have as follows:

*(Amounts are expressed in thousands Euro, unless otherwise stated)*

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | At 31/12/2011 | At 31/12/2010 | At 31/12/2011 | At 31/12/2010 |
| Within one year | 104 | 116 | 275 | 116 |
| 1-5 years | 98 | 89 | 147 | 89 |
| After 5 years | 0 | 0 | 0 | 0 |
| **Total** | **202** | **205** | **422** | **205** |

The companies of the Group have not been tax audited for the following fiscal years:

| Company | FROM | TO |
|---|---|---|
| LEAF TOBACCO A. MICHAILIDES S.A. | 2005 | 2011 |
| ***I. Subsidiary Companies*** | | |
| LEAF TOBACCO A.MICHAILIDES AD | 2005 | 2011 |
| STRUMICA TABAK AD | 2007 | 2011 |
| MIKAKORCA SH.P.K. | 2007 | 2011 |
| MICHAILIDES TOBACCO MOLDOVA S.A. | 2006 | 2011 |
| ARIS TOBACCO SPOL S.R.O. | 2007 | 2011 |
| A.J.MICHAILIDES COMMERCIAL ENTERPRISES LTD | 1997 | 2011 |
| TRADE & BROKERAGE | - | - |
| LEAF TOBACCO A. MICHAILIDES ALGERIA-TABACS D'ORIENT S.P.A. | 2008 | 2011 |
| FERMENT TUTUN SA DROCHIA | 2007 | 2011 |
| AGREXTENT S.A. | 2009 | 2011 |
| ATLAS TOBACCO ALGERIA | 2003 | 2011 |
| MICHAILIDES ML ORIENTAL TOBACCO PVT LTD. | 2010 | 2011 |

The Group make provisions for unaudited tax years which are based on recent completed tax audits and tax regulation. The accumulated provision at 31/12/2011 amounts to € 4.425 (2010: € 3.961) for the Group.

## 35. Subsequent events

Apart from the aforementioned information, there are no other subsequent events, concerning the Group, for which there is an obligation for disclosure according to the I.F.R.S..

Thessaloniki, March 09, 2012

| | | |
|---|---|---|
| **THE PRESIDENT AND C.E.O.** | **MEMBER AND C.F.O.** | **THE CHIEF ACCOUNTANT** |
| **ALEXANDROS MICHAILIDES** | **ARISTIDES CHATZISTEFANOU** | **ANTONIOS STAMNAS** |
| **( Α.Δ.Τ. ΑΗ 199791)** | **( Α.Δ.Τ. ΑΗ 199564)** | **( Α.Δ.Τ. Χ 224716 )** |
| | | **( Α.Μ.Ο.Ε. 2876 )** |