

# 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 - June 11, 2007

## F.G. Europe

Sector :Wholesale

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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 the 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	151.72	145.53
EBITDA	6.27	10.43	14.78
Margin %	4.02%	6.87%	10.15%
Net Income	2.67	4.50	6.83
Margin %	1.71%	2.96%	4.69%

Price (11/06/2007)	€ 2.55
Shares Outstanding	54,580,374
MktCap (in €,000)	139,180

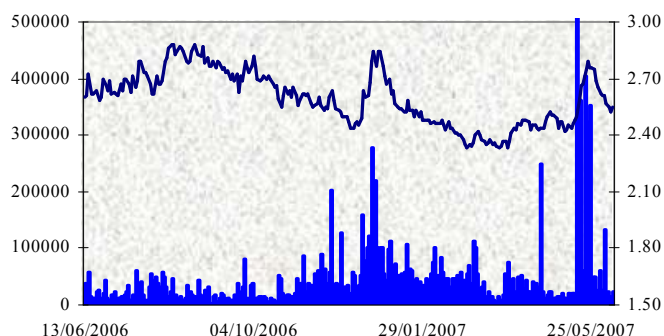
Beta (2 years)	0.61		
Dividend '06	0.04		
Div. Yield	1.57%		
P/E	52.07x	30.94x	20.39x
P/BV	5.83x	5.90x	4.79x
Debt/Equity	27.83x	17.80x	13.29x
ROE	11.98%	18.95%	25.92%

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.
- ⊙ FG Europe is also expanding in the consumer electronics business, through the collaboration agreement with Sharp. The Group will utilize its sales network, strengthening its product portfolio and bargaining power with retailers. In white appliances, the Group's core strategy is to establish and strengthen its position in Greece through the brands of Eskimo and Sharp. It will focus on the promotion of electric appliances with low penetration.
- ⊙ FG Europe is currently expanding operations in the energy sector, in collaboration with the Restis family. 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. The Group has already initialized a 2-year CAPEX to construct 2 wind parks and one hydroelectric plant of total 28.615 MW production capacity.
- ⊙ For the period 2006-2011, Group's turnover CAGR is estimated at **-2.64%**, while **EBITDA CAGR is estimated at 30.42%**. The turnover reduction is attributed to the management's decision to gradually withdraw the low margin wholesale mobile telephony division.

Share Price Graph (52 Weeks) - Max: € 2.88 - 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 our projections for the period 2007-2011 imply net income CAGR of +33%. The strategic decisions are based on altering the sales mix of the Group 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 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), penetrating the market segment of consumer electronics;
3. The gradual withdrawal from mobile telephony wholesale business;
4. The strategic equity participation of the Restis family implying stronger capital pool and broader collaboration with the Group;
5. The expansion of operations in the energy sector.

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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, phone sets. FG Europe is the master dealer of the service provider TIM and the wholesaler of pre-paid cards for all Greek cellular telephony providers, Cosmote, Vodafone, TIM and Q-Telecom. The Group currently accounts 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 account in other income), while for the next 5-year period we have projected a 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 margin**. In fiscal 2005, the management of the Group decided to gradually reduce its 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 million or 6% 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 business**, through the collaboration agreement with Sharp, offsetting to a large extent the effect from mobile telephony revenue reduction. In addition, consumer electronics **generate significantly higher gross margin (29.5% on average)** as compared to telephony business, improving Group's average gross margin.

The 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 of Sharp products reaching at least € 17.8 mil., representing about 11.8% of total turnover.

With regard to white appliances, total sales of Sharp products in Greece are expected to reach at least € 8 million at the end of the fiscal 2011 (5.8% 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 reach at least € 19 million at the end of the fiscal 2011 (14% of total Group turnover), with gross profit margin accounting for approximately 32%.

### **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 and Clivet, in Greece and abroad. The Company's focus is to retain its 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.

#### **➤ Domestic A/C Market**

F.G. Europe has **2 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 of 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 € 35.9 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.

For the next 5 years, we expect that A/C domestic sales **will expand to approximately € 41.8 mil., growing on a CAGR of 7.27%, representing about 30.6% 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 an expanding sales network in South East Europe.

**For the fiscal 2007, we expect about € 27.3 mil. sales** representing approximately 18% of the total turnover (43.2% 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 13%, reaching € 40.26 mil., at the end of fiscal 2011.** The growth is attributed to:

1. Utilization of the potential for organic growth in S-E Europe;
2. Subsidiaries in Italy and Romania (offering warehouse / logistics facilities, and supporting sales of the parent);
3. Own brand names without territory constrains;
4. Promotion of products carrying world known brand names;
5. 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>35.92</b>	<b>37.71</b>	<b>39.60</b>	<b>40.79</b>	<b>41.81</b>
% of total A/C Revenues	50.48%	57.41%	56.82%	54.57%	52.97%	52.02%	50.94%
Italy	6.56	10.58	13.10	14.91	16.53	17.50	18.52
Other EU countries	7.92	1.63	2.13	2.54	2.95	3.27	3.62
Balkans	6.8	9.63	12.07	13.94	15.68	16.86	18.12
<b>Total International</b>	<b>21.28</b>	<b>21.84</b>	<b>27.30</b>	<b>31.40</b>	<b>35.16</b>	<b>37.62</b>	<b>40.26</b>
	49.52%	42.59%	43.18%	45.43%	47.03%	47.98%	49.06%
<b>Total A/C Revenues</b>	<b>42.97</b>	<b>51.28</b>	<b>63.22</b>	<b>69.11</b>	<b>74.76</b>	<b>78.41</b>	<b>82.06</b>

Source: Historical Data & 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 brand awareness in Greece.

The Group's core strategy is to **establish and strengthen its position in Greece**. The Company will focus on the promotion of electric appliances with low penetration, such as dishwashers, dryers, and microwave ovens in all target markets. In addition, FG Europe will utilize 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 F.G. Europe expanding its market share to 4%**. Under the above assumption, total white appliances' revenues (Eskimo & Sharp W/A products) will reach € 15.9 million by 2011 representing approximately 11.67% 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 is enriching its products, offering after sales services through the 100% subsidiary Fidakis Service S.A.. The service covers the whole geographic business area in 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 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 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 € 280,000.

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 € 26 mil additional investment expenditures, apart from the previously described investment projections.

## 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>35,917</b>	<b>37,713</b>	<b>39,598</b>	<b>40,786</b>	<b>41,806</b>
y-o-y Change %		35.73%	22.00%	5.00%	5.00%	3.00%	2.50%
% of Total	13.3%	18.9%	23.7%	25.9%	29.5%	31.2%	30.6%
<b>A/C International</b>	<b>21,280</b>	<b>21,840</b>	<b>27,300</b>	<b>31,395</b>	<b>35,162</b>	<b>37,624</b>	<b>40,257</b>
y-o-y Change %		2.63%	25.00%	15.00%	12.00%	7.00%	7.00%
% of Total	13.1%	14.0%	18.0%	21.6%	26.2%	28.8%	29.5%
<b>W/A Eskimo</b>	<b>6,714</b>	<b>6,200</b>	<b>6,944</b>	<b>7,361</b>	<b>7,581</b>	<b>7,771</b>	<b>7,965</b>
y-o-y Change %		-7.66%	12.00%	6.00%	3.00%	2.50%	2.50%
% of Total	4.1%	4.0%	4.6%	5.1%	5.6%	5.9%	5.8%
<b>W/A Sharp</b>	<b>0</b>	<b>4,250</b>	<b>5,823</b>	<b>6,696</b>	<b>7,365</b>	<b>7,734</b>	<b>7,966</b>
y-o-y Change %		0%	37.00%	15.00%	10.00%	5.00%	3.00%
% of Total	0.0%	2.7%	3.8%	4.6%	5.5%	5.9%	5.8%
<b>Sharp Products</b>	<b>3,345</b>	<b>4,800</b>	<b>12,000</b>	<b>15,600</b>	<b>17,160</b>	<b>18,361</b>	<b>19,096</b>
y-o-y Change %		43.50%	150.00%	30.00%	10.00%	7.00%	4.00%
% of Total	2.1%	3.1%	7.9%	10.7%	12.8%	14.0%	14.0%
<b>Mobile Telephony</b>	<b>107,703</b>	<b>86,562</b>	<b>60,411</b>	<b>41,079</b>	<b>18,486</b>	<b>8,319</b>	<b>8,152</b>
y-o-y Change %		-19.63%	-30.21%	-32.00%	-55.00%	-55.00%	-2.00%
% of Total	66.2%	55.5%	39.8%	28.2%	13.8%	6.4%	6.0%
<b>Hydroelectric Plant</b>	<b>485</b>	<b>706</b>	<b>702</b>	<b>930</b>	<b>996</b>	<b>1,015</b>	<b>1,036</b>
y-o-y Change %		45.57%	-0.57%	32.53%	7.01%	2.00%	2.00%
% of Total	0.3%	0.5%	0.5%	0.6%	0.7%	0.8%	0.8%
<b>RF Energy</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,050</b>	<b>5,055</b>	<b>6,233</b>	<b>7,270</b>
y-o-y Change %		n/c	n/c	n/c	146.60%	23.30%	16.63%
% of Total	0.0%	0.0%	0.0%	1.4%	3.8%	4.8%	5.3%
<b>Other</b>	<b>1,596</b>	<b>2,285</b>	<b>2,628</b>	<b>2,707</b>	<b>2,788</b>	<b>2,871</b>	<b>2,958</b>
y-o-y Change %		-4.13%	-2.79%	-4.08%	-7.79%	-2.59%	4.43%
% 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>151,724</b>	<b>145,530</b>	<b>134,192</b>	<b>130,715</b>	<b>136,505</b>
y-o-y Change. %		-4.13%	-2.79%	-4.08%	-7.79%	-2.59%	4.43%

Source: Company Data &amp; VRS Projections

## **Investment Risks**

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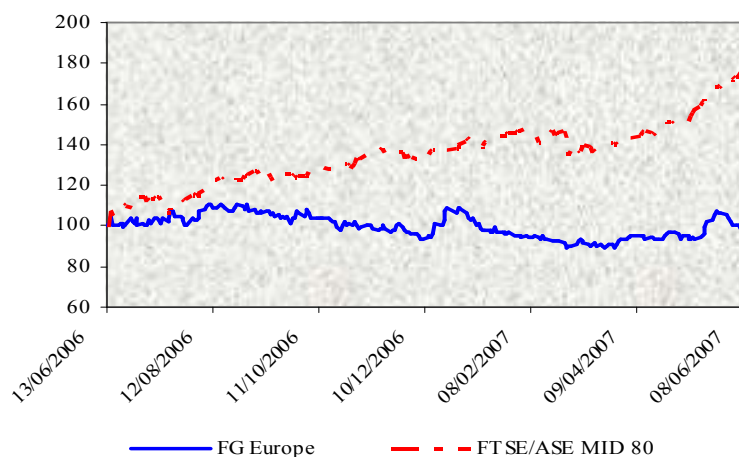
- Competition in the broader wholesale market of electric appliances in the form of a large number of small and medium size commercial companies, most of which are distributors of large multinational groups.
- Seasonal variations and unpredictable weather conditions.
- Changes in technology and environmental 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
- Eurobank MID-50



	11 June 2007	2006	2007 E	2008 E	2009 E	2010 E	2011 E
<b>Price (in €)</b>	<b>2.55</b>						
<b>Shares</b>	<b>54,580,374</b>						
<b>Market Capitaliz. (in €)</b>	<b>139,179,954</b>						
EPS (in €)		0.05	0.08	0.13	0.16	0.19	0.20
Book Value / Share (x)		0.55	0.60	0.72	0.82	0.90	0.99
EV (in € thous.)		174,445	185,621	196,413	193,587	188,809	182,423
P/E (a.t.& m.i.)		52.07x	30.94x	20.39x	15.59x	13.62x	12.50x
P/BV		5.83x	5.90x	4.79x	4.21x	3.87x	3.63x
EV/EBITDA		27.83x	17.80x	13.29x	9.97x	8.70x	7.71x
EV/Sales		1.12x	1.22x	1.35x	1.44x	1.44x	1.34x

Source: VRS Estimates

## Valuation (DCF Method)

Evaluating our projections on the **DCF model**, we end up with a fair value of € 181.34 million or € 3.32 per share.

	2007 E	2008 E	2009 E	2010 E	2011 E	L-Term Assumptions
<b>ASSUMPTIONS</b>						
Growth Rate (Sales)	-2.79%	-4.08%	-7.79%	-2.59%	4.43%	<b>2.00%</b>
EBIT Margin	6.58%	9.35%	13.27%	14.89%	15.45%	<b>16.00%</b>
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%	<b>25.00%</b>
Working Capital (% of sales)	0.25%	0.74%	0.39%	0.24%	0.56%	<b>0.50%</b>
Capex (% of sales)	15.42%	14.51%	7.75%	3.98%	0.73%	<b>1.25%</b>
Cost of Capital	6.57%	6.49%	6.80%	7.03%	7.15%	<b>7.10%</b>
Depreciation (% of sales)	0.29%	0.80%	1.20%	1.71%	1.88%	<b>1.25%</b>
<b>CASH FLOW STATEMENT</b>						
<b>Turnover</b>	<b>151,724</b>	<b>145,530</b>	<b>134,192</b>	<b>130,715</b>	<b>136,505</b>	<b>139,235</b>
EBIT	9,987	13,604	17,808	19,464	21,086	<b>22,278</b>
Less: Adjusted Tax	1,557	2,549	3,544	4,088	4,494	<b>4,748</b>
<b>Adjusted Operating Profit</b>	<b>8,430</b>	<b>11,055</b>	<b>14,264</b>	<b>15,375</b>	<b>16,592</b>	<b>17,530</b>
Plus: Depreciation	439	1,171	1,614	2,238	2,564	<b>1,740</b>
<b>Operating Cash Flow</b>	<b>8,869</b>	<b>12,227</b>	<b>15,878</b>	<b>17,613</b>	<b>19,156</b>	<b>19,270</b>
Less: Change in Working Capital	382	1,076	525	313	762	<b>696</b>
Less: Capex	23,398	21,120	10,400	5,200	1,000	<b>1,740</b>
<b>Cash Flow to the Firm (FCFF)</b>	<b>-14,912</b>	<b>-9,969</b>	<b>4,952</b>	<b>12,100</b>	<b>17,394</b>	<b>16,834</b>
Discount Factor	0.94	0.88	0.82	0.76	0.71	0.71
Present Value of Cash Flows	-13,993	-8,791	4,066	9,223	12,314	
Accumulated Present Value	-13,993	-22,784	-18,718	-9,496	<b>2,818</b>	
Residual Value						330,069
<b>Present Value of Residual Value</b>						<b>234,238</b>
<b>VALUATION</b>						
Enterprise Value	237,056					
% Residual Value of Total	98.81%					
<b>Value of firm</b>	<b>181,338</b>					
<b>Value of share</b>	<b>3.32</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	59.22%	60.51%	55.22%	51.29%	49.11%	50.00%
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>6.57%</b>	<b>6.49%</b>	<b>6.80%</b>	<b>7.03%</b>	<b>7.15%</b>	<b>7.10%</b>

Source: VRS Estimates

We have applied the following major assumptions in our model:

- Weighted Average Cost of Capital at 7.10% (Cost of Equity = 10%);
- We have estimated sustained growth in all activities during the examined period and infinity sales growth of 2%;
- Infinite EBIT margin of 16%.

### Sensitivity Analysis

The model's assumptions reflect the ongoing profitability of F.G. Europe Group, its expansion program under the new strategy designed by the management, and a growing presence in the Greek and European markets.

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%	7.10%	8.00%	9.00%
GROWTH	0.50%	3.82	3.31	2.65	2.26	1.92
	1.00%	4.82	3.73	2.92	2.48	2.09
	2.00%	6.36	4.87	3.32	3.04	2.51
	2.50%	8.22	5.69	4.18	3.39	2.77
	3.00%	10.48	6.78	4.79	3.81	3.07

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 decline by approximately 2.64% on average annually**, mostly attributed to the management's decision to gradually withdraw the low margin mobile telephony division. Excluding revenues from mobile telephony, Group turnover for the same period is expected to increase by 13% on average annually, following the dynamic promotion of Sharp products and the expansion in energy.
- **Gross profit margin will gradually improve** and settle at about 31.3% 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 margin;
  - The increase of the energy division that will represent about 14.5% of total Group gross profit from 2.61% during the fiscal 2006, boosting the gross margin significantly, since the Company's energy projects operate on 75% gross margin;
  - The higher participation of the consumer electronics to the Group's activities through the Sharp products. We have estimated approximately 30%-32% gross margin.
- **EBITDA margin** accounted for approximately 4% at the end of the fiscal 2006, **a level that will increase to 17.3%** at end of the fiscal 2011, with EBITDA growing on a **CAGR<sub>2006-2011</sub> of 30.4%**. 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 6.6% mostly attributed to higher promotion spending for the wholesale activities ~15% of total wholesale activities). We mention that the energy division does not require significant operating expenses, resulting to an EBT margin of at least 60%;
  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 Conditions</b>	<b>10,331</b>	<b>14,568</b>	<b>18,505</b>	<b>20,670</b>	<b>22,869</b>	<b>24,543</b>	<b>26,067</b>
y-o-y Change %		41.0%	27.0%	11.7%	10.6%	7.3%	6.2%
Gross Margin	24.0%	28.4%	29.3%	29.9%	30.6%	31.3%	31.8%
<b>White Appliances</b>	<b>1,598</b>	<b>2,508</b>	<b>3,064</b>	<b>3,374</b>	<b>3,587</b>	<b>3,721</b>	<b>3,823</b>
y-o-y Change %		57.0%	22.2%	10.1%	6.3%	3.7%	2.7%
Gross Margin	23.8%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
<b>Consumer Electronics</b>	<b>950</b>	<b>1,440</b>	<b>3,600</b>	<b>4,836</b>	<b>5,405</b>	<b>5,876</b>	<b>6,111</b>
y-o-y Change %		51.6%	150.0%	34.3%	11.8%	8.7%	4.0%
Gross Margin	28.4%	30.0%	30.0%	31.0%	31.5%	32.0%	32.0%
<b>Mobile Telephony</b>	<b>632</b>	<b>444</b>	<b>483</b>	<b>411</b>	<b>185</b>	<b>83</b>	<b>82</b>
y-o-y Change %		-29.7%	8.8%	-15.0%	-55.0%	-55.0%	-2.0%
Gross Margin	0.6%	0.5%	0.8%	1.0%	1.0%	1.0%	1.0%
<b>Energy</b>	<b>364</b>	<b>530</b>	<b>527</b>	<b>2,235</b>	<b>4,538</b>	<b>5,437</b>	<b>6,229</b>
y-o-y Change %		45.6%	-0.6%	324.6%	103.0%	19.8%	14.6%
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>263</b>	<b>325</b>	<b>362</b>	<b>402</b>	<b>444</b>
y-o-y Change %		157.4%	29.2%	23.6%	11.6%	10.9%	10.4%
Gross Margin	5.0%	8.9%	10.0%	12.0%	13.0%	14.0%	15.0%
<b>Total Cost of Sales</b>	<b>13,954</b>	<b>19,693</b>	<b>26,442</b>	<b>31,851</b>	<b>36,947</b>	<b>40,061</b>	<b>42,755</b>
Gross Margin	8.6%	12.6%	17.4%	21.9%	27.5%	30.6%	31.3%
y-o-y Change %		41.1%	34.3%	20.5%	16.0%	8.4%	6.7%

Source: Company Data & 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%	17.43%	21.89%	27.53%	30.65%	31.32%
EBITDA Margin	3.25%	4.02%	6.87%	10.15%	14.47%	16.60%	17.33%
EBIT Margin	3.05%	3.85%	6.58%	9.35%	13.27%	14.89%	15.45%
Pre-tax profit margin	1.01%	2.71%	4.11%	7.01%	10.56%	12.51%	13.17%
Net Profit margin	0.64%	1.71%	2.96%	4.69%	6.65%	7.82%	8.15%
<b>Cost Absorption &amp; Sources</b>							
Cost of sales on sales	91.34%	87.38%	82.57%	78.11%	72.47%	69.35%	68.68%
Administrative cost on sales	1.91%	1.46%	1.58%	1.70%	1.90%	2.00%	1.98%
Distribution cost on sales	4.43%	8.19%	9.57%	10.72%	11.95%	12.88%	12.87%

Source: Company Data & 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 1.01MW. 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 €26 million as additional investments in our projection model that will finance a 20 MW energy plant, assuming to launch operations in 3Q 2009.

	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	20.0	26,000
<b>Total Capex</b>		<b>61,320</b>

With regard to **current assets** for the Group, inventory turnover ratio is expected to increase to 170 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 above 180 days). **Debtor's turnover ratio** is expected to account for approximately 90 days in 2011 from 105 days (on average basis) during 2004, while **creditor's turnover ratio** to range between 35-40 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 € 25 million in the fiscal 2007 in order to repay the remaining convertible bond, finance its capital needs for investments and reduce the level of short term bank loans. We have also assumed another € 25 million corporate bond in the fiscal 2008, raising total long term loans to € 50 mil. (an older long term bank loan ends during the fiscal 2009).

**Total bank debt** is expected to range between € 47 - 52 mil., with the ratio '*bank debt / equity*' increasing to 1.54x during the fiscal 2008 and settling at 0.97x 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	115	130	155	170	170
Debtors Days	116	105	90	91	95	95	90
Creditors Days	27	32	46	39	39	37	35
Operating Cycle	182	203	205	221	250	265	260
Cash Cycle	155	171	159	182	211	228	225
<b>Capital Structure</b>							
Total Debt/ Total Equity	3.33	2.44	2.27	2.29	2.02	1.83	1.70
Bank Loans/ Total Equity	2.86	1.69	1.46	1.54	1.24	1.06	0.97
<b>Capital Gearing</b>							
Interest Coverage	1.60	3.51	2.77	4.34	5.35	6.98	7.60
Bank Debt / EBITDA	11.55	8.05	4.58	4.05	2.83	2.40	2.20
<b>Liquidity</b>							
Current Ratio	2.56	1.75	2.55	3.23	4.11	5.08	5.45
Quick Ratio - Acid Ratio	1.78	1.10	1.29	1.61	1.94	2.40	2.73

Source: Company Data & 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>151,724</b>	<b>145,530</b>	<b>134,192</b>	<b>130,715</b>	<b>136,505</b>
	y-o-y Change %	-22.67%	-3.12%	-2.79%	-4.08%	-7.79%	-2.59%	4.43%
Cost of Sales		147,163	136,390	125,282	113,680	97,245	90,654	93,750
	% of Turnover	91.34%	87.38%	82.57%	78.11%	72.47%	69.35%	68.68%
	y-o-y Change %	-23.30%	-7.32%	-8.14%	-9.26%	-14.46%	-6.78%	3.42%
<b>Total Gross Operating Results</b>		<b>13,954</b>	<b>19,693</b>	<b>26,442</b>	<b>31,851</b>	<b>36,947</b>	<b>40,061</b>	<b>42,755</b>
Gross Operating Margin		8.66%	12.62%	17.43%	21.89%	27.53%	30.65%	31.32%
	y-o-y Change %	-15.43%	41.13%	34.27%	20.46%	16.00%	8.43%	6.72%
Other operating income		1,505	1,649	900	1,000	1,050	1,103	1,158
Administrative Expenses		3,079	2,284	2,398	2,470	2,544	2,621	2,699
	% of Turnover	1.91%	1.46%	1.58%	1.70%	1.90%	2.00%	1.98%
Distribution Cost		7,137	12,790	14,517	15,605	16,030	16,841	17,563
	% of Turnover	4.43%	8.19%	9.57%	10.72%	11.95%	12.88%	12.87%
<b>Total Expenses</b>		<b>10,216</b>	<b>15,074</b>	<b>16,915</b>	<b>18,075</b>	<b>18,574</b>	<b>19,462</b>	<b>20,263</b>
	% of Turnover	6.34%	9.66%	11.15%	12.42%	13.84%	14.89%	14.84%
	y-o-y Change %	11.18%	47.55%	12.22%	6.85%	2.76%	4.78%	4.11%
<b>EBITDA</b>		<b>5,243</b>	<b>6,268</b>	<b>10,426</b>	<b>14,776</b>	<b>19,422</b>	<b>21,702</b>	<b>23,650</b>
EBITDA Margin		3.25%	4.02%	6.87%	10.15%	14.47%	16.60%	17.33%
	y-o-y Change %	-22.14%	19.55%	66.34%	41.72%	31.45%	11.74%	8.98%
<b>Depreciation</b>		<b>331</b>	<b>257</b>	<b>439</b>	<b>1,171</b>	<b>1,614</b>	<b>2,238</b>	<b>2,564</b>
	% of Turnover	0.21%	0.16%	0.29%	0.80%	1.20%	1.71%	1.88%
<b>EBIT</b>		<b>4,912</b>	<b>6,011</b>	<b>9,987</b>	<b>13,604</b>	<b>17,808</b>	<b>19,464</b>	<b>21,086</b>
	% of Turnover	3.05%	3.85%	6.58%	9.35%	13.27%	14.89%	15.45%
	y-o-y Change %	-25.69%	22.37%	66.15%	36.22%	30.90%	9.30%	8.33%
Total Financial Results		-3,281	-1,785	-3,758	-3,408	-3,631	-3,110	-3,110
<b>Net Results Before Taxes</b>		<b>1,631</b>	<b>4,226</b>	<b>6,230</b>	<b>10,196</b>	<b>14,177</b>	<b>16,354</b>	<b>17,976</b>
EBT Margin		1.01%	2.71%	4.11%	7.01%	10.56%	12.51%	13.17%
	y-o-y Change %	-76.67%	159.10%	47.41%	63.67%	39.04%	15.35%	9.92%
Income Tax		501	1,472	1,557	2,549	3,544	4,088	4,494
<b>Net Results After Taxes</b>		<b>1,130</b>	<b>2,754</b>	<b>4,672</b>	<b>7,647</b>	<b>10,633</b>	<b>12,265</b>	<b>13,482</b>
EAT Margin		0.70%	1.76%	3.08%	5.25%	7.92%	9.38%	9.88%
	y-o-y Change %	-74.41%	143.72%	69.65%	63.67%	39.04%	15.35%	9.92%
Proportion of Minority rights		95	81	175	822	1,703	2,048	2,351
<b>Consolidated Net Results (a.t.&amp;m.i.)</b>		<b>1,035</b>	<b>2,673</b>	<b>4,498</b>	<b>6,825</b>	<b>8,929</b>	<b>10,218</b>	<b>11,131</b>
Net Margin		0.64%	1.71%	2.96%	4.69%	6.65%	7.82%	8.15%
	y-o-y Change %	-76.69%	158.26%	68.26%	51.75%	30.83%	14.43%	8.94%

Source: Company Data &amp; VRS Estimates.

## 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	271	323	349	354
Accumulated depreciation	0	0	16	49	93	143	196
<b>Total Net Intangible Assets</b>	<b>61</b>	<b>47</b>	<b>149</b>	<b>222</b>	<b>230</b>	<b>205</b>	<b>158</b>
Tangible Assets	4,192	4,438	27,364	48,062	58,254	63,350	64,330
Accumulated depreciation	705	914	1,337	2,476	4,046	6,233	8,745
<b>Total Net Tangible Assets</b>	<b>3,487</b>	<b>3,524</b>	<b>26,027</b>	<b>45,586</b>	<b>54,208</b>	<b>57,116</b>	<b>55,585</b>
Financial & Other L-Term Assets	1,577	1,342	1,696	2,013	2,169	2,247	2,262
<b>Total Fixed Assets</b>	<b>5,125</b>	<b>4,913</b>	<b>27,872</b>	<b>47,820</b>	<b>56,606</b>	<b>59,568</b>	<b>58,004</b>
% Total Assets	5.56%	4.76%	25.93%	37.17%	41.98%	42.67%	39.87%
Inventories	26,455	36,647	39,472	40,489	41,296	42,222	43,664
Debtors	51,371	45,054	37,411	36,283	34,927	34,022	33,659
Other Receivables	5,474	1,440	1,433	1,426	1,419	1,411	1,397
Securities (net)	0	0	0	0	0	0	0
Cash in bank and at hand	3,824	15,197	1,304	2,640	593	2,371	8,757
<b>Total Current Assets</b>	<b>87,124</b>	<b>98,338</b>	<b>79,620</b>	<b>80,837</b>	<b>78,234</b>	<b>80,026</b>	<b>87,478</b>
% Total Assets	94.44%	95.24%	74.07%	62.83%	58.02%	57.33%	60.13%
<b>Total Assets</b>	<b>92,249</b>	<b>103,251</b>	<b>107,492</b>	<b>128,658</b>	<b>134,841</b>	<b>139,594</b>	<b>145,482</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	-1,273	3,268	5,105	5,615	6,172
Profit carried forward	-607	2,309	1,818	2,723	4,890	7,320	9,139
Minority Rights	532	6,120	9,277	10,017	11,550	13,393	15,509
<b>Total Capital &amp; Reserves</b>	<b>21,290</b>	<b>29,992</b>	<b>32,883</b>	<b>39,069</b>	<b>44,606</b>	<b>49,389</b>	<b>53,881</b>
% Total Equity & Liabilities	23.08%	29.05%	30.59%	30.37%	33.08%	35.38%	37.04%
L-Term Bank Loans	35,715	15,691	32,873	50,000	50,000	50,000	50,000
Provisions for Staff Retirement	248	291	295	300	304	309	313
Investment Grants	969	983	10,253	14,296	20,892	24,156	25,244
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>43,421</b>	<b>64,596</b>	<b>71,196</b>	<b>74,465</b>	<b>75,557</b>
Suppliers	5,915	18,365	13,043	11,212	9,591	8,941	8,990
Banks	24,838	34,771	14,873	9,873	5,000	2,000	2,000
Taxes-duties	98	918	1,246	1,912	2,481	2,862	3,146
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>31,189</b>	<b>24,993</b>	<b>19,039</b>	<b>15,740</b>	<b>16,044</b>
<b>Total Liabilities</b>	<b>70,959</b>	<b>73,259</b>	<b>74,609</b>	<b>89,589</b>	<b>90,235</b>	<b>90,205</b>	<b>91,601</b>
% Total Equity & Liabilities	76.92%	70.95%	69.41%	69.63%	66.92%	64.62%	62.96%
<b>Total Equity &amp; Liabilities</b>	<b>92,249</b>	<b>103,251</b>	<b>107,492</b>	<b>128,658</b>	<b>134,841</b>	<b>139,594</b>	<b>145,482</b>

Source: Company Data &amp; VRS Estimates.

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# VALUATION & RESEARCH SPECIALISTS

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

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## DISCLOSURE STATEMENT

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## DISCLOSURE CHECKLIST

Covered Company	Reuters	Price	Price Close	Disclosure
FG Europe	ESKr.AT	€ 2.55	11 June 2007	2, 4, 5, 6

1. VRS has acted as financial consultant for the covered company within the past 24 months.
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