

EYATH S.A.

[TWSr.AT]

Efficient management of existing resources maintains growth
Diversification of activities still lies ahead



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VALUATION & RESEARCH SPECIALISTS (VRS)

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Greek Equities – October 29th, 2007

EYATH [THESSALONIKI WATER SUPPLY & SEWERAGE CO. SA]

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Company Description:

EYATH deals with the management of water resources and the collection and treatment of urban and industrial sewages in the broader area of Thessalonica, which is the second capital of Greece. The Company is listed on the Athens Exchange since 2001.

	2005	2006	2007 E
(in mil. €)			
Turnover	60.25	66.04	70.70
EBITDA	15.98	18.87	16.68
Margin %	26.52%	28.58%	23.60%
Net Income	8.44	9.64	7.04
Margin %	14.00%	14.60%	9.96%

Price (29/10/2007)	€ 10.96
Shares Outstanding	18,150,000
MktCap (in million €)	198.92

Beta (2 years)	0.86
Div. 2006 (in €)	0.18
Div. Yield	1.64%

	2005	2006	2007 E
P/E	23.58x	20.64x	28.25x
P/BV	2.98x	2.71x	2.55x
Debt / Eq.	0.12	0.09	0.07
ROE (avg)	25.24%	13.76%	9.31%

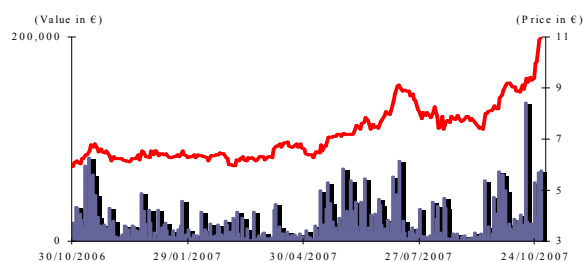
Source: Company Data & VRS Projections

Key Investment Points

- © The new geographic expansion, the new pricing policy, and the steadily growing customer base in existing network are among the major revenue growth drivers in the short-term. In the longer-term, the management has given us guidance of investments to be implemented in the sectors of energy and telecommunications. The latter however are not included in our financial forecasts.
- © EYATH completed an investment program of about €103.7 million during the period 2002-2006 in order to benefit from economies of scale, reduce operating costs, increase productivity and improve services. For the 5-year period (2007-2011), the Group is planning to invest approximately € 102.7 million.
- © The majority of turnover is expected to derive from water consumption, with a higher pace of annual increase seen in sewer usage revenues. For the period 2006-2011, we expect turnover CAGR₂₀₀₆₋₂₀₁₁ of 9.04%, with EBITDA and net income CAGR₂₀₀₆₋₂₀₁₁ of 14.33% & 14.38% respectively.
- © Our valuation model derives a fair price of € 11.53 per share for EYATH based on the DCF method implying a P/E multiple of 19.43x for the projected fiscal 2008 and 15.98x for the projected fiscal 2009.

Share Price Graph (52 weeks)

Min.: € 5.94 - Max.: € 10.96



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Investment Case & Growth Drivers

Investment Summary

The new geographic expansion, the new pricing policy, and the steadily growing customer base in existing network are among the determinants factors of revenue growth in the short-term. In the longer-term however, the Management has given us guidance of investments to be implemented in the sectors of energy and telecommunications, implying additional growth, which at this time we have not included in our financial model.

Expansion Strategy

The Company's expansion is fueled by its organic growth as a water supplier and sewerage services provider, as well as by the Management's plans to diversify activities in the longer run, facilitating the Company's entrance into new business sectors with related activities and promising prospects. **EYATH enjoys an exclusive 30-year contract signed in July 2001 with the state-owned "EYATH Pagon", for the utilization of existing water and sewerage networks, which belong to the latter.**

1. Organic Growth Drivers (Core Business)

Water Sector: EYATH aims at an efficient water resources management, control of leakages and network modernization through the following actions:

- ❖ Investments in network's modernization;
- ❖ Exploitation of alternative water sources;
- ❖ Tighter quality control;
- ❖ Adoption of innovative technology based procedures.

Sewerage Services: The Company aims at network expansion, replacement of the old parts of the network, application of constant modernization procedures, and stronger environmental protection through the following actions:

- ❖ Construction of a modern sewerage network;
- ❖ Continuous maintenance activities and precautionary measures;
- ❖ Anti-flooding control;
- ❖ New operation structure of the network.

Support Factors: In an effort to facilitate organic growth drivers deliver stronger financial results, EYATH's Management contemplates the following additional actions:

- ❖ Increase of technological know how and higher education and specialization levels for its personnel;
- ❖ Higher rates with regard to customer satisfaction through one-stop customer services systems;
- ❖ More efficient management of financial resources through IT systems providing greater analysis of data;
- ❖ Modernization of IT infrastructure.

2. Non-Organic Growth Drivers (Non-Core Business)

EYATH plans to expand its network in neighboring areas around the city of Thessalonica aiming at a higher consumer base that in turn will allow the Company to develop non-core business activities in the next 10-year horizon. The Management has expressed its intention to undertake strategic initiatives such as partnership agreements in Greece and the Balkans and enter sectors such as energy and telecommunications. The Company, who possesses an energy production license since 2005 from the Greek State, developed recently power production from bio-gas at the Sindos Waste Waters Treatment Installations, lowering its requirements for electric power supply. Other non-core activities would also include the Company ceding the ducts' use to corporate clients for telecommunication purposes, like private networks based on optic fibers and to provide water supply, sewerage and installations running services in other cities in Northern Greece and the Balkans. Since the above initiatives have not yet materialized, we have proceeded with no relevant assumptions in our financial forecasts.

Pricing Policy

Pricing policy is one of the determinant factors in the Company's revenue growth trends and is ensured by mutual long-term agreement with the Greek State. As in most countries and cities, annual price increases are moderate and take into account social aspects in an effort to maintain water purchasable from all consumers in the broader area of Thessalonica. In this context, we have drawn a relatively conservative annual price growth scenario in our financial forecasts

during the period 2007-2011.

Strategic Advantages

The operation of the state-owned company “EYATH Pagion” [please see more detailed analysis in the “Company Profile” section] allows EYATH to focus on operating, maintaining, modernizing the existing network, currently owned by the non listed company, and at the same time limits the risk of water leaks, which are a significant element of the Company’s operating cost structure. At the same time, EYATH aims at improving water quality as well as the broader services of its network conforming to the E.U. and Greek State’s requirements.

Capex Secures Revenue Growth

The capital expenditure plan is an essential part of the Company’s growth strategy as it fulfils the following needs:

- ❖ Constant network and geographic expansion;
- ❖ Maintenance and modernization of installations;
- ❖ Incorporation of technology based procedures;
- ❖ Generation of economies of scale and cost efficiencies.

The Company distinguishes its capital expenditure needs between small-scale and large-scale ones. Repairs and replacement of old ducts, installations and extensions of networks, and connections of new buildings are among the so called “small scale water supply and drainage works” (or daily works), which are own-financed. The large-scale works are financed with own funds, bank debt and investment grants, and may include construction of new networks, flood preventing works, and water conveyance works.

EYATH completed an investment program of about €103.7 million during the period 2002-2006 in order to benefit from economies of scale, reduce operating costs, increase productivity and improve services. For the 5-year period (2007-2011), the Group is planning to invest approximately € 102.7 million.

TABLE

EYATH's Corporate Evolution according to Management

Source: The Company, VRS.

	2007	2008	2010
EYATH S.A.	Services	Services	Services
		Telecom	Telecom
		Energy	Energy
			Construction

Turnover Breakdown

According to our assumptions, the majority of turnover will derive from water consumption, accounting for 53.5% of total at the end of the fiscal 2011 versus 59.4% of total during the fiscal 2006. This reduction is due to the higher pace of increase in sewer usage revenues. Sewer fees are calculated as a percent on the total value of the water, and this percent is expected to readjust upwards until the fiscal 2011.

Historic & Projected Turnover Breakdown

	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Water Supply Sales	35,568	38,661	41,182	44,945	47,728	50,785	54,455
% of Total Turnover	60.0%	59.4%	58.3%	57.1%	55.8%	54.5%	53.5%
y-o-y growth		8.7%	6.5%	9.1%	6.2%	6.4%	7.2%
Other Revenues from Water Supply	5,939	6,600	7,500	8,000	8,500	9,000	9,500
% of Total Turnover	10.0%	10.1%	10.6%	10.2%	9.9%	9.7%	9.3%
y-o-y growth		11.1%	13.6%	6.7%	6.3%	5.9%	5.6%
Scrap Material Sales	27	14	15	16	17	18	19
% of Total Turnover	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
y-o-y growth		-48.9%	7.2%	6.7%	6.3%	5.9%	5.6%
Sewer Usage Revenues	15,106	16,864	19,500	23,200	26,800	30,900	35,300
% of Total Turnover	25.5%	25.9%	27.6%	29.5%	31.3%	33.2%	34.7%
y-o-y growth			15.6%	19.0%	15.5%	15.3%	14.2%
Other Revenues from Drainage Usage	2,607	2,978	2,500	2,500	2,500	2,500	2,500
% of Total Turnover	4.4%	4.6%	3.5%	3.2%	2.9%	2.7%	2.5%
y-o-y growth		14.2%	-16.1%	0.0%	0.0%	0.0%	0.0%
Total Company Turnover	59,246	65,118	70,697	78,661	85,545	93,203	101,774
y-o-y growth		9.91%	8.57%	11.26%	8.75%	8.95%	9.20%

Source: Company historic financials, VRS projections & Company guidance.

Note: 2005 and 2006 accounts are based on Greek GAAP.

Financial Analysis

Profit & Loss Analysis

For the period 2006-2011, Company's turnover is expected to increase by approximately 9.04% on average annually, mostly attributed to the new pricing policy, the expansion of activities in new geographic areas, as well as the increase of customer base in existing network (natural growth).

Water supply sales that represent the majority of company turnover will increase on a 5-year CAGR of 7.09%. The growth is mostly attributed to the inclusion of new geographic areas in the company's network and the new pricing policy. The most important assumptions are summarized in the table below:

Water Supply Sales Assumptions Analysis

	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Customer number	463,959	479,967	500,009	519,864	534,919	549,974
Water consumption per home user (m3)	97	97	96	95	95	95
Average water consumption per customer (m3)	141	139	137	134	134	133
Total water consumption (m3)	65,380,355	66,930,567	68,449,024	69,862,161	71,503,704	73,145,246
Average gross water pricing (€)	0.52	0.54	0.58	0.61	0.63	0.66
Revenue from Water Consumption (€)	34,153,137	36,382,472	39,845,142	42,328,343	45,084,724	48,455,371
Fixed Charge (€)	4,507,924	4,800,000	5,100,000	5,400,000	5,700,000	6,000,000
Water Supply Sales (€)	38,661,060	41,182,472	44,945,142	47,728,343	50,784,724	54,455,371

Source: Estimates by VRS & Company guidance

Other water supply revenues include all the remaining income from the water supply sector that does not originate from water consumption, but rather constitutes income from the maintenance, mainly of the hydrometers, income from the placement of hydrometers, etc.

The provision of sewerage services will represent 34.7% of the Company's turnover at the end of fiscal 2011 growing on a 5-year CAGR of 15.92%. The growth is mostly attributed to the expansion of Company's network and the effect from the new pricing policy on water supply. Sewer fees are calculated as a percent of the total value of water, which is readjusted according to the table:

Year	2006	2007	2008	2009	2010	2011
Percentage	60%	64%	68%	72%	76%	80%

Source: Company Data

EBITDA margin accounted for approximately 28.58% at the end of the fiscal 2006, from 26.52% during the fiscal 2005, positively affected by the reduction of operating expenses. Operating expenses are projected to increase on a lower pace compared to total turnover growth in the next 5-year period, resulting to a further improvement of EBITDA margin to 36.23% by the end of the fiscal 2011.

The assumptions regarding the growth of expenses are analyzed below:

1. Average annual increase of the expenses on personnel 5% (with the maturity of wages);
2. Increase of expenses on energy by 30% by the end of the fiscal 2011;
3. General increase of 5% in all other operating expenses;
4. Fixed payment to “Eyath Pagion” (the state-owned company possessing the fixed assets) at the sum of ~1,500,000 € for the period 2007 - 2011, as compensation for the supply of crude water.

Historic & Projected P&L Financial Ratios

	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Profit Margins							
Gross Margin	35.84%	38.19%	34.80%	39.50%	42.00%	44.00%	46.60%
EBITDA Margin	26.52%	28.58%	23.60%	28.64%	31.34%	33.44%	36.23%
EBIT Margin	21.79%	21.03%	14.42%	19.64%	21.88%	23.75%	26.39%
Pre-tax Profit Margin	21.28%	20.68%	14.03%	19.29%	21.56%	23.46%	26.12%
Net Profit Margin	14.00%	14.60%	9.96%	13.69%	15.31%	16.65%	18.54%
Cost Absorption & Sources							
Cost of Sales on Sales	64.16%	61.81%	65.20%	60.50%	58.00%	56.00%	53.40%
Administrative Cost on Sales	11.84%	8.66%	8.47%	8.04%	7.78%	7.53%	7.25%
Distribution Cost on Sales	6.18%	5.24%	5.09%	4.81%	4.62%	4.45%	4.26%

Source: Company historic financials, VRS projections & Company guidance

Key Elements of Balance Sheet

CAPEX: EYATH has recently completed an investment program of about €103.7 million during the period 2002-2006 in order to benefit from economies of scale, reduce operating costs, increase productivity and improve services.

The investment program materialized following an agreement between “EYATH” and “EYATH Pagion” that ensured their co-operation status. Investments concerned mainly the following:

- Erection of new office building;
- Replacement of water-meters and sewerage pipes;
- Maintenance of water tanks and pumping stations and waste waters treatment plants;
- Elaboration of studies for the production of a strategic model for the networks' management, the disposal of irrigation water from the operation of Sindos Waste Waters Treatment Installations.

For the next 5-year period (2007-2011), the Group is planning to invest approximately € 102.7 million. The investment assumes an amount of € 76.45 million for the development of new fixed assets, and an amount of € 75.40 million for operating expenses. The majority of investments are allocated according to the table below:

(in euro million)	2007	2008	2009	2010	2011	Total
Buildings	1.90	2.00	1.20	0.30	0.60	6.00
Mechanical equipment	0.55	0.55	0.65	0.75	0.90	3.40
Means of transportation	0.05	0.05	0.05	0.05	0.25	0.45
Equipment	0.05	0.05	0.05	0.05	0.05	0.25
Integrated information systems	0.15	0.35	0.40	0.40	0.20	1.50
Center of distinction	0.10	0.10	0.10	0.10	0.10	0.50
Training of personnel	0.05	0.15	0.15	0.20	0.20	0.75
Automations	0.30	0.70	2.50	3.90	4.60	12.00
Portable water	5.90	6.25	6.20	8.40	9.40	36.15
Wastes	4.05	4.75	4.85	5.80	6.55	26.00
Establishment of subsidiary	0.10	0.00	0.00	0.00	0.00	0.10
Power production	3.20	4.35	7.85	0.05	0.15	15.60
Total	16.40	19.30	24.00	20.00	23.00	102.70

Source: Company guidance

The investment program includes the establishment of a subsidiary company for the investments in the electric power production from renewable sources. The total capex is estimated at €15.6 million, and will be financed by the participation of TWSC (€ 5.1 million) and bank debt and other financing (€10.5 million). In addition the Company is planning to expand in the telecom sector, developing a network through its existing infrastructure (fiber optics and wireless networks, allowing the providers to offer telephony, internet and video on demand).

The allocation of capital expenditures to fixed assets will be the following:

	% of Total	Total Expenses (in € ,000s)
Intangible Assets	1.96%	1,500
Buildings & Technical Works	93.00%	71,100
Machinery & Mechanical Installation	4.45%	3,400
Transportation Equipment	0.29%	225
Furniture	0.29%	225
Total Capex		76,450

Financing: The investments will be financed from own funds, investment grants and long-term bank debt according to the table below:

	Amount (in euro ,000)
Own funds	87,000
Funds derived from the ASE	5,200
Investment grants	6,100
Long term bank debt	4,400
Total	102,700

Source: Company data

The long-term bank debt will be raised mostly to finance investments in power production. Investment grants will be collected gradually during the fiscal 2007-2009.

Historic & Projected Financial Ratios

	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Activity							
Stock Days	13	13	12	12	12	12	12
Debtors Days	66	81	81	81	81	81	81
Creditors Days	55	48	45	45	45	45	45
Operating Cycle	79	93	93	93	93	93	93
Cash Cycle	24	45	48	48	48	48	48
Capital Structure							
Total Debt/ Total Equity	0.69	0.64	0.60	0.57	0.52	0.47	0.42
Bank Loans/ Total Equity	0.12	0.09	0.07	0.06	0.04	0.03	0.01
Capital Gearing							
Interest Coverage	35.46	50.87	41.71	56.31	67.02	77.93	92.18
Bank Debt / EBITDA	0.49	0.33	0.32	0.22	0.14	0.09	0.04
Liquidity							
Current Ratio	0.74	0.82	0.83	0.84	0.79	0.89	1.01
Quick Ratio - Acid Ratio	0.71	0.79	0.80	0.81	0.76	0.85	0.97

Source: Company historic financials, VRS projections & Company guidance

Interim Financial Results

EYATH published first half financial results under IFRS on August 30th, 2007 covering the period January until 30 June 2007. The financial results are presented below:

<i>(in € ,000s)</i>	IFRS Accounts 1/1-30/06/2007	<i>Change</i> (%)	IFRS Accounts 1/1-30/06/2006
Turnover	33,289	4.50%	31,854
Gross Profit	11,071	20.59%	9,181
Operating Expenses	6,510	22.48%	5,315
Financial Expenses	3	-102.00%	-150
EBT	6,102	44.73%	4,216
EAT	4,282	64.12%	2,609
	<u>30/6/2007</u>		<u>31/12/2006</u>
Fixed Assets	83,357	3.59%	80,469
Inventory	1,440	2.35%	1,407
Receivables	28,213	4.70%	26,947
Cash	12,699	22.60%	10,358
Total Assets	126,506	5.07%	120,403
Equity	73,983	0.91%	73,318
Total Liabilities	52,523	11.55%	47,085

Source: Financial Statements under IFRS.

HISTORIC & PROJECTED PROFIT & LOSS ACCOUNT

(in euro ,000)		2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Turnover		60,246	66,035	70,697	78,661	85,545	93,203	101,774
	y-o-y Change %		9.61%	7.06%	11.26%	8.75%	8.95%	9.20%
Cost of Sales		38,651	40,813	46,095	47,590	49,616	52,193	54,347
	% of Turnover	64.16%	61.81%	65.20%	60.50%	58.00%	56.00%	53.40%
	y-o-y Change %		5.59%	12.94%	3.24%	4.26%	5.19%	4.13%
Total Gross Operating Results		21,595	25,222	24,603	31,071	35,929	41,009	47,427
Gross Operating Margin		35.84%	38.19%	34.80%	39.50%	42.00%	44.00%	46.60%
	y-o-y Change %		16.80%	-2.46%	26.29%	15.63%	14.14%	15.65%
Other operating income		5,543	3,505	2,375	2,299	2,257	2,130	2,000
Administrative Expenses		7,132	5,716	5,988	6,326	6,657	7,020	7,382
	% of Turnover	11.84%	8.66%	8.47%	8.04%	7.78%	7.53%	7.25%
Research and development costs		304	679	703	734	767	802	840
	% of Turnover	0.50%	1.03%	0.99%	0.93%	0.90%	0.86%	0.83%
Distribution Cost		3,725	3,459	3,602	3,784	3,955	4,145	4,333
	% of Turnover	6.18%	5.24%	5.09%	4.81%	4.62%	4.45%	4.26%
Total Expenses		11,161	9,854	10,292	10,844	11,378	11,968	12,555
	% of Turnover	18.53%	14.92%	14.56%	13.79%	13.30%	12.84%	12.34%
	y-o-y Change %		-11.71%	4.45%	5.36%	4.92%	5.18%	4.91%
EBITDA		15,977	18,873	16,685	22,526	26,808	31,171	36,871
EBITDA Margin		26.52%	28.58%	23.60%	28.64%	31.34%	33.44%	36.23%
	y-o-y Change %		18.13%	-11.59%	35.01%	19.01%	16.28%	18.29%
Depreciation		2,847	4,985	6,492	7,081	8,089	9,035	10,013
	% of Turnover	4.73%	7.55%	9.18%	9.00%	9.46%	9.69%	9.84%
EBIT		13,130	13,888	10,193	15,445	18,719	22,137	26,858
	% of Turnover	21.79%	21.03%	14.42%	19.64%	21.88%	23.75%	26.39%
	y-o-y Change %		5.77%	-26.61%	51.53%	21.19%	18.26%	21.33%
Net Financial Results		-310	-232	-275	-275	-275	-275	-275
Net Results Before Taxes		12,820	13,656	9,918	15,170	18,444	21,862	26,583
EBT Margin		21.28%	20.68%	14.03%	19.29%	21.56%	23.46%	26.12%
	y-o-y Change %		6.52%	-27.37%	52.96%	21.58%	18.53%	21.60%
Income Tax		4,384	4,016	2,876	4,399	5,349	6,340	7,709
	Effective Tax Rate	34.20%	29.41%	29.00%	29.00%	29.00%	29.00%	29.00%
Net Results After Taxes		8,436	9,640	7,042	10,771	13,095	15,522	18,874
EAT Margin		14.00%	14.60%	9.96%	13.69%	15.31%	16.65%	18.54%
	y-o-y Change %		14.28%	-26.95%	52.96%	21.58%	18.53%	21.60%
Consolidated Net Results (a.t.&m.i.)		8,436	9,640	7,042	10,771	13,095	15,522	18,874
Net Margin		14.00%	14.60%	9.96%	13.69%	15.31%	16.65%	18.54%
	y-o-y Change %		14.28%	-26.95%	52.96%	21.58%	18.53%	21.60%

Source: Company Financials, VRS Projections & Company Guidance.

HISTORIC & PROJECTED BALANCE SHEET

(in euro ,000)	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Assets							
Net Intangible Assets	201	172	254	499	738	916	850
Tangible Assets	81,359	90,009	100,487	114,312	132,807	146,540	162,639
Accumulated depreciation	4,648	9,540	15,965	22,940	30,868	39,681	49,428
Net Tangible Assets	76,711	80,469	84,522	91,372	101,939	106,858	113,212
Deferred Taxes	1,322	703	633	601	631	662	696
Long Term Receivables	348	348	334	321	308	296	284
Total Non-Current Assets	78,582	81,692	85,743	92,793	103,615	108,733	115,041
% Total Assets	69.78%	67.85%	68.95%	69.56%	72.84%	71.72%	70.43%
Inventories	1,378	1,407	1,515	1,565	1,631	1,716	1,787
Debtors	10,880	14,574	15,689	17,456	18,984	20,683	22,586
Other Receivables	14,247	12,373	12,396	12,931	13,125	13,534	13,942
Cash in bank and at hand	7,533	10,358	9,019	8,657	4,899	6,947	9,992
Total Current Assets	34,038	38,712	38,620	40,609	38,639	42,880	48,306
% Total Assets	30.2%	32.2%	31.1%	30.4%	27.2%	28.3%	29.6%
Total Assets	112,620	120,403	124,363	133,402	142,254	151,613	163,347

Source: Company Financials, VRS Projections & Company Guidance.

HISTORIC & PROJECTED BALANCE SHEET

(in euro ,000)	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Equity & Liabilities							
Share capital	18,150	20,328	20,328	20,328	20,328	20,328	20,328
Share premium account	2,830	2,830	2,830	2,830	2,830	2,830	2,830
Total Reserves	23,355	23,837	24,259	24,906	25,691	26,623	27,755
Profit carried forward	22,498	26,323	30,542	36,867	44,576	53,567	64,508
Total Capital & Reserves	66,833	73,318	77,960	84,931	93,426	103,347	115,421
% Total Equity & Liabilities	59.34%	60.89%	62.69%	63.67%	65.68%	68.17%	70.66%
Long Term Liabilities							
L-Term Bank Loans	6,318	4,718	4,400	3,300	2,200	1,100	0
Provisions for Staff Retirement	6,940	7,174	7,424	7,674	7,924	8,174	8,424
Investment Grants	4,093	5,240	7,322	8,670	9,086	8,450	7,858
Other long term debts	10,085	10,841	10,407	9,995	9,604	9,232	8,879
Total L-Term Liabilities	27,436	27,973	29,553	29,639	28,813	26,956	25,161
Short Term Liabilities							
Suppliers	5,838	5,419	5,683	5,867	6,117	6,435	6,700
Banks	1,560	1,600	1,000	500	500	500	500
Current portion of long term debt	0	0	0	1,100	1,100	1,100	1,100
Taxes-duties	4,683	3,779	1,438	2,200	2,674	3,170	3,855
Sundry debtors	6,269	8,313	8,729	9,166	9,624	10,105	10,610
Total Current Liabilities	18,351	19,112	16,850	18,832	20,015	21,310	22,765
Total Liabilities	45,787	47,085	46,404	48,471	48,829	48,265	47,926
% Total Equity & Liabilities	40.66%	39.11%	37.31%	36.33%	34.32%	31.83%	29.34%
Total Equity & Liabilities	112,620	120,403	124,363	133,402	142,254	151,613	163,347

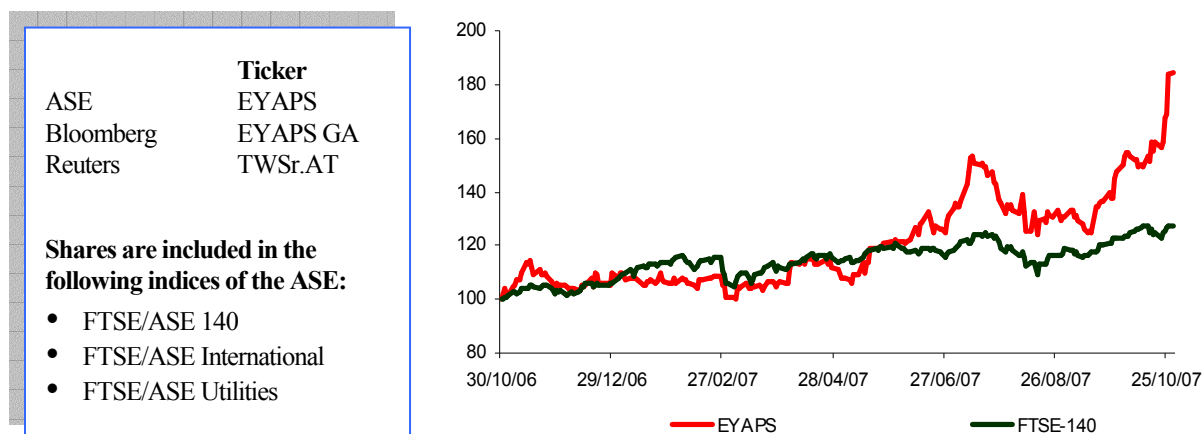
Source: Company Financials, VRS Projections & Company Guidance.

HISTORIC & PROJECTED CASH FLOWS

(in € ,000)	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Profit after tax, fees to the Board and tax diff.	9,640	7,042	10,771	13,095	15,522	18,874
Plus: Change of Depreciation	4,957	6,492	7,081	8,089	9,035	10,013
Gross Cash Flow	14,597	13,534	17,852	21,184	24,557	28,887
<u>Change in:</u>						
(-) Trade Debtors	3,694	1,115	1,767	1,528	1,699	1,902
(-) Inventory	29	109	49	67	85	71
(-) Other Receivables	-1,874	23	534	194	409	408
(+) Trade Creditors	-419	264	184	250	318	266
(+) Liabilities for taxes	-904	-2,341	762	475	496	685
(+) Other Short - term liabilities	2,044	416	436	458	481	505
Change in Working Capital	-1,128	-2,909	-968	-606	-898	-926
Operating Cash Flow	13,469	10,625	16,883	20,578	23,658	27,961
<u>Change in:</u>						
(-) Intangible Assets	35	150	350	400	400	200
(-) Tangible Assets	8,650	10,478	13,825	18,494	13,733	16,100
(-) Other long - term receivables	-619	-84	-45	17	19	21
(+) Other Long - term liabilities	2,137	1,898	1,185	275	-758	-695
Cash Flow from Investment	-5,929	-8,645	-12,945	-18,637	-14,910	-17,016
Net Cash Flow Before Financing Activities	7,540	1,980	3,938	1,942	8,748	10,945
Increase in Share Capital	2,178	0	0	0	0	0
Increase in Share Premium Account	0	0	0	0	0	0
Net Change in Reserves	-2,066	0	0	0	0	0
Change in Long - Term Debt	-1,600	-318	-1,100	-1,100	-1,100	-1,100
Change in Short - Term Debt	40	-600	600	0	0	0
Dividends	3,267	2,400	3,800	4,600	5,600	6,800
Net Cash Flow from Financing	-4,715	-3,318	-4,300	-5,700	-6,700	-7,900
Cash at Beginning	7,533	10,358	9,019	8,657	4,899	6,947
Change in Cash and Marketable Securities	2,825	-1,339	-362	-3,758	2,048	3,045
Cash at End	10,358	9,019	8,657	4,899	6,947	9,992

Source: Company Financials, VRS Projections & Company Guidance.

Share Price Performance vs. FTSE / ASE 140 (base=100)



Note: The Board of Directors of EYATH has called for an Extraordinary Shareholders' Meeting on 7 November 2007, to decide on a bonus issue among other subjects of the daily agenda.

	29 October 2007	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Price (in €)	€ 10.96						
Shares	18,150,000						
Market Cap. (in €)	198,924,000						
EPS (in €)		0.53	0.39	0.59	0.72	0.86	1.04
Book Value / Share (x)		4.0	4.3	4.7	5.1	5.7	6.4
EV (in € thous.)		194,884	195,305	195,167	197,825	194,677	190,532
P/E (a.t.& m.i.)		20.64x	28.25x	18.47x	15.19x	12.82x	10.54x
P/BV		2.71x	2.55x	2.34x	2.13x	1.92x	1.72x
EV/EBITDA		10.33x	11.71x	8.66x	7.38x	6.25x	5.17x
EV/Sales		2.95x	2.76x	2.48x	2.31x	2.09x	1.87x

Source: Estimates by VRS & Company guidance

Valuation (DCF Method)

Evaluating our projections on the **DCF model**, we end up with a fair value of €205.62 million or € 11.53 per share, implying a P/E multiple of 19.43x for the projected fiscal 2008 and 15.98x for the projected fiscal 2009.

	2007 E	2008 E	2009 E	2010 E	2011 E	L-Term Assumptions
ASSUMPTIONS						
Growth Rate (Sales)	7.1%	11.3%	8.8%	9.0%	9.2%	2.5%
EBIT Margin	14.4%	19.6%	21.9%	23.8%	26.4%	26.0%
Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Working Capital (% of sales)	4.1%	1.2%	0.7%	1.0%	0.9%	0.8%
Capex (% of sales)	15.0%	18.0%	22.1%	15.2%	16.0%	11.0%
Cost of Capital	9.2%	9.2%	9.3%	9.4%	9.4%	9.2%
Depreciation (% of sales)	9.2%	9.0%	9.5%	9.7%	9.8%	11.0%
CASH FLOW STATEMENT						
Turnover	70,697	78,661	85,545	93,203	101,774	104,319
EBIT	10,193	15,445	18,719	22,137	26,858	27,123
Less: Adjusted Tax	2,548	3,861	4,680	5,534	6,715	6,781
Adjusted Operating Profit	7,645	11,584	14,039	16,602	20,144	20,342
Plus: Depreciation	6,492	7,081	8,089	9,035	10,013	11,475
Operating Cash Flow	14,137	18,665	22,128	25,637	30,157	31,817
Less: Change in Working Capital	2,909	968	606	898	926	835
Less: Capex	11,650	14,650	19,250	14,400	16,500	11,475
Cash Flow to the Firm (FCFF)	-422	3,046	2,272	10,339	12,731	19,508
Discount Factor	0.92	0.84	0.77	0.70	0.64	0.64
Present Value of Cash Flows	-387	2,554	1,741	7,228	8,114	
Accumulated Present Value	-387	2,168	3,908	11,136	19,250	
Residual Value						289,806
Present Value of Residual Value						186,369
VALUATION						
Enterprise Value	205,619					
% Residual Value of Total	90.6%					
Value of firm	209,238					
Value of share	11.53					
WACC CALCULATION						
Risk Free Rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Beta Factor	1.0	1.0	1.0	1.0	1.0	1.0
Market risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Debt / Debt + Equity	6.5%	5.5%	3.9%	2.5%	1.4%	5.0%
Cost of Debt	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Weighted Average Cost of Capital	9.2%	9.2%	9.3%	9.4%	9.4%	9.2%

Source: Estimates by VRS & Company guidance

We have applied the following major assumptions in our model:

- Weighted Average Cost of Capital at 9.20% (Cost of Equity = 9.5%);
- We have estimated sustained growth in all activities during the examined period and infinity sales growth of 2.5%;
- Infinite EBIT margin of 26.0%.

Sensitivity Analysis

The model's assumptions reflect the ongoing profitability of EYATH, its expansion plan and a constant increase of customer base. Our valuation incorporates a sensitivity analysis based on the discounted free cash flow method employing a discount rate in the range of 7-12%, and a growth rate ranging between 1.5-3.5%.

		WACC				
		7.2%	8.2%	9.2%	10.2%	11.2%
GROWTH	1.50%	13.20	11.91	10.11	8.75	7.68
	2.00%	15.68	12.82	10.77	9.24	8.06
	2.50%	17.28	13.89	11.53	9.80	8.49
	3.00%	19.26	15.16	12.41	10.44	8.97
	3.50%	21.78	16.71	13.44	11.17	9.50

Source: VRS Calculations

Comparative Valuation

We compare EYATH with a peer group of domestic and international water supply & sewer usage companies. The analysis demonstrates that EYATH stock trades close to the average level of the peer group based on projected fiscal 2007 P/E and P/BV multiple. The company can be partially compared to its peers, as there are considerable differences in size and scope.

Company	Country	Mkt Cap. (€ mn)	P/E '07 E	P/BV '07 E
United Utilities	UK	6,360	14.06x	2.32x
Aguas De Barcelona	SP	4,174	27.75x	2.37x
Veolia Environment	FR	29,035	27.64x	5.36x
Aqua Amercia Inc	US	3,048	30.32x	3.24x
EYDAP	GR	941	24.02x	1.20x
EYATH	GR	199	28.25x	2.55x

Source: Bloomberg estimates for fiscal 2007. Share prices as of 29/10/2007.

Company Profile

EYATH operates in Thessalonica urban area, consisting of 23 municipalities and capturing 15% approximately of the country's aggregate population.

“Thessaloniki Water Supply and Sewerage SA” or “EYATH” (the Company) was established in 1998 (Law 2651/3.11.1998, Government Gazette A' 248/2.11.1998) and is governed by the provisions of articles 18 up to 27, Law 2937/2001, and of article 22, Law 2733/1999. EYATH was the outcome of merger between Thessalonica Water Supply SA and Thessalonica Sewerage SA. The Company's duration has been set at 99 years. The headquarters of EYATH are located in Municipality of Thessalonica, which is the country's second largest city next to Athens.

EYATH undertakes the water supply of the broader Thessalonica area, including a number of suburbs and metropolitan areas, and the collection / transfer of urban wasted waters to the Waste Water Treatment Facilities. The Company possesses the exclusive right to provide water supply and sewerage services in the broader Thessalonica area. As far as water supply is concerned, EYATH has the right to serve the urban complex of Thessalonica along with Panorama Municipality and the city's Industrial Area. As far as sewerage activities are concerned, the Company is entitled to cover the area from Axios River, the hillocks of the broader Thessalonica area (where forestry department's authority originates), up to the tourist areas.

More specifically, the Company is characterized by the following:

- ❖ Daily water supply capacity of 250,000 m³ on average basis;
- ❖ Daily waste water treatment capacity of 170,000 m³ on average basis;
- ❖ Geographic area coverage of 80 square kilometers;
- ❖ Water supply pipe network with a length of 1,800 km, and sewerage network with a length of 1,600 km. **Both networks are not fully exploited yet, and can be simultaneously utilized for telecommunication or energy infrastructure;**
- ❖ Targeted customer base of 1,100,000 individuals.

The Distinction between EYATH and “EYATH Pagion”

The listed company EYATH, which was created from the merger described above, is a separate entity from “EYATH Pagion” (or “EYATH Assets”), which is the company possessing the necessary fixed assets to collect unprocessed water. The latter is channeled in the tanks of EYATH, against a certain price (amounted at € 145,000 during the first 5-year period), ensuring the distribution of the appropriate quantities to satisfy consumption of the broader Thessalonica area. It is noted that based on an exclusive 30-year contract signed in July 2001, EYATH has only the right of using the existing water and sewerage networks, which belong to the assets of “EYATH Pagion”.

PICTURE 1

The Area for Water Supply and Sewerage Services from EYATH

Source: The Company, VRS.



Scope of Activities and Network Coverage in Detail

According to the articles of association, EYATH is entitled to deal with the following activities:

- Water supply and sewerage services;
- Exploitation of business opportunities arising from wasted water treatment;
- Utilization of water supply and sewerage networks for telecom services.

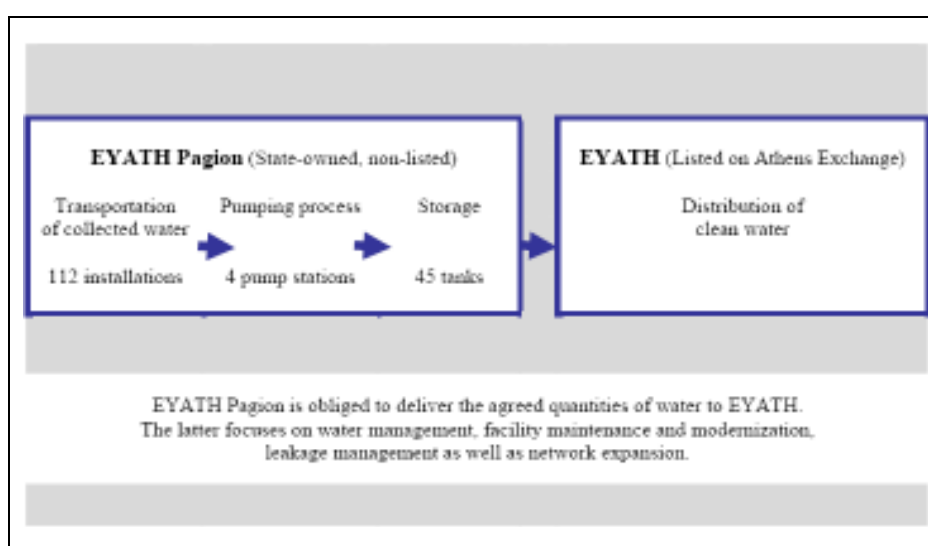
The **water supply network** serves the areas Thessalonica, Kalamaria, Ampelokipi, Neapolis, Sykies, Agios Pavlos, Polikhni, Evosmos, Stavroupoli, Menemeni, Eleftherio-Kordelio, Triandria, Panorama, Rentziki, Pilea Municipalities and the Industrial Park of Thessalonica. The **sewerage network** serves the areas Thessalonica, Kalamaria, Ampelokipi, Neapolis, Stavroupoli, Sykies, Agios Pavlos, Polikhni, Menemeni, Triandria, Pylea, Ionia, Evosmos, Eleftherio-Kordelio, Panorama, Oreokastro, Rentziki, Efkarpia, Mihaniona, Kalohori, Thermi and Filiros Municipalities.

The Company has extended or plans to extend the coverage of water supply network to the areas Efkarpia, Oreokastro and Pylea, and the coverage of sewerage network to Mikra as well as other municipalities.

TABLE 1

The 30-Year Agreement between EYATH and “EYATH Pagion”

Source: The Company, VRS.



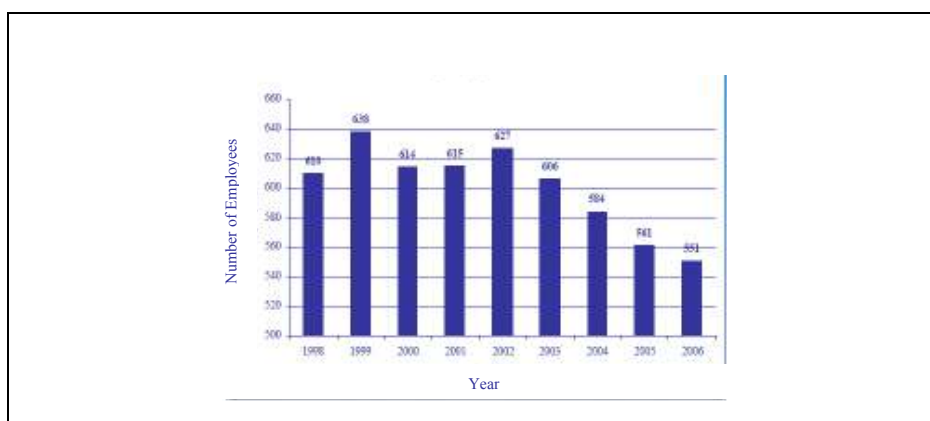
Human Resources

The Company's personnel demonstrate a relatively low specialization and know how, generating however administrative expenses which are significantly higher than the average level of Greek companies. The management's future challenge is to balance a higher educated workforce operating at a more competitive as well as efficient cost basis.

TABLE 2

Historic Evolution of EYATH's Personnel

Source: The Company.



Shareholders' Structure

EYATH SA was listed on Athens Exchange in 2001. The shareholders' structure is presented below:

Shareholder	Participation Stake (As of June 2007)
Greek State	74.02%
Institutional Investors	12.34%
Other Investors & Free Float	13.64%
Total	100.00%

Source: Athens Exchange.

Investment Risks / Mitigating Factors

Investment Risks / Concerns	Mitigating Factors / Important Notes
<p>1 State-ownership places EYATH under a relatively inflexible as well as inefficient operating structure. Furthermore, the management is appointed by the ministry authorities implying transitional phases and possible deviations from originally planned expansion strategies.</p>	<p>Since its listing on Athens Exchange in 2001, the Company followed a satisfactory growth trend amid a strong investment plan which was not affected by the election of new government in 2004. Current Management has placed tackling operating inefficiencies very high on its agenda.</p>
<p>2 The Company's personnel possesses low specialization and technological know how. Monthly salaries are well above the market average in Greece.</p>	<p>The investment plan assumes significant resources spent for education and training purposes. Personnel's retirement is in progress alleviating part of the burden incurred by the high salary levels.</p>
<p>3 High energy costs remain a concern against the Company's ability to deliver operating growth rates above its historic average.</p>	<p>The Management plans to take initiatives in the energy production sector for own as well as third party needs.</p>
<p>4 The combination of a fast growing population, highly stressed natural water resources and the challenge of industrialization means that developing new water sources and putting wastewater to better use is a priority. EYATH Pagion and consequently EYATH apparently lag behind in this effort as compared to international players.</p>	<p>The largest part of the Company's investment program is now focusing on the wastewater sector and on the highest possible utilization of water resources at the lowest possible environmental cost.</p>

Source: Valuation & Research Specialists (VRS)

Management's Guidance and VRS View

	Management's Guidance	VRS View
1	EYATH has disclosed its business and investment plan for the period 2007-2011.	We have made assumptions in our model with relation to the guidelines of this plan as far as investment initiatives are concerned.
2	The Management has explicitly presented revenues and earnings forecasts for the period 2007-2011.	Our forecasts have been drawn under a more conservative path in relation to the ones of the Company's Management, for reasons explained in this report.
3	The Management contemplates the Company's entrance in the energy production and telecommunication sectors in the following years.	We are cautious on the potential outcome of the Company's engagement in those two sectors as well as the precise time the expected financial benefits would be delivered. We have made no relevant assumptions in our revenue and earnings forecasts.

Source: Valuation & Research Specialists (VRS)

International Trends and Developments in the European Sector

Small incremental improvements in water and wastewater standards require progressively larger amounts of capital expenditure to achieve.

The global water industry is rapidly expanding, with **the European water sector appearing to possess more favorable fundamentals than any other regional water market**. High tariffs, strict regulatory standards and strong EU funding are among the factors facilitating the European sector's growth scenario over the following 5-year period.

According to European Union's market surveys, **the European municipal water and wastewater sector is set to attract aggregate investments of € 350 billion in the period 2006 – 2015, with the majority of those funds (€ 220 billion) expected to affect the wastewater sector**, as environmental concerns grow rapidly across the continent and E.U. sets even higher environmental standards. The environmental implications of growing cities, together with the necessity of increased reuse means that wastewater is now at the top of the investment agenda for many countries in the region. The urgency with which governments are developing the dirty water business has definitely affected the drinking water side of the sector, which is expected to attract investments of € 130 billion approximately.

On per capita basis, the expected investment in the European water sector over the decade 2006 – 2015 has been estimated at € 437 whereas the equivalent figure for the US is estimated at € 379. Per capita water sector investment in the Middle East and North Africa region has been calculated at € 234. The annual growth rate of per capita investments within the European sector is anticipated especially strong over the following decade.

The major reasons for water companies taking investment initiatives can be summarized as follows:

- ❖ European Union's directives imposing higher water quality standards and environmental protection;
- ❖ Quantity and quality of water sources are steadily declining due to continuous industrialization and climate changes;
- ❖ Operating systems, technological infrastructure and existing networks are seen to be of poor status.

Over the next decade half the world's major industrial companies and one quarter of its major cities will consider water reuse. The combination of increased water scarcity, tougher environmental regulation and falling costs will create the conditions for explosive growth in this business area.

At the same time, investments are expected to drive the sector's operating expenses towards a moderate growth trend. Annual operating expenditures are expected to grow by 1.8% per year following the modernization of assets and the introduction of technology based operations. Investment initiatives, taken along with structural and legislative changes in the European market, also tend to create opportunities for private businesses to enter the water and wastewater sector.

In such an environment, large water utilities in Europe are establishing financing schemes combining private and public capital in order to implement investment programs and to boost efficiency amid scarce environmental resources. On the other hand, the scale of investment required, has put smaller public utilities under pressure to outsource water and wastewater services and infrastructure to private sector entities or even join forces with larger state owned players. In the end, the destiny of large as well as smaller municipal utilities will depend on their overall financial position and the size of the state or municipal funding.

Overall, the European water and wastewater market is to a large extent fragmented since there are differences in various levels such as the:

- ❖ Institutional framework;
- ❖ Regulatory regime;
- ❖ Financial structures and resources;
- ❖ Environmental conditions and necessities;
- ❖ Barriers to entry;
- ❖ Investment outlook.

Characteristically, when it comes to investment expenditures, the disparities may even appear extraordinary, such as in the case of Sweden versus the Russian Federation. The first market was expected to invest nearly twice as much in its water and wastewater sector than the second sector.

Greece is a country with relatively high barriers to entry – EYDAP and EYATH are the two largest listed and state-owned companies serving Athens and Thessalonica respectively - and lags behind in investments among European peers. This also implies that more privatization action lies ahead, with the Greek government considering larger equity stakes sold to private investors.

S.W.O.T. Analysis

Strengths

- ❖ Exclusive 30-year contract with “EYATH Pagion”;
- ❖ Strong customer service network (165 points) and broad customer base (amounting to 464,000 as of end 2006);
- ❖ Good quality water resources from Arravisos springs;
- ❖ Strong capital expenditure program.

Weaknesses

- ❖ Low specialization of personnel;
- ❖ High personnel expenses (estimated at € 43,000 per annum, which is more than twice higher as compared to Greek market standards); Total personnel expenses accounted for € 23.3 million in 2006;
- ❖ High energy cost, reaching € 7.73 million in 2006;
- ❖ High operation cost due to lack of automatic installations; Facilities are not technologically modern;
- ❖ Lack of a modern centralized control for installations and network; Lack of a centralized IT system;
- ❖ Low technological know-how; Poor R&D activities;
- ❖ Management of doubtful customer receivables (especially in the so-called “wholesale market” is still an issue of concern.

Opportunities

- ❖ Liberalization of water and sewerage market in SE Europe;
- ❖ Investment initiatives through Greek Development Law;
- ❖ Cost benefits from establishing private sector related practices in operating and managing the Company;
- ❖ Entrance into the already liberalized markets of telecommunications and energy;
- ❖ Retirement scheme concerning 30%-35% of the Company’s personnel during the period 2007 – 2009 and subsequent employment of specialized staff;
- ❖ Strategic partnerships in Greece and abroad.

Threats

- ❖ Declining trend in annual average water usage by the households;
- ❖ Climate changes and low water collection;
- ❖ High energy costs;
- ❖ Safety factors in the Company’s leased network;
- ❖ Slow implementation of the Company’s business plan;
- ❖ Market liberalization.

Notes

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DISCLOSURE STATEMENT (1)

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In addition to factors previously disclosed in VRS reports and those identified elsewhere in this communication, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: (1) the introduction, withdrawal, success and timing of business initiatives and strategies; (2) changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in demand for products or services or in the value of assets under management; (3) the impact of increased competition; (4) the impact of capital improvement projects; (5) the impact of future acquisitions or divestitures; (6) the unfavorable resolution of legal proceedings; (7) the extent and timing of any share repurchases; (8) the impact, extent and timing of technological changes and the adequacy of intellectual property protection; (9) the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies; (10) terrorist activities and international hostilities, which may adversely affect the general economy, domestic and local financial and capital markets, as well as specific industries; (11) the ability to attract and retain highly talented professionals; (12) fluctuations in foreign currency exchange rates; (13) the impact of changes to tax legislation and, generally, the tax position of the covered company.

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EYATH	TWSr.AT	10.96	29 October 2007	2,3,6

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