

FORTHNET

Reuters : FORr.AT Bloomberg : FORTH GA

Sector: Telecom Services

Ownership Structure (31.8.2007):

FORTH	11.45%
Novator Equities	10.21%
Cyrte	7.50%
Stichting Pensionfonds ABP	7.12%
Cycladic Catalyst Master Fund	7.05%
Other Investors	56.67%

Stock Data

Price (28/09/2007)	€11.08
Shares (in mn)	38.54
Mkt Cap (in mn)	427.03

Stock Ratios

	2005	2006	2007 E	2008 E
P / E	Neg.	Neg.	Neg.	Neg.
P / BV	8.49	2.82	3.76	4.57
EV / EBITDA	34	Neg.	Neg.	89.28
Div. Yield	0.00%	0.00%	0.00%	0.00%
ROE	-4.5%	-16.6%	-28.7%	-19.4%
ROIC	-2.6%	-12.2%	-22.2%	-12.0%
Net Debt/Equity	57.8%	-38.4%	13.2%	69.2%

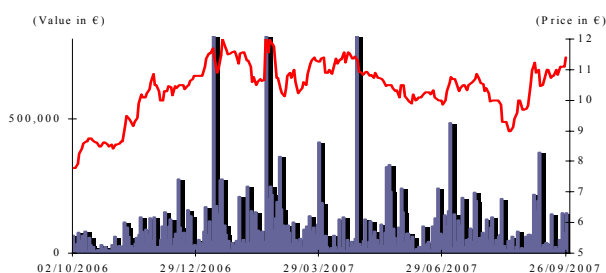
Summary Financials

P&L (in mil. €)	2005	2006	2007 E	2008 E
Turnover	91.56	97.60	117.82	170.94
OPEX	79.97	103.46	141.55	166.31
EBITDA	13.54	-4.98	-23.29	5.51
Finan. Results	-1.63	-0.67	0.50	-2.71
Depreciation	11.59	13.74	19.41	25.05
EBT	0.32	-19.38	-42.21	-22.25
EAT & Minor.	-1.13	-16.70	-37.99	-20.03

Source: Company Data & VRS Projections

Stock Graph (52 weeks)

Min: € 7.78 Max: € 12.06



Christophoros J. Makrias, CA HCMC
Nicholas I. Georgiadis, CA HCMC

KEY INVESTMENT POINTS

- Since its establishment, Forthnet maintains its leadership position on the Internet services market. Today, the Company's customer base accounts for about 500,000 subscriber lines holding **consistently over 20% of the Greek broadband market**. One of the Company's advantages is its management team, which is among the pioneers of internet in Greece.
- The unbundled customer base as of 31/08/07 accounted for 32,500 with the majority (~80%) acquiring the double play service (internet + voice). We believe that Forthnet will acquire 72,000 customers through ULL lines by the end of 2007, and **approximately 570,000 by the end of 2011**.
- The Greek broadband market is expected to grow rapidly in the coming years (**CAGR₂₀₀₆₋₂₀₁₁ of 46%**), as it lags significantly behind the European average levels. Forthnet is well positioned to **retain ~19% market share in the sector and benefit from the potential market growth**.
- According to our estimations, EBITDA will turn positive from the fiscal 2008, while **EBITDA margin will reach 35.4% during the fiscal 2011**. Net results after taxes will turn positive from the fiscal 2009 and on, while EAT margin will reach 16.1% during the fiscal 2011.
- By applying our forecasts for the coming 5-years in the DCF model, **we derive a fair price of €14.19 per share, implying an outperform rating**. Our time horizon for this rating is approximately 12 months.

Relative performance against FTSE Mid 40 (52 weeks)

Stock Return: 42.42% - FTSE Mid 40. Return: 51.86%

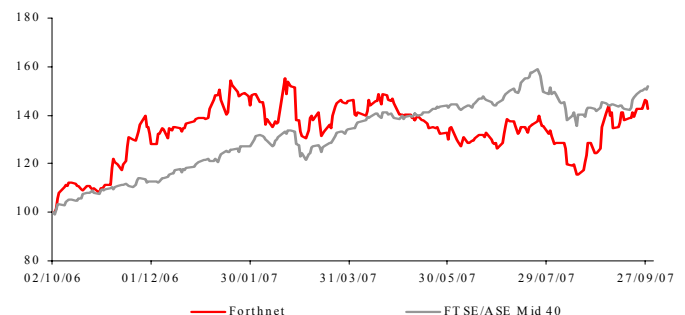


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INVESTMENT CASE

Since its establishment, Forthnet maintains its leadership position on the Internet services market and, having now entered the fixed telephony field dynamically it is one of the most important telecommunications providers in Greece. The company is developing a private ADSL2+ network and is offering diversified and competitive broadband services to all households in Greece, currently holding about 22% market share (approximately 25% of net additions).

☞ An important alternative telecom provider in Greece

One of the Company's advantages is its management team, which is among the pioneers of internet in Greece (it set up the first network node in Greece). This experience guided the Company to gain and retain leading market shares in the Greek telecom market, exploring opportunities in broadband technology. Today, Forthnet provides services to about 500,000 subscriber lines (including prepaid cards) holding about 22% of the Greek broadband market, (more than 150,000 subscribers are broadband). We believe the Company will retain the majority of this market share in the coming years (we have estimated a market share of 18.7% by the end of the fiscal 2011) utilizing on:

1. its **highly recognized brand name** that is also linked with high quality services. This is true considering its **large existing corporate and household client base**. With regard to the corporate clients, Forthnet holds a leading position in the segment (more than 1,500 client), with loyal customers such as Hertz Hellas, Aegean Airlines, Metro Group and Starbucks in Greece, etc.
2. its clear and dynamic growth strategy
3. the required capital to fund its 5-year investment strategy.

☞ A clear and dynamic growth strategy

Forthnet's strategy is fully committed to broadband and the opportunities in Internet, fixed telephony and other related to broadband services. The key points of the future strategy are:

1. **Customer acquisition.** The Company targets both residential and business clients offering ‘total solutions’ and at the same time seek for new services and products with attractive quality/price ratio.
2. **Local loop access and subscriber migration.** Forthnet aims at direct access with customers in order to offer broader range and higher-margin services. Forthnet targets the unbundling of the local loop (ULL) seeking the coverage to exceed 66% of its active lines in Greece. This strategy targets to increase revenues and reduce operating costs.
3. **Backhaul infrastructure.** The Company develops or acquires network infrastructure seeking to reduce operating costs to the minimum level. With regard to the big cities (Athens, Thessalonica and Patra region cover about 60% of the Greek population), the Company is building a fiber optic network reducing the cost for over 70% of its traffic in Greece. In addition, the Company is under the final stage for the development of international capacity. All investments target to decrease operating cost and increase cash flow generation.

☞ **Benefit from the expected rapid growth of broadband in Greece**

The Greek broadband market is expected to grow rapidly in the coming years (we estimated a CAGR of 46% in the period 2006-2011), as it lags significantly behind the European average levels. Forthnet is well positioned to retain ~19% (or close to that level) market share in the sector and benefit from the potential growth. The strength points of Forthnet are:

1. the full range of products
2. the high quality network
3. the cost reduction that will increase operating margins and will allow for competitive pricing
4. the experienced management team

However, the Company’s major weakness is that it can not offer jointly mobile and fixed telecom services (only as a Virtual mobile operator). The mobile providers (Cosmote, Vodafone and Wind) are currently forming collaborations with altnets (Otenet, HOL and Tellas) in order to offer triple play - fixed telephony, mobile telephony and ADSL access.

☞ **Utilize ULL with value added services**

Forthnet offers voice, Internet and 2Play (jointly both) services through ULL lines. The Company activated its first ULL customer at the end of February 2007. It has already more than 61 exchanges unbundled (as of August 31st 2007) and 165 targeted in the coming period (over 65% of Greek households by year end). Every exchange has the capacity to provide services to about 50,000 different lines. All the exchanges are currently in the two cities of Athens and Thessaloniki where the majority of the population is concentrated. The unbundled customer base as of August 31st 2008 accounted for 32,500 (10,000 activations during August) with the majority (about 80%) acquiring the 2Play service.

The unbundling offers high operating margins and thus the progress of unbundling is the key parameter for Company's future profitability. **We believe that the Company will acquire about 72,000 customers through ULL lines by the end of 2007, and approximately 570,000 by the end of 2011.** We also believe that the majority will be 2Play subscribers even though the Company will gradual expand its services into 3play following the effective ULL.

☞ **The development of a retail network will aid sales**

Forthnet has a national network of trade associates and is currently developing on a rapid pace its own retail network, mostly in Athens and Thessalonica. The Forthnet Store network will be small but will strengthen its promotion contributing to the further exploitation of private infrastructure and the enhancement of the quality of customer services provided. The target is to have Forthnet stores in every county in Greece.

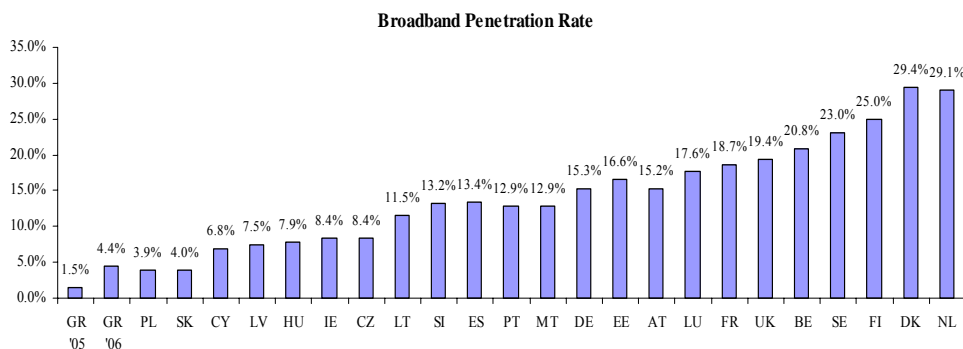
☞ **Strong capital structure that covers Capex needs**

At the end of the first 6month period of the fiscal 2007, the company had cash at bank and in hand of around € 65 mn. The Company also contracted a bond loan of up to € 150 mn in June 2007, which can be withdrawn at any time. Consequently, Forthnet currently has a particularly powerful capital structure that allows it to continue the implementation of its investment plan intensively and without interruption.

SECTOR'S OUTLOOK

The Internet in Greece

Although the Internet market has developed rapidly in Greece during recent years, its penetration remains low vis-à-vis other EU countries. There were 484,321 broadband connections at the end of year 2006, up from 172,558 at the end of 2005. The increase recorded is significant. However, despite the increase in broadband service users, there was not a proportionate increase in overall Internet penetration in Greek households. A survey carried out by the Observatory for the Greek Information Society showed that 27.4% of the households sampled, had access to the Internet, as compared to 24.2% in May 2005. These figures denote an important increase in household broadband access, while the increase rate for households using the Internet is significantly smaller.



Source: The Company & Communications Committee

The Greek market lags significantly behind the average European broadband market. This happens because of:

- the low penetration rates in PC compared to the EU average,
- the delay in ADSL launch from the incumbent operator OTE
- the high prices on low ADSL speed

Today the Greek broadband market posts strong growth rates (+208% y-o-y in fiscal 2006) assuming an opportunity for the Company to explore. The growth is attributed to the reduction of ADSL prices, the increase of ADSL speeds and the appearance of many players in the market. In addition, the Greek State, announced

on September 2006, a funding program over the next 2 years, amounting to € 450 mn aiming to improve infrastructure in order to boost broadband penetration.

B. The Fixed Telecom Market in Greece

In January 2001, the Greek Telecom market was liberalized. Since then the Greek incumbent operator OTE has lost approximately 25% market share (75% market share according to OTE data), while the average EU incumbent market share accounts for 62%. Once again the Greek alternative telecom market lags behind the EU average, assuming strong potential for the Company to explore. The low penetration of Altnet companies is due to:

- delays in the implementation of the EU telecoms regulatory framework,
- low investment in infrastructure and ULL
- low pace of OTE unbundling to altnet carriers

The first alternative operators entered the market by using OTE network and a selection carrier code, offering competitive prices for long-distance and international calls. Their advantage was the lower operating costs and the low selection charges. Since early 2007, the trend turned in DSL or ULL communication technology. Businesses as well as many households adopt new data-intensive applications, such as electronic commerce, VPNs, VoIP, and video streaming. Pricing for these services have been significantly reduced and appear very attractive compared to traditional telephony. The increasing demand for these services causes a very attractive environment for altnet carriers and will result to higher broadband penetration.

Today there are more than 10 fixed telecom operators, from which only 5 - Forthnet is among them - have an appreciable customer number. The question that arises now is how many players will remain in the market, since the maximum number that the Greek market can afford is 4-5. We believe that Forthnet will play a protagonist role and will remain one of the leaders in Greece.

CORPORATE PROFILE

Forthnet was established in October 1995 by the Foundation for Technology and Research and Minoan Lines, and was listed on the Athens Stock Exchange in 2000. Forthnet was the first company to introduce the Internet in Greece (in 1984, when it set up the first network node in Greece, providing to selected users connection with UUCP and EARN/BITNET) and currently has a large portfolio of Internet services, such as access services (via PSTN, ISDN and ADSL networks, permanent connections and pre-paid access time card), telecommunications services (LMDS, VPN - Virtual Private Networks, etc), information services and value-added services.

In 2001 the Company obtained the first fixed telephony license in Greece, allowing it to provide international, long distance and local voice-call services to both enterprises and residential users. Forthnet has developed its own Wireless Local Access Network in order to provide sophisticated services based on LMDS technology. Moreover, it owns wire circuits through submarine optical fibers and it upgrades interconnection speed to the Internet continuously.

Internet services are supplemented by more specialized solutions developed and implemented by HellasNet, Forthnet's business unit that specializes in Interactive Marketing and provides advanced Mobile services. In December 2003, Forthnet acquired Internet Hellas which is Forthnet's business unit that specializes in Data Center Services. Forthnet is also active in coastal shipping, via FORTHcrs, developing on-line reservation and ticketing services.

R&D Department

The Research and Development department (R&D) is based at the Science & Technology Park of Crete (STEPK), which represents a "cell" of research activities. It is physically adjacent to, and in direct cooperation with the Foundation for Research & Technology. This constitutes a favorable environment towards access to new technologies and the cooperation with research groups.

The orientation of Research and Development is strongly market-driven. The main objective of Research and Technological Development at Forthnet is its relationship with production, whether this is expressed through the delivery of pilot products and outcomes of research projects, and proposals for commercial exploitation, or the transfer of know-how to the productive units of the Company and its subsidiaries.

Services Provided

The company provides the following services

1. Internet Access Services:

- Broadband services (Forthnet 2play, ADSL, Wi-Fi, Small Office).

Forthnet 2play services constitute the company's integrated solution for households and SMEs, providing total coverage for their telephony and high-speed Internet requirements.

- Narrowband Services (PSTN, ISDN, pre-paid cards)

2. Fixed telephony Services

- Each service is offered in a tailor made manner so that can meet the customer's needs based on the way with which the customer obtains access to the Forthnet Telephony network and his/ her category.

3. Information Services

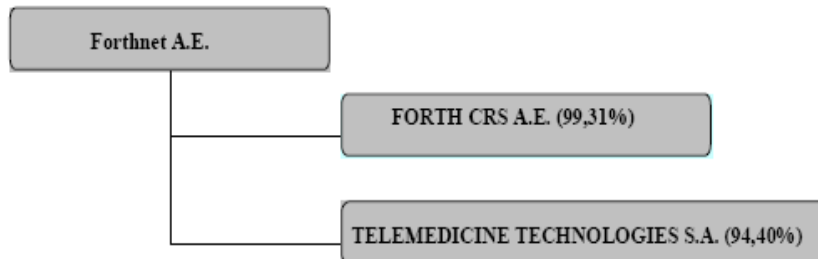
- Forthnet provides several services addressed to both individuals and businesses, covering needs for flexible financial information, allowing access to services like price-watch in real-time, information on derivatives and mutual funds. In addition, Internet users worldwide have access to Forthnet's portal, which facilitates web navigation with news and other useful information.

4. Services Provided to Business Customers

- Data interconnection services
- Fixed telephony services
- Value added services & applications (interactive marketing, data center services etc.

Company's Equity Participations

The Group of Forthnet structure at 30.06.2007 is presented in the following chart:



Forth CRS S.A.'s principle activities are to provide integrated tourism services through the research, development, use and sale of modern, high convergent technological electronic products and services for the distribution and management of tourism material, such as reservations, ticketing and other related material, produced by entities such as shipping companies, airlines and other transportation enterprises, hotel enterprises, promotion and entertainment enterprises, enterprises relating to sports, hospitals and all other electronic reservation organizations.

Telemedicine Technologies S.A.'s principle activities is to create, implement and sell services and products associated with the acquisition, transmission and dissemination of information, particularly electronically, in the health sector. The company aims to implement and sell services in the health sector, with emphasis on business-to-business medical services.

VALUATION & SENSITIVITY ANALYSIS

Based on our forecasts for the next 5-years (explicit period) and the long-term assumptions (terminal value), the application of the discounted free cash flow methodology leads to a fair price of € 14.19 for the stock (total value of € 546.91 million) which implies an outperform rating.

	2007 E	2008 E	2009 E	2010 E	2011 E	L-Term Assumptions
ASSUMPTIONS						
Growth Rate (Sales)	20.72%	45.09%	28.87%	18.45%	12.12%	2.80%
EBIT Margin	-36.24%	-11.43%	4.74%	14.87%	22.32%	23.00%
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Working Capital (% of sales)	4.31%	4.24%	4.28%	1.35%	1.40%	1.35%
Capex (% of sales)	43.36%	31.26%	21.40%	12.13%	9.84%	10.00%
Cost of Capital	8.39%	7.10%	6.66%	7.19%	7.83%	7.89%
Depreciation (% of sales)	16.48%	14.65%	13.90%	13.42%	13.10%	10.00%
CASH FLOW STATEMENT						
Turnover	117.8	170.9	220.3	260.9	292.6	300.8
EBIT	-42.7	-19.5	10.4	38.8	65.3	69.2
Less: Adjusted Tax	-4.2	-2.2	1.5	8.8	15.7	16.6
Adjusted Operating Profit	-38.5	-17.3	8.9	30.0	49.6	52.5
Plus: Depreciation	19.4	25.0	30.6	35.0	38.3	30.1
Operating Cash Flow	-19.1	7.7	39.6	65.1	87.9	82.6
Less: Change in Working Capital	5.1	7.3	9.4	3.5	4.1	4.1
Less: Capex	51.1	53.4	47.1	31.6	28.8	30.1
Cash Flow to the Firm (FCFF)	-75.2	-53.0	-17.0	29.9	55.0	48.5
Discount Factor	0.92	0.87	0.82	0.76	0.69	0.61
Present Value of Cash Flows	-69.41	-46.17	-14.00	22.64	37.74	
Accumulated Present Value	-69.41	-115.58	-129.58	-106.94	-69.20	
Residual Value						951.95
Present Value of Residual Value						651.16

VALUATION

Enterprise Value	582.0
% Residual Value of Total	111.89%
Less: Net Debt	35.0
Minorities	0.04

Value of firm (in €,000)	546.91
Outstanding # of shares (000)	38,541
Value of share (in €)	14.19

WACC CALCULATION

Risk Free Rate	5.00%
Beta Factor	1.0
Market risk Premium	5.00%
Cost of Equity	10.00%
Debt / Debt + Equity	35.00%
Cost of Debt	5.30%
Tax Rate	25.00%

Weighted Average Cost of Capital	7.89%
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Source: VRS Estimates

We have applied the following major assumptions in our model:

- Weighted average cost of capital at 7.89%, affected by both the cost of equity and the cost of debt (35% of total).
- We have estimated sustained growth in all activities during the examined period and infinity sales growth of 2.8%.

- Infinite EBIT margin of 23.00%.

The realization of the aforementioned growth and valuation scenarios requires:

- Hold about 18.7% market share by the end of the fiscal 2011.
- The successful customer acquisition.
- A pricing model close to our estimates.
- The maintenance of operating expenses close to our estimates.

Applying a sensitivity analysis to the above DCF model, based on different growth rates and different levels for weighted average cost of capital (WACC), we end up with the following table:

		WACC				
		5.9%	6.9%	7.9%	8.9%	9.9%
GROWTH	1.30%	15.76	13.18	10.16	7.96	6.30
	2.30%	23.47	16.83	12.61	9.70	7.58
	2.80%	27.85	19.32	14.19	10.78	8.36
	3.30%	33.92	22.51	16.12	12.06	9.26
	3.80%	42.90	26.73	18.53	13.59	10.30

Source: VRS Estimates.

STOCK DATA & VALUATION RATIOS

	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Price (in €) (28/09/2007)	€11.08					
Shares Outstanding (,000)	38,541					
Market Capitalization (in €,000)	427,031					
EPS (in €)	-0.43	-0.99	-0.52	0.12	0.68	1.22
Book Value / Share (x)	3.93	2.94	2.43	2.54	3.02	3.75
EV (in € mn)	437,058	462,038	491,712	502,026	477,850	443,049
P/E (a.t.& m.i.)	Neg.	Neg.	Neg.	95.42	16.26	9.06
P/BV	2.82	3.76	4.57	4.36	3.67	2.95
EV/EBITDA	Neg.	Neg.	89.28	12.23	6.47	4.28
EV/Sales	4.48	3.92	2.88	2.28	1.83	1.51
Dividend / Share (in €)	0.00	0.00	0.00	0.00	0.20	0.49
Dividend Yield	0.00%	0.00%	0.00%	0.00%	1.84%	4.42%

Source: Company Financials & VRS Projections

RISK FACTORS

	Investment Risks / Concerns	Mitigating Factors / Important Notes
1	Competition from alternative providers.	The Company is the pioneer in internet and alternative telecom services in Greece and has gain the know-how to sustain the majority part of its current market shares.
2	No collaboration with mobile provider to offer triple play services (internet - fixed telecom - mobile telecom).	Forthnet is expected to act as a Virtual Mobile operator (buy minutes wholesale from mobile operators and retail them to their customers), offering at the same time high quality internet and fixed telecom services on competitive prices.
3	Forthcoming tariff war could put pressures on profit margins.	The Company is developing a broad infrastructure network to manage the maximum possible unbundling for its customers. Thus, the Company reduces its dependence in OTE, benefiting from higher margin operations, allowing for a more favorable pricing policy.
4	Customer churn will intensify.	Forthnet continuously improves and enforces the quality of internet and fixed telecom services seeking competitive prices in order to maintain its customer base.

Source: Company Data, VRS Research Department.

TURNOVER FORECASTS

So far, the majority turnover of Forthnet derived from corporate customers and some from internet access. In 2006, Forthnet generated 53.7% of revenues through its fixed voice division, and 19.3% from internet access. However, we believe that in the coming years this mix will change, to 17% and 71% respectively by the end of the fiscal 2011. This is due to the unbundling progress with customers preferring double play services that reduce their telephony related costs significantly.

For the period 2006-2011, Forthnet's turnover is expected to increase by approximately 24.55% on average annually, mostly attributed to the strong customer growth. In addition, the majority of customers are expected to prefer ULL services and mostly the 2play, where pricing is higher compared to other services.

Market & Customer Evolution: Important Assumptions for the Model

(in € ,000)	2006	2007 E	2008 E	2009 E	2010 E	2010 E
Greek Broadband Market	484.3	1,089.7	1,798.0	2,337.5	2,804.9	3,225.7
ADSL access	101	133	159	160	151	134
2Play (ULL)	0	63	170	282	370	458
Internet (ULL)	0	1	8	14	21	29
End of Year Broadband customers	101	197	337	455	541	620
y-o-y Change. %		94.92%	71.12%	35.05%	18.93%	14.55%
Telephony customers	240	270	230	180	150	120
ULL telephony customers	0	8	34	56	72	86
End of Year Telephony Customers	240	278	264	236	222	206
y-o-y Change. %		15.80%	-5.04%	-10.46%	-6.22%	-7.13%

Source: VRS Estimates

We have included a churn rate of 7-10%, in our assumptions from the fiscal 2008 and on.

The higher utilization of Forthnet's independent network (ULL broadband service) will increase total ARPU. However, the strong competition in the next 5-year period, will allow for a tariff war that will restrain total ARPU growth. The table below presents our assumptions with regard to the ARPU progress in the period 2006-2011.

ARPU Analysis: Important Assumptions for the Model

(in € ,000)	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Average Customers	341.1	432.9	531.0	621.6	708.1	771.0
Total Voice & Internet Revenue	71,218	88,140	140,417	188,252	227,969	258,605
ARPU (annual in euro)	209	204	264	303	322	335
ARPU (monthly in euro)	17.4	17.0	22.0	25.2	26.8	28.0
<u>Monthly ARPU Analysis (in euro)</u>						
ADSL (non-ULL)	15.5	15.0	14.0	13.5	12.0	12.0
2Play	0.0	45.0	41.0	39.0	38.0	37.0
Internet (ULL)	0.0	17.5	17.0	16.5	16.0	16.0
Voice Customers	18.2	17.8	17.0	17.0	17.0	17.0
ULL Voice	0.0	35.0	34.0	33.0	31.0	28.0

Source: VRS Estimates

- We have assumed an average decline in 2Play ARPU of only 4.78% during the period 2007-2011, given that the Company will introduce 3Play (Fixed Telephony, Internet and TV-Video) services in 1Q 2008. We have included 3Play services in 2Play division. The ARPU of this service is higher but we are not very optimistic on the penetration of this service (we estimate about 5% of ULL customer).
- Total ARPU for the Company will increase on average by 13.29%.

Historic & Projected Turnover Breakdown

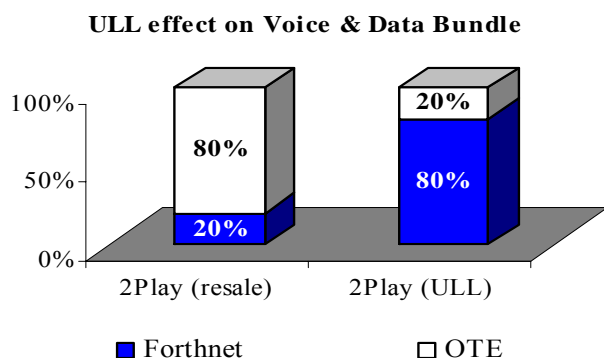
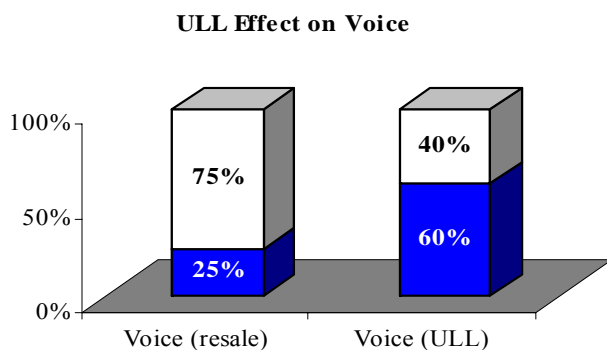
(in € ,000)	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Voice Customers	52,380	57,672	46,920	36,720	30,600	24,480
ULL Voice	0	1,386	8,535	17,868	23,795	26,445
Fixed telephone (voice)	52,380	59,058	55,455	54,588	54,395	50,925
y-o-y Change. %		12.75%	-6.10%	-1.56%	-0.35%	-6.38%
% of Total	53.67%	50.13%	32.44%	24.78%	20.85%	17.41%
ADSL access	18,838	23,924	26,715	25,850	21,753	19,301
2Play (ULL - average)	0	5,940	57,308	105,581	148,474	183,638
Internet (ULL - average)	0	26	938	2,233	3,348	4,741
Broadband	18,838	29,890	84,962	133,665	173,574	207,680
y-o-y Change. %		58.67%	184.24%	57.32%	29.86%	19.65%
% of Total	19.30%	25.37%	49.70%	60.67%	66.52%	70.99%
Internet leased lines	7,207	8,072	8,718	9,328	9,608	9,896
Data connectivity services	2,655	2,708	2,776	2,845	2,916	2,989
LMDS	3,002	3,302	3,533	3,710	3,821	3,936
Business	12,864	14,082	15,027	15,883	16,345	16,821
y-o-y Change. %		9.47%	6.71%	5.70%	2.91%	2.91%
% of Total	13.18%	11.95%	8.79%	7.21%	6.26%	5.75%
Other	13,519	14,790	15,499	16,162	16,628	17,141
y-o-y Change. %		9.40%	4.80%	4.27%	2.88%	3.09%
% of Total	13.85%	12.55%	9.07%	7.34%	6.37%	5.86%
Total Turnover	97,601	117,820	170,943	220,297	260,942	292,568
y-o-y change		20.72%	45.09%	28.87%	18.45%	12.12%

Source: Company Data & VRS Estimates

OPERATING EXPENSES EVOLUTION

Operating profit margins are expected to follow an upward trend, as the Company's customer mix turns on its own network. **For the fiscal 2011, we expect EBITDA margin to reach the level of 35.4% from -5% at the end of the fiscal 2006.** The improvement is attributed to the gradual unbundling of internet & voice customers from OTE network to Forthnet private network. The dependence on OTE network restricts the Company from gaining significantly higher income and thus higher profit margins.

Interconnection fees are expected to increase on a CAGR₂₀₀₆₋₂₀₁₁ of 6.25%, representing about 14.3% of total turnover in fiscal 2011 from 31.75% in fiscal 2006. These fees include the termination cost to OTE and interconnection fees. The improvement compared to total turnover is attributed to the gradual unbundling from OTE network. **The Figures below shows the effect on operating profit margins from unbundling from the OTE local loop.**



Source: Forthnet

In addition, we expect that payroll expenses will represent about 12.4% of total turnover in fiscal 2011 from 18.19% in fiscal 2006, increasing on a CAGR of 15.5%. The high average annual growth is attributed to the company's overall personnel increase in order to improve customer and technical support services staying fine tuned with the increasing demand. Other telecommunication expenses include among others, repair & maintenance expenses, leased lines and customer acquisition costs. Advertising expenses are expected to represent about 8.5% of total turnover in fiscal 2007 and 4% in fiscal 2011 from 7.6% in fiscal 2006.

Historic & Projected Operating Expenses Breakdown

(in € ,000)	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Payroll	17,749	23,961	28,753	33,066	35,381	36,443
y-o-y Change. %		35.00%	20.00%	15.00%	7.00%	3.00%
% of Total	17.15%	16.93%	17.29%	18.28%	18.70%	19.06%
Commissions on sales	7,628	10,839	13,675	17,624	20,875	23,405
y-o-y Change. %		42.11%	26.16%	28.87%	18.45%	12.12%
% of Total	7.37%	7.66%	8.22%	9.74%	11.03%	12.24%
Interconnection fees	30,991	37,809	39,321	40,894	41,712	41,962
y-o-y Change. %		22.00%	4.00%	4.00%	2.00%	0.60%
% of Total	29.95%	26.71%	23.64%	22.60%	22.04%	21.95%
Other telecommunication costs	21,335	36,928	47,481	52,775	53,527	52,910
y-o-y Change. %		73.09%	28.58%	11.15%	1.42%	-1.15%
% of Total	20.62%	26.09%	28.55%	29.17%	28.29%	27.68%
Advertising & promotion costs	7,411	10,005	12,506	11,255	11,255	11,255
y-o-y Change. %		35.00%	25.00%	-10.00%	0.00%	0.00%
% of Total	7.16%	7.07%	7.52%	6.22%	5.95%	5.89%
Other Operating Costs	18,350	22,005	24,575	25,298	26,489	25,185
y-o-y Change. %		19.91%	11.68%	2.94%	4.71%	-4.92%
% of Total	17.74%	15.55%	14.78%	13.98%	14.00%	13.17%
Total Turnover	103,464	141,547	166,312	180,914	189,239	191,160
y-o-y change		36.81%	17.50%	8.78%	4.60%	1.02%

Source: Company Financials & VRS Estimates

BALANCE SHEET ANALYSIS**Investments**

Within the first half of the year, Forthnet completed investments amounting to around € 20 mn, and currently covers more than 50% of the country's population via its private network. At this stage, its private fiber optic network is about 900km long, while the company is rapidly implementing the interconnection of its local centers in Athens, Thessaloniki, Larissa and Volos. Forthnet's network now covers 85% of Attica and most of Thessaloniki region.

The 2007-2009 investment program includes expenditures on fixed assets of €154.5 mn, including expenses for:

1. optical fibre network and international capacity of € 39.4 mn,
2. broadband infrastructure of € 102.1 mn
3. EPS software & hardware of € 13 mn

In addition, the investment program of the Company includes expenses on market share expansion (including customer acquisition cost) of € 46.5 mn and working capital needs and other miscellaneous expenses of € 10 mn.

Funding Investments

The Company will finance its projected investments by

1. **Own capital.** On May 2006, the company completed successfully a share capital increase through the payment of € 119.9 mn by existing shareholders and those who acquired pre-emptive rights during the rights trading period. In addition, we expect cash inflows from the fiscal 2008 and on.
2. **Bank Financing.** In June 29, 2007, Forthnet entered into bond loan agreement with a consortium of banks for a principle amount up to € 150 mn (€ 120 mn if certain obligations, arising from the Agreement, are met. + € 30 mn subject to a mutual agreement between the parties until 30/03/2010). The repayment of the Bond is in 10 semiannual installments, with interest rate equal to 3 month Euribor plus 1.15% to 1.75%.
3. **Government Grants** of € 29 mn.

Historic & Projected Financial Ratios

	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Profit Margin							
EBITDA Margin	14.79%	-5.10%	-19.77%	3.22%	18.64%	28.29%	35.42%
EBIT Margin	2.13%	-19.17%	-36.24%	-11.43%	4.74%	14.87%	22.32%
Pre-tax profit margin	0.35%	-19.86%	-35.82%	-13.02%	2.71%	13.42%	21.49%
Net Profit margin	-1.23%	-17.11%	-32.24%	-11.71%	2.03%	10.06%	16.12%
Activity							
Stock Days	3	7	7	7	7	7	7
Debtors Days	251	229	224	200	190	180	180
Creditors Days	150	191	180	180	175	175	175
Operating Cycle	129	121	119	107	102	97	97
Cash Cycle	104	44	51	27	22	12	12
Capital Structure							
Total Debt/ Total Equity	1.48	0.58	0.86	1.66	2.10	1.69	1.26
Bank Loans/ Total Equity (D/E ratio)	0.74	0.23	0.37	0.93	1.24	0.87	0.56

Source: Company Financials & VRS Projections

Historic & Projected Profit & Loss Account

(in € ,000)	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Turnover	91,559	97,601	117,820	170,943	220,297	260,942	292,568
y-o-y change %		6.60%	20.72%	45.09%	28.87%	18.45%	12.12%
Other Income / Expense	1,954	887	435	877	1,679	2,119	2,220
Operating Expenses	79,969	103,464	141,547	166,312	180,914	189,239	191,160
% of turnover	87.34%	106.01%	120.14%	97.29%	82.12%	72.52%	65.34%
y-o-y change %		29.38%	36.81%	17.50%	8.78%	4.60%	1.02%
EBITDA	13,544	-4,976	-23,292	5,508	41,063	73,822	103,628
EBITDA Margin	14.79%	-5.10%	-19.77%	3.22%	18.64%	28.29%	35.42%
y-o-y change %		n/c	n/c	n/c	645.55%	79.78%	40.38%
Depreciation	11,594	13,738	19,411	25,048	30,624	35,026	38,322
% of turnover	12.66%	14.08%	16.48%	14.65%	13.90%	13.42%	13.10%
EBIT	1,950	-18,714	-42,703	-19,540	10,439	38,796	65,305
% of turnover	2.1%	-19.2%	-36.2%	-11.4%	4.7%	14.9%	22.3%
y-o-y change %		n/c	n/c	n/c	n/c	271.6%	68.3%
Net Financial Results	-1,628	-666	495	-2,710	-4,471	-3,778	-2,438
Net Results Before Taxes	321	-19,380	-42,208	-22,250	5,968	35,018	62,867
EBT Margin	0.35%	-19.86%	-35.82%	-13.02%	2.71%	13.42%	21.49%
y-o-y change %		n/c	n/c	n/c	n/c	486.74%	79.53%
Income Tax	1,435	-2,681	-4,221	-2,225	1,492	8,754	15,717
Effective Tax Rate	447%	13.8%	10.0%	10.0%	25.0%	25.0%	25.0%
Net Results After Taxes	-1,114	-16,699	-37,987	-20,025	4,476	26,263	47,150
EAT Margin	-1.22%	-17.11%	-32.24%	-11.71%	2.03%	10.06%	16.12%
y-o-y change %		n/c	n/c	n/c	-122.35%	486.74%	79.53%
Proportion of Minority rights	11.7	-0.9	-0.9	0.9	1.0	1.3	1.6
Net Results (a.t.&m.i.)	-1,126	-16,699	-37,986	-20,026	4,475	26,262	47,149
Net Margin	-1.23%	-17.11%	-32.24%	-11.71%	2.03%	10.06%	16.12%
y-o-y change %		n/c	n/c	n/c	n/c	486.8%	79.5%

Source: Company Financials & VRS Projections

Historic & Projected Balance Sheet

(in € ,000)	2005	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Assets							
Net Intangible Assets	9,844	11,878	11,761	11,319	9,571	6,098	2,246
Net Tangible Assets	63,771	83,990	115,778	144,616	162,877	162,972	157,303
Participations	728	728	728	728	728	728	728
Other L-term assets	5,910	9,666	10,149	10,657	11,190	11,749	12,337
Total Non-Current Assets	80,308	106,322	138,481	167,381	184,425	181,603	172,667
% Total Assets	64.4%	44.5%	65.7%	67.3%	60.8%	58.1%	52.8%
Inventories	487	1,289	1,433	1,665	1,796	1,826	1,819
Trade Receivables	31,464	30,591	36,153	46,834	57,338	64,342	72,140
Other Receivables	4,340	7,743	8,247	11,111	13,218	14,352	14,628
Cash in bank and at hand	8,171	93,108	26,492	21,819	46,505	50,681	65,482
Total Current Assets	44,461	132,730	72,326	81,428	118,857	131,201	154,070
% Total Assets	35.6%	55.5%	34.3%	32.7%	39.2%	41.9%	47.2%
Total Assets	124,769	239,053	210,807	248,809	303,282	312,804	326,737
Equity & Liabilities							
Shareholder's Equity	50,297	151,477	113,491	93,465	97,940	116,324	144,613
Minority Rights	38	37	36	37	38	38	40
Total Equity	50,336	151,514	113,527	93,502	97,978	116,362	144,653
% Total Equity & Liabilities	40.3%	63.4%	53.9%	37.6%	32.3%	37.2%	44.3%
L-Term Bank Loans	33,532	0	40,000	85,000	100,000	80,000	50,000
Provisions for Staff Retirement	832	1,047	1,151	1,266	1,393	1,532	1,686
Deferred Tax Liabilities	204	27	2,286	8,676	20,222	26,579	28,099
Other long term debts	4,799	3,602	3,530	3,530	3,530	3,530	3,530
Total L-Term Liabilities	39,367	4,675	46,967	98,472	125,145	111,641	83,314
Suppliers	22,397	36,453	36,857	42,806	44,910	45,662	45,487
Banks	3,712	35,004	1,500	1,500	21,500	21,500	31,500
Taxes-duties	322	316	500	500	1,119	4,377	7,858
Other Payables	8,465	10,911	11,456	12,029	12,630	13,262	13,925
Total Current Liabilities	35,066	82,864	50,313	56,835	80,159	84,802	98,770
Total Liabilities	74,433	87,539	97,280	155,308	205,304	196,442	182,084
% Total Equity & Liabilities	59.7%	36.6%	46.1%	62.4%	67.7%	62.8%	55.7%
Total Equity & Liabilities	124,769	239,053	210,807	248,809	303,282	312,804	326,737

Source: Company Financials & VRS Projections

Historic & Projected Cash Flow

(in € ,000)	2006	2007 E	2008 E	2009 E	2010 E	2011 E
Profit after tax	-16,699	-37,987	-20,025	4,476	26,263	47,150
Plus: Change of Depreciation	13,646	19,411	25,048	30,624	35,026	38,322
Gross Cash Flow	-3,053	-18,576	5,023	35,100	61,289	85,473
<u>Change in:</u>						
(-) Trade Debtors	-873	5,562	10,681	10,504	7,004	7,798
(-) Inventory	801	145	231	132	30	-7
(-) Other Receivables	3,404	504	2,864	2,107	1,134	277
(+) Trade Creditors	14,056	404	5,950	2,104	752	-176
(+) Liabilities for taxes	-6	184	0	619	3,258	3,481
(+) Other Short - term liabilities	2,445	546	573	601	632	663
Change in Working Capital	13,163	-5,078	-7,253	-9,418	-3,526	-4,099
Operating Cash Flow	10,110	-23,655	-2,231	25,682	57,763	81,374
<u>Change in:</u>						
(-) Intangible Assets	4,348	3,556	3,780	2,982	1,600	1,450
(-) Tangible Assets	31,551	47,527	49,663	44,155	30,047	27,352
(-) Other long - term receivables	3,762	486	505	530	557	585
(+) Other Long - term liabilities	-1,160	2,292	6,505	11,673	6,496	1,674
(+) Cons. diff./ Minority Interests	-2	-1	1	1	1	1
Cash Flow from Investment	-40,822	-49,278	-47,442	-35,994	-25,707	-27,712
Net C.F. Before Financing Activities	-30,712	-72,933	-49,673	-10,312	32,056	53,662
Increase in Share Capital	25,266	0	0	0	0	0
Increase in Share Premium Account	92,120	0	0	0	0	0
Net Change in Reserves	493	0	0	0	0	0
Change in Long - Term Debt	-33,532	40,000	45,000	15,000	-20,000	-30,000
Change in Short - Term Debt	31,292	-33,504	0	20,000	0	10,000
Dividends	-10	179	0	0	7,879	18,860
Minority Interests on Profit	-1	-1	1	1	1	2
Net Cash Flow from Financing	115,650	6,317	44,999	34,999	-27,880	-38,861
Cash at Beginning	8,171	93,108	26,492	21,819	46,505	50,681
Change in Cash	84,937	-66,615	-4,674	24,687	4,176	14,801
Cash at End	93,108	26,492	21,819	46,505	50,681	65,482

Source: Company Data & VRS Projections

NOTES

Dynamic Securities Rating System

Rating	Ratings Breakdown	Definition of Rating System
Outperformed	66.67%	Expected to Outperform the Index by more than 10%
Neutral	33.33%	Expected to perform relative to the Index by +/- 5%
Underperform	0%	Expected to Underperform the Index by more than 10%

Notes: 1/ Ratings refer to a 12-month period.
 2/ Benchmark Index: ASE General Index.
 3/ Stock Universe: 40 Companies.
 4/ Current Stocks Covered: 12 Companies.

Ratings History

Company	Date	Rating	Target Price
SARANTIS	27/07/2006	Outperform	€9.10
INTRALOT	31/10/2006	Outperform	€25.55
THRACE PLASTICS	18/12/2006	Outperform	€2.72
OPAP	10/01/2007	Neutral	€29.86
F.H.L. KIRIAKIDIS	01/02/2007	Outperform	€2.93
KRI KRI	28/03/2007	Outperform	€4.47
NIREUS GROUP	18/05/2007	Outperform	€5.91
AGRICULTURAL SPIROU	06/06/2007	Outperform	€3.64
SPIDER	13/06/2007	Neutral	€1.44
ATTICA BANK	27/07/2007	Neutral	€4.80
KREKA	25/09/2007	Neutral	€2.27
FORTHNET	28/09/2007	Outperform	€14.19

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Dynamic Securities SA

Member of Athens Stock Exchange
Member of Derivatives Exchange
6-10 Harilaou Trikoupi Str.
106 79, Athens, Greece
Tel : +30 210 3677700
Fax : +30 210 3677777
E-mail : info@dynamicsec.gr

Equity Sales & Trading

Konstantinos Feggos +30 210 3677747
Dimitrios Kannelos +30 210 3677715
Katerina Tziafa +30 210 3677743
Olga Mpoziou +30 210 3677725
Barbara Abatzi +30 210 3677714

Derivatives Sales & Trading

Elias Mantoudiotis +30 210 3677740
George Christou +30 210 3677755
George Zoropoulos +30 210 3677746

Research Department

Nicholas I. Georgiadis (VRS) +30 210 3219557
Christophoros J. Makrias (VRS) +30 210 3219557
Nikolaos Kollias +30 210 3677795

Institutional Sales

Mary Anthopoulou +30 210 3677756
Michalis Stathikis +30 210 3677728

Investment Services

Christos Retsas +30 210 3677704