

# F.G. EUROPE

[ ESKr.AT ]

- Exclusive Distributor of Fujitsu – General Ltd A/C Products in Greece, Italy & South-Eastern Europe
- Exclusive Distributor of Sharp Consumer Electronics Products in Greece
- Expansion of operations in Energy Production



**Valuation & Research Specialists (VRS)**

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Greek Equities - October 15, 2007

## F.G. Europe

Sector : Wholesale & Energy

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### Company Description:

F.G. Europe is a wholesaler, currently active in the 3 different business segments of air-conditioners, home electrical appliances, and mobile telephony products & services. The Group has established a leading position in the Greek air-conditioners sector and is seeking to exploit synergies in consumer electronics. Future growth will come mainly from geographical expansion, new products related to electric appliances, and higher market shares. The Group has recently expanded its activities in energy sector targeting 28.6 MW production capacity by the end of the fiscal 2008.

In million €	2006	2007 E	2008 E
Turnover	156.08	154.49	159.58
EBITDA	6.27	20.92	23.43
Margin %	4.02%	13.54%	14.68%
Net Income	2.67	12.51	13.52
Margin %	1.71%	8.10%	8.47%

Price (15/10/2007)	€ 3.02
Shares Outstanding (,000)	54,580
Mkt Cap (in €, 000)	164,833

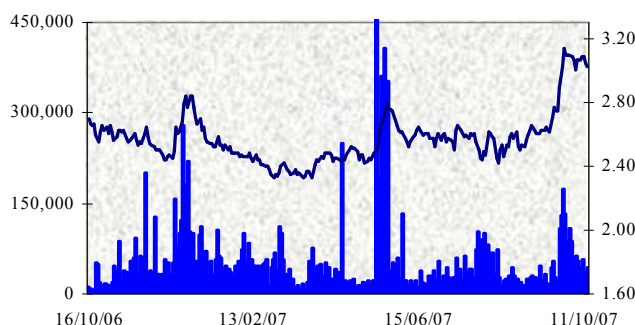
Beta (2 years)	0.92		
Dividend '06	0.04		
Div. Yield	1.32%		
P/E	61.67x	13.18x	12.19x
P/BV	6.90x	5.72x	4.27x
Debt/Equity	31.92x	9.94x	9.39x
ROE	11.98%	47.49%	40.11%

Source: F.G. Europe & VRS Projections

### Key Investment Points

- ◎ F.G. Europe is the leading wholesaler in the **Greek A/C market**, with a significant presence in Italy and South-Eastern Europe, seeking to expand operations in other European countries. The climatic changes have affected the demand for air-conditions in Greece and in other European countries enlarging the value of the targeted market. We believe that the A/C market will remain close to fiscal 2007 levels in the coming years, while FG Europe will slightly increase its market share in Greece and boost its presence in Italy and S-E Europe.
- ◎ FG Europe is **expanding in the consumer electronics** business, through the collaboration agreement **with Sharp**. The Group is **also strengthening operations in the energy sector**, in collaboration with the Restis family. The Group is planning to invest approximately € 250 million in renewable energy production projects during the next 3-5 years, seeking potential targets in Greece and S-E Europe.
- ◎ We have altered our projections in our valuation model given the significantly higher result of the Group for the first 6-month period of fiscal 2007 compared to our estimates.
- ◎ For the period 2006-2011, Group's turnover CAGR is estimated at **3.63%**, while **EBITDA CAGR is estimated at 40.09%**. The light growth of turnover is attributed to the management's decision to gradually withdraw the low margin wholesale mobile telephony division.

Share Price Graph (52 Weeks) Max: € 3.14 - Min: € 2.33



Please see important disclosure and disclaimer statements at the end of this report

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## General Overview

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The strategic decisions of FG Europe's management are gradually improving the performance of the Group, with fiscal 2006 net income growth standing at +158% y-o-y, while for the first 6-months of the fiscal 2007 net income was boosted by 228% y-o-y. Strategic decisions are based on altering the sales mix by seeking higher margin sales and focusing on efficiency and sustainable growth.

The main catalysts that support this performance are:

1. The collaboration agreement with Sharp for the distribution of the latter's products (LCD TVs, DVD, Video, Home Cinemas, Audio, Refrigerators and Microwaves) in Greece;
2. The stronger focus on electric wholesale business (A/C, White appliances), and the greater penetration of the consumer electronics market segment;
3. The boost in A/C demand that enlarged the value of the market due to climatic changes;
4. The gradual withdrawal from mobile telephony wholesale business;
5. The strategic equity participation of the Restis family, implying stronger capital pool and broader collaboration with the Group;
6. The expansion of operations in the energy sector.

## Estimate Revision

We have altered our projections in our valuation model given the significantly higher result of the Group for the first 6-month period of fiscal 2007 as compared to our estimates.

The climatic changes have affected the demand for air-conditioners in Greece and other European countries, thus enlarging the value of the targeted market. We believe that the A/C market will remain close to fiscal 2007 levels in the coming years, while FG Europe will slightly increase its market share in Greece and expand dynamically its presence in Italy and South-East Europe.

The company is withdrawing from mobile telephony wholesale business faster than we expected, a fact that improves operating margins on group level. The Company released its fiscal 2007 turnover breakdown projections, which we follow in our model.

EUR ,000	2007 E			2008 E			2009 E		
	old	new	% chg	old	new	% chg	old	new	% chg
<b>A/C Greek Market</b>	35,917	60,352	68.0%	37,713	61,861	64.0%	39,598	64,954	64.0%
<b>A/C International</b>	27,300	32,105	17.6%	31,395	38,526	22.7%	35,162	48,157	37.0%
<b>W/A Eskimo</b>	6,944	6,510	-6.3%	7,361	6,836	-7.1%	7,581	7,314	-3.5%
<b>W/A Sharp</b>	5,823	5,440	-6.6%	6,696	6,528	-2.5%	7,365	7,507	1.9%
<b>Sharp Products</b>	12,000	9,408	-21.6%	15,600	12,513	-19.8%	17,160	16,642	-3.0%
<b>Mobile Telephony</b>	60,411	38,953	-35.5%	41,079	29,994	-27.0%	18,486	19,046	3.0%
<b>Energy</b>	702	351	-50.0%	2,980	2,777	-6.8%	6,051	4,465	-26.2%
<b>Other</b>	2,628	1,371	-47.8%	2,707	548	-79.7%	2,788	576	-79.3%

Source: Company Guidance & VRS Projections

We have not altered significantly the operating margins of each turnover category. However, the aggregate operating margin of the Group has improved since the new sales mix is in favor of the higher profit margin A/C sales.

EUR ,000	2007 E			2008 E			2009 E		
	old	new	% chg	old	new	% chg	old	new	% chg
<b>Turnover</b>	151,724	154,490	1.8%	145,530	159,582	9.7%	134,192	168,661	25.7%
<b>Cost of Sales</b>	125,282	117,152	-6.5%	113,680	118,001	3.8%	97,245	121,796	25.2%
<b>OPEX</b>	16,915	17,467	3.3%	18,075	19,257	6.5%	18,574	21,515	15.8%
<b>EBITDA</b>	10,426	20,921	100.7%	14,776	23,426	58.5%	19,422	26,507	36.5%
<b>EBIT</b>	9,987	20,567	105.9%	13,604	22,475	65.2%	17,808	24,990	40.3%
<b>Net Results</b>	4,672	12,509	167.7%	7,647	13,522	76.8%	10,633	14,133	32.9%

Source: Company Guidance & VRS Projections

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## Investment Case

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### Gradual Withdraw from Mobile Telephony Business

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The Group is a wholesaler of a complete range of mobile telephony products, such as business and private solutions, pre-paid cards, and phone sets. FG Europe is the master dealer of the service provider Wind and the wholesaler of pre-paid cards for all Greek cellular telephony providers, Cosmote, Vodafone, Wind and Q-Telecom. The Group currently has a base of 10,000 mobile telephony subscription clients and 25,000 average prepaid clients. For the fiscal 2006, FG Europe received € 618,000 revenues from the airtime usage of its clients (we record this amount in other income), while for the next 5-year period we have projected a 2.5% average annual growth.

So far, **mobile telephony represented more than 50% of total turnover** (66.8% in fiscal 2005 and 55.5% in fiscal 2006), **generating less than 1% gross profit margin**. In fiscal 2005, the management of the Group decided to gradually reduce the activities in mobile business wholesale part, affecting negatively total turnover growth, but positively operating profit margins for the next 5 years. We believe that at the end of fiscal 2011, revenues from mobile telephony products and services will account for €8.3 million or 4.5% of the total Group turnover.

### Penetrating the Market Segment of Consumer Electronics

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FG Europe **is expanding operations in the consumer electronics and white appliances business**, through the collaboration agreement with Sharp, offsetting to a large extent the effect from mobile telephony revenue reduction. In addition, Sharp products **generate significantly higher gross margin (~20-22% on average)** as compared to telephony business, improving Group's average gross profit margin.

Sharp products include white appliances as well as LCD TVs, DVD & Video players, Home Cinemas, and Audio. FG Europe aims at capitalizing Sharp's leading position on the LCD TV market globally, a market that is expected to post strong growth rates in the coming years. The Group will utilize its sales network, strengthening its product portfolio and its bargaining power with retailers.

During the fiscal 2006, FG Europe experienced some supply difficulties resulting from the former representative of Sharp. **For the fiscal 2007, we expect the full effect of the collaboration agreement, with sales from the full range of Sharp products reaching at least € 14.8 mil.**, representing about 9.5% of total turnover.

With regard to white appliances, total sales of Sharp products in Greece are expected to exceed € 8.6 million at the end of the fiscal 2011 (4.6% of total Group turnover), with gross profit margin accounting for approximately 24%. With regard to consumer electronics (TV, video, audio), total sales of Sharp products in Greece are expected to exceed € 19 million at the end of the fiscal 2011 (10.2% of total Group turnover), with gross profit margin accounting for approximately 18%.

### **Market Leader in Air-Conditioners in Greece – International Expansion**

Air-conditioners represent a strong product line, since the Group is active as a wholesaler of selected world-class brands, such as Fujitsu, General and Clivet, in Greece and abroad. The Company's focus is to retain market leadership in Greece and expand abroad in Italy and some S-W European countries as well as in the Balkans and other S-E European countries. **In addition, climatic changes have boosted the value of the targeted market, increasing penetration rates of A/C in households. The market value is expected to range close to current levels in the coming years since the A/C products have become essential in everyday life.**

#### ➤ **Domestic A/C Market**

F.G. Europe has 3 important competitive advantages with regard to its activities in Greece.

1/ **A broad sales network.** Group's customers are all major retail chains of electrical and household equipment (Kotsovolos, Elektroniki Athinon, Magnet, and others). The network comprises about 1,200 sales points in Greece.

2/ **A broad range of A/C brands**, covering all types from small residential appliances to large units for cinemas & theaters, hotels, office buildings and malls. Among the firms and products represented are Fujitsu, General, the Italian firm Clivet, the Chinese firms Gree and Kelon (their factories are among the largest in China), and air-conditioners by Eskimo, Dynamic and Inclima.

3/ **Full range of services**, including consulting, sale and installation, as well as pre- and after sales service.

Group's total A/C domestic sales accounted for € 29.4 million during the fiscal 2006, while for fiscal 2007 we expect to reach at least € 60.35 mil., favoured by:

1. The Company's leading market position and innovative product portfolio with world wide known brands;
2. The product portfolio in line with market trends of increased

demand for branded, high reliability and environmental friendly appliances (i.e. inverter, refrigerant, etc.);

3. The climatic changes that boosted the market's value.

For the next 5 years, we expect that A/C domestic sales **will expand to approximately € 68.2 mil., growing on a CAGR<sub>2006-2011</sub> of 18 %, representing about 36.6% of total Group turnover.**

#### ➤ International A/C Market

The Group has been among the front-runners in Italy and S-E Europe with regard to A/C sales, and is currently expanding activities in these countries as well as in the Balkans. FG Europe has already set a strong sales network in Italy, and a widening sales network in South East Europe.

**For the fiscal 2007, we expect about sales of € 32.1 million**, representing approximately 20.8% of the total turnover (34.7% of total air-condition sales). For the period 2006-2011, **we expect that international A/C sales will increase on a CAGR<sub>2006-2011</sub> of approximately 24.9%, reaching € 66.5 mil., at the end of fiscal 2011.** The anticipated growth is attributed to:

1. Utilization of the full potential for organic growth in S-E Europe;
2. Subsidiaries in Italy and Romania, offering warehouse / logistics facilities, and supporting sales of the parent company;
3. New collaboration agreements;
4. Own brand names without territory constrains;
5. Promotion of products carrying world known brand names;
6. Climatic changes.

#### The Historic & Projected Evolution of Air-Condition Group Sales

(in euro mn)	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
<b>Greece</b>	<b>21.69</b>	<b>29.44</b>	<b>60.35</b>	<b>61.86</b>	<b>64.95</b>	<b>66.90</b>	<b>68.24</b>
% of total A/C Revenues	50.48%	57.41%	65.28%	61.62%	57.42%	51.85%	50.66%
Italy	6.56	10.58	16.05	18.11	20.95	25.78	30.58
Other countries	7.92	1.63	0.10	3.47	6.02	8.39	5.85
Balkans	6.8	9.63	15.96	16.95	21.19	27.96	30.05
<b>Total International</b>	<b>21.28</b>	<b>21.84</b>	<b>32.10</b>	<b>38.53</b>	<b>48.16</b>	<b>62.12</b>	<b>66.47</b>
	49.52%	42.59%	34.72%	38.38%	42.58%	48.15%	49.34%
<b>Total A/C Revenues</b>	<b>42.97</b>	<b>51.28</b>	<b>92.46</b>	<b>100.39</b>	<b>113.11</b>	<b>129.03</b>	<b>134.71</b>

Source: Historical Data, Company Guidance & VRS Projections

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### Synergies in the Greek White Appliance Market

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F.G. Europe is active in the Greek household electrical appliances sector, under its own Eskimo trademark (refrigerators, cookers, washing machines, dish washers and small home appliances like microwave ovens and vacuum cleaners), and recently through the strategic collaboration under the Sharp brand name (refrigerators and microwave ovens).

With regard to the Eskimo brand, the Group orders for the production of a full range of household electrical appliances under specific characteristics, and promotes the final products to Greek retailers. The competitive advantage of 'Eskimo' brand name is the strong awareness in Greece.

The Group's core strategy is to **establish and strengthen its position in Greece**. The Company focuses on the promotion of electric appliances with low penetration, such as dishwashers, dryers, and microwave ovens in all targeted markets. In addition, FG Europe utilizes the existing strong distribution channels of the air-condition market.

The total white appliance sector in Greece is considered to be mature, and to a considerable degree saturated, with an annual turnover of approximately € 350 mil. (F.G. Europe holds about 3% market share). **We have assumed a sector growth of 2% annually and that F.G. Europe is gradually expanding its market share to 4%**. Under the above assumption, total white appliances' revenues (Eskimo & Sharp W/A products) will reach € 16.57 million by 2011 representing approximately 8.9% of the total turnover from 6.7% during the fiscal 2006.

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### Other Revenues: After Sales Services & Logistics

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F.G. Europe offers after sales services through the 100% subsidiary Fidakis Service S.A.. Services cover the geographic business areas of Greece and Italy either directly (in Athens) or through selected collaborations (24 in Italy and 3 in Greece).

The Group is also active in the logistics services (for own benefit) through its 100% subsidiary F.G. Logistics S.A.. The subsidiary has a total warehouse capacity of 49,000 m<sup>2</sup>, (33,000 m<sup>2</sup> in Greece and 16,000 m<sup>2</sup> in Italy).

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### Expansion in Energy Production

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F.G. Europe is currently expanding operations in the energy sector, in collaboration with the Restis family. More specifically, F.G. Europe, Mr. Fidakis and the Restis Family participate in R.F. Energy S.A., holding 40%, 10% and 50% equity stakes respectively. The subsidiary will explore opportunities in the energy sector.

The expansion of F.G. Europe's operations in the energy field had already realized during the fiscal 2005, through the 55.25% subsidiary company Hydroelectrical Ahaias S.A.. In 1Q 2005, the Group completed the development of a 2.6 MW hydroelectric plant that is adding to total Group turnover approximately € 0.7 million annually, operating on about 75% gross profit margin. In addition, the subsidiary is currently initializing the construction of a second hydro electrical plant of 1.05 MW capacity that is expected to launch operations during the 1<sup>st</sup> half of the fiscal 2008. Total annual revenues from the new plant are expected to reach € 235,000.

The 40% subsidiary company R.F. Energy S.A., has already purchased 100% of the company "Kallisti Energiaki S.A.", that holds an installation license for a 15 MW wind park. The construction works for the wind park have already started, and the completion is estimated during the 1Q of 2008, with total investment expenditures accounting for € 20 mil. (45% government grants). Total annual revenues from this park are expected to reach € 2.4 mil.. In addition, R.F. Energy is planning the construction of a second wind park of 10 MW capacity through the 100% subsidiary company Aeoliki Kylindrias S.A.. This project is expected to cost approximately € 13 mil. (45% government grants). Total annual revenues from this park are expected to reach € 1.5 mil..

**The Group is planning to invest approximately € 250 million in renewable energy production projects, during the next 3-5 years, seeking potential targets in Greece and South East Europe.** In our projection model, we have included only € 20 million additional investment expenditures, assuming the operation of a 15MW wind park from early 2010 and on.

## GROUP HISTORIC &amp; PROJECTED TURNOVER BREAKDOWN

(in ,000 €)	2005 E	2006	2007 E	2008 E	2009 E	2010 E	2011 E
<b>A/C Greek Market</b>	<b>21,690</b>	<b>29,440</b>	<b>60,352</b>	<b>61,861</b>	<b>64,954</b>	<b>66,902</b>	<b>68,241</b>
y-o-y Change %		35.73%	105.00%	2.50%	5.00%	3.00%	2.00%
% of Total	13.3%	18.9%	39.1%	38.8%	38.5%	37.0%	36.6%
<b>A/C International</b>	<b>21,280</b>	<b>21,840</b>	<b>32,105</b>	<b>38,526</b>	<b>48,157</b>	<b>62,123</b>	<b>66,471</b>
y-o-y Change %		2.63%	47.00%	20.00%	25.00%	29.00%	7.00%
% of Total	13.1%	14.0%	20.8%	24.1%	28.6%	34.3%	35.6%
<b>W/A Eskimo</b>	<b>6,714</b>	<b>6,200</b>	<b>6,510</b>	<b>6,836</b>	<b>7,314</b>	<b>7,680</b>	<b>7,910</b>
y-o-y Change %		-7.66%	5.00%	5.00%	7.00%	5.00%	3.00%
% of Total	4.1%	4.0%	4.2%	4.3%	4.3%	4.2%	4.2%
<b>W/A Sharp</b>	<b>0</b>	<b>4,250</b>	<b>5,440</b>	<b>6,528</b>	<b>7,507</b>	<b>8,408</b>	<b>8,660</b>
y-o-y Change %		0%	28.00%	20.00%	15.00%	12.00%	3.00%
% of Total	0.0%	2.7%	3.5%	4.1%	4.5%	4.6%	4.6%
<b>Sharp Products</b>	<b>3,345</b>	<b>4,800</b>	<b>9,408</b>	<b>12,513</b>	<b>16,642</b>	<b>18,306</b>	<b>19,038</b>
y-o-y Change %		43.50%	96.00%	33.00%	33.00%	10.00%	4.00%
% of Total	2.1%	3.1%	6.1%	7.8%	9.9%	10.1%	10.2%
<b>Mobile Telephony</b>	<b>107,703</b>	<b>86,562</b>	<b>38,953</b>	<b>29,994</b>	<b>19,046</b>	<b>10,475</b>	<b>8,380</b>
y-o-y Change %		-19.63%	-55.00%	-23.00%	-36.50%	-45.00%	-20.00%
% of Total	66.2%	55.5%	25.2%	18.8%	11.3%	5.8%	4.5%
<b>Hydroelectric Plant</b>	<b>485</b>	<b>706</b>	<b>351</b>	<b>777</b>	<b>940</b>	<b>940</b>	<b>940</b>
y-o-y Change %		45.57%	-50.28%	121.33%	20.98%	0.00%	0.00%
% of Total	0.3%	0.5%	0.2%	0.5%	0.6%	0.5%	0.5%
<b>RF Energy</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,000</b>	<b>3,525</b>	<b>5,580</b>	<b>6,300</b>
y-o-y Change %		n/c	n/c	n/c	76.25%	58.30%	12.90%
% of Total	0.0%	0.0%	0.0%	1.3%	2.1%	3.1%	3.4%
<b>Other</b>	<b>1,596</b>	<b>2,285</b>	<b>1,371</b>	<b>548</b>	<b>576</b>	<b>605</b>	<b>635</b>
y-o-y Change %		-4.13%	-1.02%	3.30%	5.69%	7.33%	3.07%
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>TOTAL TURNOVER</b>	<b>162,813</b>	<b>156,083</b>	<b>154,490</b>	<b>159,582</b>	<b>168,661</b>	<b>181,019</b>	<b>186,575</b>
y-o-y Change. %		-4.13%	-1.02%	3.30%	5.69%	7.33%	3.07%

Source: Historical Data, Company Guidance &amp; VRS Projections

## **Investment Risks**

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We highlight the following risks with regard to F.G. Europe's business operations:

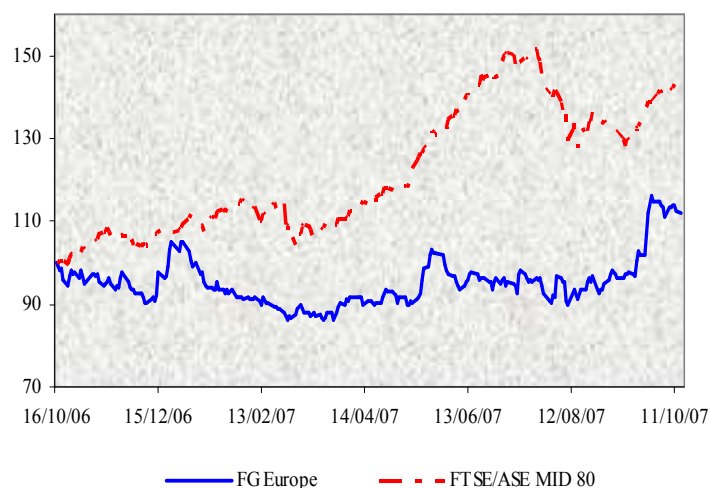
- Fierce competition in the fragmented domestic wholesale market of electric appliances in the form of a large number of small and medium size commercial players, most of which are distributors of large multinational groups.
- Seasonal variations and unpredictable weather conditions.
- Changes in technology and environmental requirements (European Union regulations).
- Consumer behavior and tendencies.
- The effect of macroeconomic environment on consumers' purchasing power and interest rates (effect on purchase on credit).

## Share Price Performance vs. FTSE / ASE 80 (base=100)

	<b>Ticker</b>
ASE	EΦTZI
Bloomberg	ESC GA
Reuters	ESKr.AT
Boerse Stuttgart	FGE.STU
Boerse Frankfurt	FGE.F
XETRA	FGE.DE

Shares are included in the following indices of the ASE:

- General Index
- FTSE/ASE 80
- FTSE/ASE International
- MSCI Small Cap Greece



	15 October 2007	2006	2007 E	2008 E	2009 E	2010 E	2011 E
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<b>Price (in €)</b>	<b>3.02</b>						
<b>Shares</b>	<b>54,580,374</b>						
<b>Market Capitaliz. (in €)</b>	<b>164,832,729</b>						
EPS (in €)		0.05	0.23	0.25	0.26	0.32	0.35
Book Value / Share (x)		0.55	0.67	0.86	1.01	1.19	1.39
EV (in € thous.)		200,098	208,042	219,886	220,961	215,825	205,521
P/E (a.t.& m.i.)		61.67x	13.18x	12.19x	11.66x	9.48x	8.52x
P/BV		6.90x	5.72x	4.27x	3.58x	3.05x	2.60x
EV/EBITDA		31.92x	9.94x	9.39x	8.34x	6.89x	6.08x
EV/Sales		1.28x	1.35x	1.38x	1.31x	1.19x	1.10x

Source: Historical Data, Company Guidance & VRS Projections

## Valuation (DCF Method)

Evaluating our projections in the **DCF model**, we end up with a fair value of €215.38 million or € 3.95 per share.

In € ,000	2007 E	2008 E	2009 E	2010 E	2011 E	L-Term Assumptions
<b>ASSUMPTIONS</b>						
Growth Rate (Sales)	-1.02%	3.30%	5.69%	7.33%	3.07%	<b>2.00%</b>
EBIT Margin	13.31%	14.08%	14.82%	16.17%	16.87%	<b>17.00%</b>
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%	<b>25.00%</b>
Working Capital (% of sales)	-0.06%	4.56%	4.59%	2.56%	1.48%	<b>1.50%</b>
Capex (% of sales)	15.15%	11.79%	4.80%	2.24%	0.54%	<b>1.30%</b>
Cost of Capital	6.78%	6.35%	6.96%	7.36%	7.90%	<b>7.85%</b>
Depreciation (% of sales)	0.23%	0.60%	0.90%	1.14%	1.26%	<b>1.30%</b>
<b>CASH FLOW STATEMENT</b>						
<b>Turnover</b>	<b>154,490</b>	<b>159,582</b>	<b>168,661</b>	<b>181,019</b>	<b>186,575</b>	<b>190,307</b>
EBIT	20,567	22,475	24,990	29,268	31,468	<b>32,352</b>
Less: Adjusted Tax	5,142	5,619	6,247	7,317	7,867	<b>8,088</b>
<b>Adjusted Operating Profit</b>	<b>15,425</b>	<b>16,856</b>	<b>18,742</b>	<b>21,951</b>	<b>23,601</b>	<b>24,264</b>
Plus: Depreciation	353	951	1,517	2,059	2,346	<b>2,474</b>
<b>Operating Cash Flow</b>	<b>15,779</b>	<b>17,807</b>	<b>20,260</b>	<b>24,010</b>	<b>25,947</b>	<b>26,738</b>
Less: Change in Working Capital	-95	7,269	7,744	4,641	2,757	<b>2,855</b>
Less: Capex	23,398	18,820	8,100	4,050	1,000	<b>2,474</b>
<b>Cash Flow to the Firm (FCFF)</b>	<b>-7,525</b>	<b>-8,282</b>	<b>4,416</b>	<b>15,319</b>	<b>22,190</b>	<b>21,410</b>
Discount Factor	0.94	0.88	0.82	0.75	0.68	0.69
Present Value of Cash Flows	-7,046	-7,323	3,609	11,530	15,173	
Accumulated Present Value	-7,046	-14,369	-10,760	769	<b>15,943</b>	
Residual Value						365,725
<b>Present Value of Residual Value</b>						<b>250,596</b>
<b>VALUATION</b>						
Enterprise Value	266,538					
% Residual Value of Total	94.02%					
<b>Value of firm (€ ,000)</b>	<b>215,378</b>					
<b>Value of share (€)</b>	<b>3.95</b>					
<b>WACC CALCULATION</b>						
Risk Free Rate	4.50%	4.50%	4.50%	4.50%	4.50%	<b>4.50%</b>
Beta Factor	1.10	1.10	1.10	1.10	1.10	1.10
Market risk Premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
<b>Cost of Equity</b>	<b>10.00%</b>	<b>10.00%</b>	<b>10.00%</b>	<b>10.00%</b>	<b>10.00%</b>	<b>10.00%</b>
Debt / Debt + Equity	55.44%	62.96%	52.48%	45.48%	36.23%	37.00%
Cost of Debt	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
<b>Weighted Average Cost of Capital</b>	<b>6.78%</b>	<b>6.35%</b>	<b>6.96%</b>	<b>7.36%</b>	<b>7.90%</b>	<b>7.85%</b>

Source: Company Guidance & VRS Projections

We have applied the following major assumptions in our model:

- Weighted Average Cost of Capital at 7.85% (Cost of Equity = 10%);
- We have estimated sustained growth in all activities during the examined period and infinity sales growth of 2%;
- Infinity EBIT margin of 17%.

### Sensitivity Analysis

The model's assumptions reflect the ongoing profitability of F.G. Europe Group, and its expansion program under the new strategy planned by the management. The realization of the aforementioned growth and valuation scenarios requires:

- The A/C market value to remain close to fiscal 2007 levels;
- A stable or light higher market share in A/C domestic market;
- A growing presence in Italy and the Balkans;
- The expansion in energy production according to the scheduled time plan;
- The maintenance of gross operating margin close to our estimates.

Our valuation incorporates a sensitivity analysis based on the discounted free cash flow method employing a discount rate in the range of 5% - 9.0%, and a growth rate ranging between 0.5% - 3.0%.

		WACC				
		5.00%	6.00%	7.85%	8.00%	9.00%
GROWTH	0.50%	5.24	4.49	3.27	3.20	2.78
	1.00%	6.34	5.00	3.53	3.47	2.99
	2.00%	8.36	6.40	3.95	4.15	3.51
	2.50%	10.51	7.41	4.72	4.58	3.82
	3.00%	13.29	8.74	5.27	5.10	4.19

Source: VRS Estimates

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## Financial Analysis

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### Profit & Loss Analysis

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- For the period 2006-2011, **Group's turnover is expected to increase by approximately 3.63% on annual average basis**, mostly attributed to the management's decision to gradually withdraw the low margin mobile telephony division and on the other hand due to the stable growth of all other turnover categories. Excluding revenues from mobile telephony, Group turnover for the same period is expected to increase by 20.7% on annual average basis, following the international expansion of A/C product sales, the dynamic promotion of Sharp products and the expansion in energy.
- **Gross profit margin will gradually improve** and settle at about 30.46% by the end of the fiscal 2011 from 12.6% at the end of the fiscal 2006. The improvement is expected to result from the gradual alteration of Group's sales mix. More specifically from:
  - The gradual withdrawal from the mobile wholesale division that operates on less than 1% gross profit margin;
  - The increase of the energy division that will represent about 9.56% of total Group gross profit from 2.69% during the fiscal 2006, boosting the gross margin significantly, since the Company's energy projects operate on a 75% gross margin;
  - The expansion of consumer electronics sales (Sharp products) that operate on approximately 20% gross margin.
- **EBITDA margin** accounted for approximately 4% at the end of the fiscal 2006, **a level that will increase to 18.12%** at end of the fiscal 2011, with EBITDA growing on a **CAGR<sub>2006-2011</sub> of 40.09%**. The strong EBITDA increase is attributed to the following factors:
  1. Gross margin improvement;
  2. Moderate increase of distribution expenses (CAGR<sub>2006-2011</sub> of 10.7% mostly attributed to higher promotion spending for the wholesale activities ~15% of total wholesale activities). We mention the energy division does not require significant operating expenses, resulting to an EBT margin of at least 50%;
  3. Full utilization of Sharp Products. The Group is currently under strong promotion strategy, while sales remain lower compared to their expected growth potential.

### Historic & Projected Gross Profit Breakdown

(in € ,000)	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
<b>Air Conditioners</b>	<b>10,331</b>	<b>14,568</b>	<b>31,680</b>	<b>33,579</b>	<b>36,765</b>	<b>41,707</b>	<b>43,875</b>
y-o-y Change %		41.0%	117.5%	6.0%	9.5%	13.4%	5.2%
Gross Margin	24.0%	28.4%	34.3%	33.5%	32.5%	32.3%	32.6%
<b>White Appliances</b>	<b>4,058</b>	<b>2,763</b>	<b>3,216</b>	<b>3,383</b>	<b>3,557</b>	<b>3,861</b>	<b>3,977</b>
y-o-y Change %		-31.9%	16.4%	5.2%	5.2%	8.5%	3.0%
Gross Margin	60.4%	26.4%	26.9%	25.3%	24.0%	24.0%	24.0%
<b>Consumer Electronics</b>	<b>950</b>	<b>1,185</b>	<b>1,757</b>	<b>2,252</b>	<b>2,996</b>	<b>3,295</b>	<b>3,427</b>
y-o-y Change %		24.7%	48.3%	28.2%	33.0%	10.0%	4.0%
Gross Margin	28.4%	24.7%	18.7%	18.0%	18.0%	18.0%	18.0%
<b>Mobile Telephony</b>	<b>632</b>	<b>444</b>	<b>312</b>	<b>240</b>	<b>152</b>	<b>84</b>	<b>67</b>
y-o-y Change %		-29.7%	-29.8%	-23.0%	-36.5%	-45.0%	-20.0%
Gross Margin	0.6%	0.5%	0.8%	0.8%	0.8%	0.8%	0.8%
<b>Energy</b>	<b>364</b>	<b>530</b>	<b>263</b>	<b>2,083</b>	<b>3,349</b>	<b>4,890</b>	<b>5,430</b>
y-o-y Change %		45.6%	-50.3%	691.1%	60.8%	46.0%	11.0%
Gross Margin	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
<b>Other</b>	<b>79</b>	<b>203</b>	<b>110</b>	<b>44</b>	<b>46</b>	<b>48</b>	<b>51</b>
y-o-y Change %		157.4%	-46.1%	-60.0%	5.0%	5.0%	5.0%
Gross Margin	5.0%	8.9%	8.0%	8.0%	8.0%	8.0%	8.0%
<b>Total Cost of Sales</b>	<b>16,414</b>	<b>19,693</b>	<b>37,338</b>	<b>41,581</b>	<b>46,864</b>	<b>53,885</b>	<b>56,827</b>
Gross Margin	10.1%	12.6%	24.2%	26.1%	27.8%	29.8%	30.5%
y-o-y Change %		20.0%	89.6%	11.4%	12.7%	15.0%	5.5%

Source: Historical Data, Company Guidance & VRS Projections

### Historic & Projected P&L Financial Ratios

	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
<b>Profit Margins</b>							
Gross Margin	8.66%	12.62%	24.17%	26.06%	27.79%	29.77%	30.46%
EBITDA Margin	3.25%	4.02%	13.54%	14.68%	15.72%	17.31%	18.12%
EBIT Margin	3.05%	3.85%	13.31%	14.08%	14.82%	16.17%	16.87%
Pre-tax profit margin	1.01%	2.71%	11.25%	12.01%	11.92%	13.95%	15.07%
Net Profit margin	0.64%	1.71%	8.10%	8.47%	8.38%	9.61%	10.37%
<b>Cost Absorption &amp; Sources</b>							
Cost of sales on sales	91.34%	87.38%	75.83%	73.94%	72.21%	70.23%	69.54%
Administrative cost on sales	1.91%	1.46%	1.58%	1.62%	1.61%	1.58%	1.61%
Distribution cost on sales	4.43%	8.19%	9.72%	10.44%	11.14%	11.56%	11.41%

Source: Historical Data, Company Guidance & VRS Projections

### Key Elements of Balance Sheet

For the period 2007-2011, the Group has already projected to invest approximately € 35 million in order to finance the energy projects for the development of the 2 wind parks of total capacity 25 MW and the hydroelectric plant of total capacity of 1.01 MW. As we have already mentioned, the Group is planning to invest approximately € 250 mil. in renewable energy production projects, during the next 3-5 years, seeking potential targets in Greece and South East Europe. Apart from the € 35 million investments that the Group has already initialised, we have included another €20 million as additional investments in our projection model that will finance a 15 MW energy plant, assuming to launch operations in 2Q 2010.

	MW	Total Cost (in € ,000s)
Kallisti Energiaki	15.0	20,025
Aeoliki Kylindrias	10.0	13,000
Hydro electrical Ahaias	1.015	1,320
New Project	15.0	20,250
<b>Total Capex</b>		<b>54,570</b>

With regard to **current assets** for the Group, inventory turnover ratio is expected to increase to 140 days (on average basis) in 2011, from 98 at the end of the fiscal 2006, due to the effect of sales mix change. Mobile products ratio, rests below 5 days, while wholesale of A/C and electric appliances around 180 days (however, December inventory rests below average due to seasonality). **Debtor's turnover ratio** is expected to account for approximately 106 days in 2011 from 105 days (on average basis) during 2004, while **creditor's turnover ratio** to range in the level of 43 days.

At the end of the fiscal 2006, Group's **long-term debt** accounted for € 15.7 mn, while the remaining convertible bond of € 10.3 mn would be repaid during the fiscal 2007. So far, € 6.3 million have been converted into shares. We have assumed that the Group will receive a 5-year corporate bond of € 70 million in the fiscal 2008 in order to refinance its bank debt (the older long term bank loan ending during the fiscal 2009, and the short term bank debt that will be used to repay the remaining convertible bond) and finance its capex needs.

**Total bank debt** is expected to decline from € 79 million in fiscal 2008 to € 43 million by the end of the fiscal 2011, with the ratio '*net bank debt / equity*' settling at 1.18x during the fiscal 2008 and decreasing to 0.54x at the end of the fiscal 2011, also favored by the Group's stable cash flow increase.

### Historic & Projected Financial Ratios

	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
<b>Activity</b>							
Stock Days	66	98	110	120	135	137	140
Debtors Days	116	105	107	110	108	107	106
Creditors Days	27	32	51	44	42	42	43
Operating Cycle	182	203	217	230	243	244	246
Cash Cycle	155	171	166	186	201	202	203
<b>Capital Structure</b>							
Total Debt/ Equity	3.33	2.44	2.06	2.38	1.78	1.47	1.12
Net Bank Loans / Equity	2.68	1.19	1.18	1.18	1.02	0.79	0.54
Bank Loans/ Equity	2.86	1.69	1.25	1.71	1.11	0.84	0.57
<b>Capital Gearing</b>							
Interest Coverage	1.60	3.51	4.67	7.08	5.43	7.79	10.11
Bank Debt / EBITDA	11.55	8.05	2.19	3.41	2.30	1.72	1.27
<b>Liquidity</b>							
Current Ratio	2.56	1.75	1.45	2.61	2.61	2.24	2.14
Quick Ratio - Acid Ratio	1.78	1.10	0.84	1.71	1.45	1.22	1.15

Source: Historical Data, Company Guidance & VRS Projections

## GROUP HISTORIC &amp; PROJECTED PROFIT &amp; LOSS ACCOUNT

(in ,000 €)	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
<b>Turnover</b>	<b>161,117</b>	<b>156,083</b>	<b>154,490</b>	<b>159,582</b>	<b>168,661</b>	<b>181,019</b>	<b>186,575</b>
y-o-y Change %	-22.67%	-3.12%	-1.02%	3.30%	5.69%	7.33%	3.07%
Cost of Sales	147,163	136,390	117,152	118,001	121,796	127,134	129,749
% of Turnover	91.34%	87.38%	75.83%	73.94%	72.21%	70.23%	69.54%
y-o-y Change %	-23.30%	-7.32%	-14.11%	0.73%	3.22%	4.38%	2.06%
<b>Total Gross Operating Results</b>	<b>13,954</b>	<b>19,693</b>	<b>37,338</b>	<b>41,581</b>	<b>46,864</b>	<b>53,885</b>	<b>56,827</b>
Gross Operating Margin	8.66%	12.62%	24.17%	26.06%	27.79%	29.77%	30.46%
y-o-y Change %	-15.43%	41.13%	89.60%	11.36%	12.71%	14.98%	5.46%
Other operating income	1,505	1,649	1,050	1,103	1,158	1,216	1,276
Administrative Expenses	3,079	2,284	2,444	2,591	2,720	2,856	2,999
% of Turnover	1.91%	1.46%	1.58%	1.62%	1.61%	1.58%	1.61%
Distribution Cost	7,137	12,790	15,024	16,667	18,795	20,918	21,290
% of Turnover	4.43%	8.19%	9.72%	10.44%	11.14%	11.56%	11.41%
<b>Total Expenses</b>	<b>10,216</b>	<b>15,074</b>	<b>17,467</b>	<b>19,257</b>	<b>21,515</b>	<b>23,774</b>	<b>24,289</b>
% of Turnover	6.34%	9.66%	11.31%	12.07%	12.76%	13.13%	13.02%
y-o-y Change %	11.18%	47.55%	15.88%	10.25%	11.72%	10.50%	2.17%
<b>EBITDA</b>	<b>5,243</b>	<b>6,268</b>	<b>20,921</b>	<b>23,426</b>	<b>26,507</b>	<b>31,327</b>	<b>33,814</b>
EBITDA Margin	3.25%	4.02%	13.54%	14.68%	15.72%	17.31%	18.12%
y-o-y Change %	-22.14%	19.55%	233.77%	11.98%	13.15%	18.18%	7.94%
<b>Depreciation</b>	<b>331</b>	<b>257</b>	<b>353</b>	<b>951</b>	<b>1,517</b>	<b>2,059</b>	<b>2,346</b>
% of Turnover	0.21%	0.16%	0.23%	0.60%	0.90%	1.14%	1.26%
<b>EBIT</b>	<b>4,912</b>	<b>6,011</b>	<b>20,567</b>	<b>22,475</b>	<b>24,990</b>	<b>29,268</b>	<b>31,468</b>
% of Turnover	3.05%	3.85%	13.31%	14.08%	14.82%	16.17%	16.87%
y-o-y Change %	-25.69%	22.37%	242.16%	9.27%	11.19%	17.12%	7.52%
Total Financial Results	-3,281	-1,785	-3,181	-3,308	-4,881	-4,020	-3,345
<b>Net Results Before Taxes</b>	<b>1,631</b>	<b>4,226</b>	<b>17,386</b>	<b>19,167</b>	<b>20,109</b>	<b>25,248</b>	<b>28,123</b>
EBT Margin	1.01%	2.71%	11.25%	12.01%	11.92%	13.95%	15.07%
y-o-y Change %	-76.67%	159.10%	311.41%	10.24%	4.92%	25.56%	11.39%
Income Tax	501	1,472	5,042	5,175	5,027	6,312	7,031
<b>Net Results After Taxes</b>	<b>1,130</b>	<b>2,754</b>	<b>12,344</b>	<b>13,992</b>	<b>15,082</b>	<b>18,936</b>	<b>21,092</b>
EAT Margin	0.70%	1.76%	7.99%	8.77%	8.94%	10.46%	11.30%
y-o-y Change %	-74.41%	143.72%	348.23%	13.35%	7.79%	25.56%	11.39%
Proportion of Minority rights	95	81	-165	469	949	1,541	1,748
<b>Consolidated Net Results (a.t.&amp;m.i.)</b>	<b>1,035</b>	<b>2,673</b>	<b>12,509</b>	<b>13,522</b>	<b>14,133</b>	<b>17,395</b>	<b>19,344</b>
<b>Net Margin</b>	<b>0.64%</b>	<b>1.71%</b>	<b>8.10%</b>	<b>8.47%</b>	<b>8.38%</b>	<b>9.61%</b>	<b>10.37%</b>
y-o-y Change %	-76.69%	158.26%	367.98%	8.10%	4.51%	23.08%	11.20%

Source: Historical Data, Company Guidance &amp; VRS Projections

## GROUP HISTORIC &amp; PROJECTED BALANCE SHEET

	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
<b>Assets</b>							
Total Intangible Assets	61	47	165	259	300	320	325
Accumulated depreciation	0	0	16	48	90	136	184
<b>Total Net Intangible Assets</b>	<b>61</b>	<b>47</b>	<b>149</b>	<b>211</b>	<b>210</b>	<b>184</b>	<b>140</b>
Tangible Assets	4,192	4,438	27,364	45,808	53,746	57,715	58,695
Accumulated depreciation	705	914	1,252	2,171	3,646	5,659	7,957
<b>Total Net Tangible Assets</b>	<b>3,487</b>	<b>3,524</b>	<b>26,112</b>	<b>43,637</b>	<b>50,099</b>	<b>52,056</b>	<b>50,738</b>
Financial & Other L-Term Assets	1,577	1,342	1,696	1,978	2,100	2,161	2,176
<b>Total Fixed Assets</b>	<b>5,125</b>	<b>4,913</b>	<b>27,958</b>	<b>45,826</b>	<b>52,409</b>	<b>54,400</b>	<b>53,054</b>
% Total Assets	5.56%	4.76%	24.85%	28.83%	34.11%	34.08%	33.01%
Inventories	26,455	36,647	35,306	38,795	45,048	47,719	49,767
Debtors	51,371	45,054	45,289	48,093	49,905	53,066	54,184
Other Receivables	5,474	1,440	1,433	1,426	1,419	1,411	1,397
Cash in bank and at hand	3,824	15,197	2,536	24,819	4,872	3,007	2,311
<b>Total Current Assets</b>	<b>87,124</b>	<b>98,338</b>	<b>84,564</b>	<b>113,133</b>	<b>101,243</b>	<b>105,203</b>	<b>107,659</b>
% Total Assets	94.44%	95.24%	75.15%	71.17%	65.89%	65.92%	66.99%
<b>Total Assets</b>	<b>92,249</b>	<b>103,251</b>	<b>112,521</b>	<b>158,959</b>	<b>153,652</b>	<b>159,603</b>	<b>160,713</b>
<b>Equity &amp; Liabilities</b>							
Share capital	16,279	16,374	16,374	16,374	16,374	16,374	16,374
Share premium account	5,376	6,687	6,687	6,687	6,687	6,687	6,687
Total Reserves	-290	-1,498	-873	4,004	6,100	6,970	7,937
Profit carried forward	-607	2,309	6,624	11,548	16,838	24,085	32,501
Minority Rights	532	6,120	7,952	8,374	9,228	10,614	12,188
<b>Total Capital &amp; Reserves</b>	<b>21,290</b>	<b>29,992</b>	<b>36,764</b>	<b>46,986</b>	<b>55,227</b>	<b>64,730</b>	<b>75,687</b>
% Total Equity & Liabilities	23.08%	29.05%	32.67%	29.56%	35.94%	40.56%	47.09%
L-Term Bank Loans	35,715	15,691	7,873	56,000	42,000	28,000	14,000
Provisions for Staff Retirement	248	291	295	300	304	309	313
Investment Grants	969	983	9,212	12,280	17,287	19,547	20,300
Other Provisions	0	0	0	0	0	0	0
Tax Liabilities	0	0	0	0	0	0	0
<b>Total L-Term Liabilities</b>	<b>36,932</b>	<b>16,965</b>	<b>17,380</b>	<b>68,580</b>	<b>59,591</b>	<b>47,856</b>	<b>34,614</b>
Suppliers	5,915	18,365	14,443	13,901	14,349	14,977	15,285
Banks	24,838	34,771	37,873	23,873	19,000	26,000	29,000
Taxes-duties	98	918	4,034	3,622	3,519	4,103	4,218
Sundry debtors	3,176	2,240	2,027	1,997	1,967	1,937	1,908
<b>Total Current Liabilities</b>	<b>34,027</b>	<b>56,294</b>	<b>58,377</b>	<b>43,393</b>	<b>38,835</b>	<b>47,018</b>	<b>50,412</b>
<b>Total Liabilities</b>	<b>70,959</b>	<b>73,259</b>	<b>75,757</b>	<b>111,973</b>	<b>98,426</b>	<b>94,873</b>	<b>85,026</b>
% Total Equity & Liabilities	76.92%	70.95%	67.33%	70.44%	64.06%	59.44%	52.91%
<b>Total Equity &amp; Liabilities</b>	<b>92,249</b>	<b>103,251</b>	<b>112,521</b>	<b>158,959</b>	<b>153,652</b>	<b>159,603</b>	<b>160,713</b>

Source: Historical Data, Company Guidance &amp; VRS Projections

Notes

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Value Invest - [www.valueinvest.gr](http://www.valueinvest.gr) Investment Research & Analysis Journal - [www.iraj.gr](http://www.iraj.gr)

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FG Europe	ESKr.AT	€ 3.02	15 October 2007	2, 4, 5, 6, 7

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