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Explanatory statement of Folli Follie Commercial Manufacturing and Technical SA

(a company incorporated with limited liability in the Hellenic Republic)

**as the guarantor of the CHF 150,000,000 3.25% Notes due 2 November 2021 (ISIN: CH0385518052)
issued by FF Group Finance Luxembourg II S.A.**

(a public limited liability company (société anonyme) incorporated and registered in grand duchy of Luxembourg with registered number 54-56)

in connection with the proposed restructuring of the Folli Follie Group

21 December 2018

This Explanatory Statement has been prepared by Folli Follie Commercial Manufacturing and Technical S.A. (the “**Guarantor**”) for the information of each of the holders (the “**Noteholders**”) of the outstanding CHF 150,000,000 3.25% Notes due 2 November 2021 (the “**Notes**”) issued by FF Group Finance Luxembourg II S.A. (the “**Issuer**”) and guaranteed by the Guarantor in connection with the proposed restructuring of the Guarantor and its subsidiaries (the “**Group**”) including, without limitation, the restructuring of the Notes (the “**Restructuring**”).

The Restructuring will be effected by way of a legally binding restructuring agreement (the “**Restructuring Agreement**”) and rehabilitation plan of the Group (the “**Rehabilitation Plan**”), which will be submitted for approval to the Athens Multi-Member Court of First Instance (the “**Greek Court**”) pursuant to Article 106b and/or Article 106d of the Greek law 3588/2007, as currently in force.

The purpose of this Explanatory Statement is to provide Noteholders with:

- a) a background to the Restructuring;
- b) the rationale for the Restructuring;
- c) information on the Greek approval process of the Rehabilitation Plan;

- d) certain risk factors in respect of the Group and the Restructuring; and
- e) an indicative timetable of events and next steps.

Background to the Restructuring

The Group comprises a multinational fashion business operating in four core segments: (i) jewellery, watches and accessories; (ii) cosmetics; (iii) fashion; and (iv) department stores. The Group has significant operations in Europe, Canada, the People's Republic of China, Hong Kong, and Japan. The Guarantor functions as the ultimate holding company of the Group, and is incorporated in Greece and listed on the Athens Stock Exchange. The Issuer is a subsidiary of the Guarantor and is a public limited liability company (*société anonyme*) incorporated and registered in Grand Duchy of Luxembourg.

The financial difficulties currently faced by the Group were caused by the long-term underperformance of several business units within the Group's overall operations. This underperformance was concealed for a prolonged period due to serious accounting issues in a number of its Asian subsidiaries which led to a material overstatement of sales, earnings and cash balances in the Group's consolidated financial statements. These issues were alleged publicly in a report produced by an investment fund, Quintessential Capital Management, in May 2018 (the "**Quintessential Capital Management Report**"). As a result of the negative publicity caused by the publication of the Quintessential Capital Management Report, the trading in the Guarantor's shares on the Athens Stock Exchange was halted at the Guarantor's request on 25 May 2018. These developments affected the confidence of the Group's financing providers, trading counterparties and suppliers, which has in turn led to a significant increase in working capital requirements and increased the pressure on the Group's liquidity position.

Since May 2018, the Guarantor and the Group have taken various steps to investigate the allegations contained in the Quintessential Capital Management Report, including appointing Alvarez & Marsal in June 2018 to undertake a forensic evaluation of the most recent financial statements of the Group's Asian subsidiaries. A preliminary report by Alvarez & Marsal was presented to the Guarantor's board of directors in September 2018 which showed that the assets and revenue of the Group's Asian subsidiaries had been significantly overstated. The headline conclusions of Alvarez & Marsal's preliminary report were released to the market on 26 September 2018. To produce a restated set of financial statements, the Guarantor has engaged PricewaterhouseCoopers for a special purpose audit of the Guarantor's corporate and consolidated financial statements for the financial year ended 31 December 2017.

The Guarantor and the Group have also taken steps to prepare for an operational turnaround and restructuring of the Group, including the following:

- a) the enhancement of the composition of the Guarantor's board of directors with new members with experience in economics, distribution and retail, and the appointment of independent members to the Group's audit committee;
- b) the appointment of Mr. Dimitrios Kouvatso, with significant background in restructuring and operational turnaround, as its chief restructuring officer;
- c) the appointment of Mr. Narkisos Georgiadis as the Group's deputy chief executive officer and the appointment of Mr. Nicolas Canelopoulos as the chairman of the Group's board of directors;
- d) in respect of the Group's operations in Asia, the appointment of Mr. Yiannis Grispos as chief financial officer and the appointment of Mr. Steven Yaung as chief operating officer of the Group's Asian subsidiaries;
- e) the appointment of Deloitte Business Solutions SA ("**Deloitte**") as the Guarantor's principal financial advisor;
- f) the implementation of cash conservation measures in co-operation with Deloitte to preserve the Group's short-term liquidity position; and
- g) the development of a business plan for the operational turnaround and restructuring of the Group in co-operation with Deloitte.

The Guarantor has been in discussions with various stakeholders of the Group regarding potential options to address its liquidity position and to develop and plan the Restructuring. In parallel with the Guarantor's discussions with the Group's existing creditors, the Guarantor has remained in discussions with third parties with regard to potential bridging financing and strategic investments in the Group's business operations. However, the Guarantor has not to date received a binding proposal in respect of any third party investments in the Group.

Rationale for the Restructuring

The Restructuring is intended to effect a corporate reorganisation of the Group and its assets and a restructuring of the Group's existing liabilities. The corporate reorganisation is intended to ring-fence the majority of the Group's ongoing operations from any contagion or legacy issues that may arise from parts of the Group affected by the historical accounting misstatements. The revisions made to the business plan are intended to enable the Group to develop and implement an effective turnaround plan focusing on the key restructuring initiatives of brand and real estate portfolio rationalisation, back office cost-rationalisation, ceasing margin erosion, store network optimisation, and the transformation in the Group's operating model to reflect the fast-moving changes in consumer behaviour in the retail sector. As part of the Restructuring, a Rehabilitation Plan will be filed in the Greek Court under the pre-pack rehabilitation procedure, which allows the rationalisation of the Group's capital and corporate structure to be ratified by the Greek Court. The final element of the Restructuring is the recapitalisation of the Group by way of an injection of new money and a reduction in its debt burden, to be executed by way of a note exchange and conversion of debt into equity.

Pre-Pack Rehabilitation Agreement under the Greek Bankruptcy Code

Parts of the Restructuring will be effected by way of the procedure contained in Articles 106b and/or 106d of the Greek Bankruptcy Code, which allows a debtor to negotiate a rehabilitation agreement with its creditors that is subsequently filed with the Greek Court and ratified. The rehabilitation agreement may include terms with the object of, among other things, debt capitalisation, the reduction of claims against the debtor, the disposal of the debtor's assets, the transfer of the debtor's enterprise in whole or in part, and the suspension of individual and collective actions by creditors for some period after the ratification of the agreement. This suspension will not bind the non-contracting creditors for a period exceeding three months from the ratification of the agreement. Article 106d of the Greek Bankruptcy Code enables all or any part of a debtor's business and undertaking to be transferred to a newly established company (including a company established by the debtor's existing creditors) in connection with a rehabilitation agreement, subject to the preparation of a financial report that has to be certified by a chartered accountant which is submitted to the Greek Court in support of the application.

The Greek Court may ratify the rehabilitation agreement if:

- a) it is signed by 40 per cent. in value of the debtor's secured creditors and 60 per cent. in value of all of the debtor's creditors;
- b) if following the ratification, the debtor's business will become viable;
- c) if the collective satisfaction of the creditors is not impaired, which means that non-signatory creditors receive at least as much as they would receive through enforcement proceedings or bankruptcy liquidation;
- d) the rehabilitation agreement treats creditors who are in the same position on the basis of the principle of equal treatment, and divergences from the principle of equal treatment among creditors are allowed only on material business or social grounds which are specifically described in the decision of the insolvency court or if the affected creditor consents to that divergence;¹
- e) if the rehabilitation agreement is not the result of malicious intention, or other unfair act, or *male fide* conduct of the debtor, creditor or third person, or violates any mandatory legislation, such as competition law; and
- f) if the rehabilitation agreement lifts the debtor out of cessation of payments.

¹ Indicatively, favourable treatment may be given to (i) the claims of the debtor's business customers if their non-satisfaction might materially damage the debtor's reputation or its furtherance of the business; (ii) claims which must be satisfied for the maintenance of the creditor; or (iii) labour claims.

If ratified by the Greek Court, the rehabilitation agreement binds all creditors whose claims are restructured by it, even if they are not contracting parties or did not vote in favour of the rehabilitation agreement. Creditors whose claims arose after the issuance of the decision ratifying the rehabilitation agreement are not bound.

A hearing in respect of the rehabilitation agreement will be set within approximately two months of the submission of the rehabilitation plan to the Greek Court. The Greek Court will issue its decision within approximately six to eight months from the date of the hearing. After a decision is issued by the Greek Court, there is an exclusive deadline of 30 days during which third parties may file submissions in respect of that decision. Following the filing date, the debtor receives an automatic moratorium for a four-month period, which may be extended until a decision of the Greek Court in respect of the rehabilitation agreement is issued.

As the Guarantor intends to submit its application on or by 24 January 2019, it is possible that a decision of the Greek Court in respect of the Rehabilitation Plan may not be received until September 2019.

Risk Factors

Noteholders should carefully consider, in addition to the other information contained in this Explanatory Statement, the following matters.

Shareholder and investor litigation in the Greek courts

At the date of this Explanatory Statement, four separate groups of investors (comprising minority shareholders and holders of derivative instruments) of the Guarantor have brought claims against the Guarantor under articles 914 et seq. of the Greek Civil Code relating to tort liability arising out of the alleged issuance of false financial statements and subsequent announcements of the Guarantor, based on provisions relating to market manipulation and fraud (the “**Investor Claims**”). The Guarantor estimates that, if successful, the value of the Investor Claims will be at least €3,234,900. Several of the Guarantor’s bank accounts held in Greece are currently frozen to the value of €160,000 and additional amounts may be frozen as a result of existing or new investor claims. In particular, the sum of €2,300,000 may be frozen based on a provisional order which has already been issued in favour of 56 investors. It may be possible that other groups of the Guarantor’s investors will commence additional claims against the Guarantor, and the value of such additional claims, if successful, may be considerably higher than the current estimated value of the Investor Claims.

The outcome of the Investor Claims cannot be predicted with certainty and may materially and adversely affect the Group’s business, results of operations, financial condition and prospects. The Guarantor may incur significant legal costs and other expenses in connection with any such Investor Claims, even if the proceedings are ultimately concluded in favour of the Guarantor. The costs of defending proceedings and the outcome of such proceedings could expose the Guarantor to the payment of substantial monetary damages or other penalties which may affect the viability of the Restructuring.

The Group’s former chief executive officer and certain former directors have been charged with fraud and money-laundering offences by the Greek authorities

Following a criminal investigation, George Koutsolioutsos, the Group’s former chief executive officer, Dimitris Koutsolioutsos, the Group’s former chairman, and Katerina Koutsolioutsos, a former member of the Guarantor’s board of directors, were charged with criminal fraud and money-laundering offences arising out of their alleged actions in the management of the Guarantor on 7 December 2018. The criminal charges may materially and adversely affect the Group’s reputation, business, results of operations, financial condition and prospects.

Injunction from the Greek anti-money laundering authority

The Greek anti-money laundering authority (the “**Greek AML Authority**”) has issued two orders prohibiting the sale or disposal of the Guarantor’s real estate assets located in Agios Stefanos of Attica, Neo Psychiko, Koropi, Santorini and Glyfada (the “**AML Orders**”). The Guarantor is currently taking steps to appeal against the AML Orders.

It is possible that the Guarantor’s appeal against the AML Orders will not succeed and/or that the Greek AML Authority or other government bodies, including those outside of Greece, will issue additional orders restricting the Guarantor’s and/or other Group companies’ ability to sell or dispose of its or their assets, or seizing such assets. The AML Orders and any additional anti-money laundering orders may restrict the Guarantor’s and/or

other Group companies' ability to (i) conduct its or their business; (ii) obtain interim bridge financing as the Guarantor or such other Group companies may not be in a position to offer security over the relevant assets; or (iii) give security which is proposed to be granted in connection with the Rehabilitation Plan. It is expected that such court orders may affect cash in the Group's accounts held in and outside Greece, putting increased pressure on the Group's liquidity position.

The Group is at risk of actions relating to criminal procedures

As set out above, a preliminary report by Alvarez & Marsal regarding the financial statements of the Group's Asian subsidiaries showed that the assets and revenue of such subsidiaries had been significantly overstated in the relevant financial statements. In addition to the actions taken by the Greek AML Authority, it is possible that government bodies or other authorities in Asia or outside of Asia may take actions relating to criminal procedures against entities within the Group which may materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Restructuring may not be completed

The implementation of the Rehabilitation Plan and, consequently, the completion of the Restructuring are subject to uncertainties and risks. Governmental, judicial, regulatory and other authorities or parties may impose conditions or restrictions on the implementation of the Restructuring that may make the terms of the Restructuring less favourable to the Noteholders or more difficult or costly to implement. It cannot be assured that the Group will be permitted to implement the Restructuring without the imposition of such conditions or restrictions nor can it be assured that the Restructuring can be implemented in a timely fashion or at all.

The approval of the Rehabilitation Plan by the Greek Court may be significantly delayed

A hearing in respect of the Rehabilitation Agreement will be set within approximately two months of the submission of the Rehabilitation Plan to the Greek Court. The Greek Court will issue its decision within approximately six to eight months from the date of that hearing. After a decision is issued by the Greek Court, there will be a 30-day period during which third parties may file submissions in respect of that decision. Following the filing date, the Guarantor will receive an automatic moratorium for a four-month period, which may be extended until a decision of the Greek Court in respect of the Rehabilitation Plan is issued. As the Guarantor intends to submit its application on or by 24 January 2019, it is possible that a decision of the Greek Court in respect of the Rehabilitation Plan may not be received until September 2019, which may significantly delay the implementation of the Restructuring. See the section entitled "*Pre-Pack Rehabilitation Agreement under the Greek Bankruptcy Code*".

The Rehabilitation Plan may not be approved by the Greek Court

The approval of the Rehabilitation Plan by the Greek Court is subject to a number of formalities and other requirements imposed by the applicable Greek legislation. If the Greek Court considers that one or more of such formalities and/or requirements are not met, it may not approve the Rehabilitation Plan.

The implementation of the Rehabilitation Plan and, consequently, the completion of the Restructuring Transaction are subject to definitive documentation being entered into by certain members of the Group and certain creditors of the Group in order to give effect to the terms of the Rehabilitation Plan. Such definitive documentation will only come into full force and effect upon the approval of the Rehabilitation Plan by the Greek Court. If the Greek Court does not approve the Rehabilitation Plan, it may not be possible to implement the Restructuring in a timely fashion or at all.

Regulatory decisions by the Hellenic Capital Markets Commission

The Hellenic Capital Markets Commission may issue a regulatory decision, imposing special terms and conditions for the protection of the Guarantor's shareholders, which may have an impact on the implementation of the Restructuring.

The Guarantor's shareholders' approval

The Rehabilitation Plan is subject to the approval of the Guarantor's general meeting of shareholders (the "**General Meeting**"). In the event the Guarantor's shareholders participating in the General Meeting fail to

provide their consent, the Greek Court may appoint an ad hoc proxy who will vote in the General Meeting in lieu of the non-consenting shareholders. Such appointment requires proof that the Guarantor's shareholders do not participate in the General Meeting and/or do not vote in favour of the Rehabilitation Plan in an abusive manner. If the Greek Court does not appoint such ad hoc proxy, it may not be possible for the Rehabilitation Plan to be approved in a timely fashion or at all.

The Rehabilitation Plan may not reach the requisite approval thresholds

On filing with the Greek Court, the Rehabilitation Plan needs to have been approved by 40 per cent. of the Guarantor's secured creditors by value, and 60 per cent. of all of the Guarantor's creditors by value. The Guarantor expects to have no secured creditors by the date the Rehabilitation Plan is filed with the Greek Court as a result of the disposal of its shares in Attica Department Stores and is confident that it can amass the support of the requisite number of its unsecured creditors for the purposes of the Rehabilitation Plan. However, if the requisite approval thresholds are not reached, the Rehabilitation Plan cannot be filed with the Greek Court. In such case, it may not be possible to implement the Restructuring in a timely fashion or at all.

If the Group is unable to implement the Restructuring Transaction, it may have to enter liquidation

As at the date of this Explanatory Statement, the Guarantor and the Issuer are in default of their debt obligations, including in relation to the Notes which became immediately due and payable, and the guarantee under the Notes provided by the Guarantor being called, on 26 October 2018. The Guarantor considers that, if it is unable to implement the Restructuring, it may have to take steps to commence insolvency proceedings that would most likely involve the appointment of a liquidator over the Guarantor in Greece and over the Issuer in Luxembourg, which would likely result in impaired recoveries for creditors (including the Noteholders) when compared to the projected recoveries under the proposed terms of the Restructuring and would delay the ability of the creditors (including the Noteholders) to realise such recoveries.

The Group's business plan is subject to turnaround and execution risk

The viability of the Rehabilitation Plan and the future business operations of the Group are dependent on the successful execution of the plan for the operational turnaround and restructuring of the Group's operations which has been developed by the Group's management. If the Group's management is unable to successfully execute the business plan, this will adversely affect the viability of the Rehabilitation Plan and may materially and adversely affect the Group's business, results of operations, financial condition and prospects, and may require the Guarantor to commence insolvency proceedings.

The Guarantor is operating without a moratorium

The Guarantor has made two applications for the granting of interim provisional measures under Article 106a of the Greek Bankruptcy Code to the Athens Single Member Court of First Instance (the "**Court of First Instance**"). The Guarantor's first application for the granting of provisional measures was made on 18 July 2018 and rejected on 22 October 2018 by the Court of First Instance. The Guarantor, together with its employees, has filed a second application for the granting of provisional measures on 14 November 2018, which was rejected in an interim hearing on 15 November 2018 and has been set for a final hearing on 24 January 2019. As a result of the foregoing, the Guarantor is currently operating without the benefit of a moratorium and is unprotected from claims from its creditors or litigation claims by third parties such as its shareholders.

Changes in management

The Guarantor is undergoing changes to its key personnel and management in connection with the Restructuring and the Guarantor's former chief executive officer, Mr. George Koutsolioutsos, vacated his position on 18 December 2018. In addition, Mr. Manolis Zachariou, the Group's former chief executive officer in the fashion and licensing business, has resigned from his position. The departure of the Guarantor's key management may be disruptive to the Group's business operations.

The Group is operating with limited liquidity

The Group is operating in a difficult environment with limited liquidity headroom, which has been put under pressure by increased working capital requirements for trade payments. Despite ongoing cash conservation measures undertaken by the Group, the Group's limited short-term liquidity may run out if immediate funding

cannot be secured. The Group will also need medium-term funding in order to fund its operations and the turnaround plan while the Greek Court is considering the Rehabilitation Plan. If such funding cannot be secured, this may require the Guarantor to commence insolvency proceedings prior to the filing or ratification of the Rehabilitation Plan by the Greek Court.

The Group's key contracts may be terminated

The Group's fashion and cosmetics business operating segments are dependent on contracts with key suppliers. Due to the Group's limited liquidity, the adverse publicity that the Group is presently facing, and the ongoing criminal investigations relating to certain individuals affiliated with the Group, certain of the Group's key contracts are in danger of termination. The termination of the Group's key contracts would materially and adversely affect the viability of the Rehabilitation Plan and may materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's restated financial accounts may result in a greater funding need than currently envisaged by the Rehabilitation Plan

The corporate and consolidated financial statements of the Guarantor for the financial year ended 31 December 2017 are currently in the process of being restated by PricewaterhouseCoopers by way of a special purpose audit, as further described in the section entitled "*Background to the Restructuring*" of this Explanatory Statement. It is possible that the Group's restated financial accounts will show a greater funding need than currently envisaged by the Rehabilitation Plan and required for the purposes of the Restructuring. If such additional funding is required and cannot be secured, this may materially and adversely affect the Group's business, results of operations, financial condition and prospects, and may require the Guarantor to commence insolvency proceedings.

The Issuer is currently operating without a board director

The sole board director of the Issuer has resigned, and the Guarantor has been unable to procure a new director to perform the role. Until a new director is appointed, the Issuer will be limited in performing and/or discharging certain corporate functions.

Indicative Timetable of Events and Next Steps

On 18 December 2018, the Guarantor launched a consent solicitation exercise with the holders of the €249,500,000 1.75 per cent. Guaranteed Exchangeable Notes due 2019 (ISIN: XS1082775054) issued by FF Group Finance Luxembourg SA and guaranteed by the Guarantor to obtain the support of such holders in accordance with the terms and conditions of such Guaranteed Exchangeable Notes due 2019 for the Restructuring.

The Guarantor intends to submit the Rehabilitation Plan on or by 24 January 2019.

The Guarantor intends to invite Noteholders to participate in the approval process of the Rehabilitation Plan, and will provide an update to Noteholders on the status of the Restructuring in early 2019, including details of the Restructuring Agreement and the Rehabilitation Plan and how Noteholders can vote individually and participate in the Greek Court process and the Restructuring generally.

Further Information

This Explanatory Statement will be available on the Group's website which is publicly available at <http://www.ffgroup.com/investors/documentation/ir-releases/all/>. Noteholders are encouraged to check the Group's website for updates on the progress of the Restructuring using the link referenced above.

The Notes continue to be admitted to trading on SIX Swiss Exchange (in accordance with the Standard for Distressed Securities).

This announcement dated 21 December 2018 is released by the Guarantor in compliance with the Market Abuse Regulation (EU) 596/2014 (MAR) and the Rule Book of the Athens Stock Exchange. The Consent Solicitation Memorandum contains information that qualifies as inside information for the purposes of Article 7 of MAR. For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU)

2016/1055, the person responsible for arranging the release of this announcement on behalf of the Guarantor is Mantalena Kasidiaropoulou, Head Investor Relations.