

VALUATION & RESEARCH SPECIALISTS

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Germanos S.A.

Greek Equities

Sector: Retail

Reuters: GERr.AT

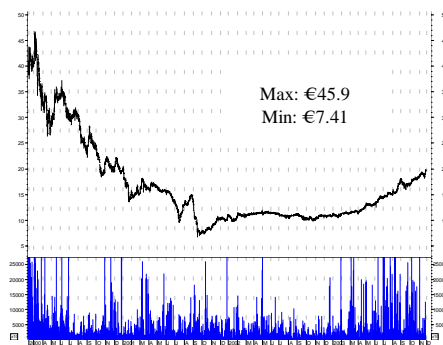
Share Price (as of December 3rd 2003): € 19.64

Company Description:

Germanos operates the largest independent specialized retail network in Greece (295 stores at the end of 2003) offering mobile and fixed line telephony products and services, Internet connections, batteries and a wide range of High-Tech products. Germanos Group of Companies has expanded its business model in Poland, Romania, Bulgaria, Cyprus and F.Y.R.O.M..

Share Price Analysis:

(02/11/2000 – 12/03/2003)



Key Investment Points

- ◎ The strength of Germanos is **its local market operations that represent a cash cow for the Group**, posting a solid growth given its stake in airtime revenues from cellular operators, its strong brand awareness (65%) and its broad outlet network (the largest in the Greek market).
- ◎ **Long term growth for Germanos will mostly derive from its international expansion** (seeking to establish a 700 store network in Greece and abroad by the end of 2004) in countries with low mobile penetration rate that create significant opportunities. International revenues will add to the total turnover for the Group, targeted at about 50% of the total at end 2005.
- ◎ The Group is a leader in the battery manufacturing business. Germanos' collaboration agreement with HDW and recently with Atlas Electronic will afford significant opportunities in the future.
- ◎ The Group retains a **healthy balance sheet outlook with low debt ratios**, and is **fairly valued compared to its peers**, while its business is more diversified with regard to geographic expansion and product and service range.

Key Financial & Valuation Ratios

(in EUR thous.)

| | SALES | EBITDA | EBT | EPS (EUR) (a.t.&m.i.) | P/E | P/BV | P/Sales | EV / EBITDA | ROE % |
|--------|---------|--------|--------|--------------------------|--------|-------|---------|----------------|----------|
| 2001 A | 506,390 | 50,216 | 37,845 | 0.744 | 26.45x | 2.91x | 1.54x | 16.23x | 11.0 |
| 2002 A | 606,631 | 65,308 | 45,880 | 0.865 | 22.76x | 2.96x | 1.29x | 12.33x | 12.9 |
| 2003 P | 724,035 | 75,117 | 61,471 | 1.163 | 16.92x | 3.77x | 1.08x | 12.91x | 19.6 |
| 2004 P | 825,654 | 86,740 | 66,584 | 1.260 | 15.62x | 3.26x | 0.95x | 11.15x | 22.4 |

Source: VRS Projections

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TABLE of CONTENTS

| | <u>Page</u> |
|--|-------------|
| Investment Case | 3 |
| Revenues from the Greek cellular market | 3 |
| Exploit opportunities from the alternative F-line telephony market | 4 |
| Explore current business concept geographically | 5 |
| Solid growth of the traditional autonomous energy sector | 5 |
| Profitable investment from the 24% equity stake in HDFS | 7 |
| EBITDA margins will slightly improve in the future | 7 |
| Valuation based on DCF Method | 8 |
| Valuation Outlook | 9 |
| Share Price Performance versus General Index | 9 |
| Historic & Projected Balance Sheet | 10 |
| Historic & Projected Profit & Loss Account | 11 |
| Disclaimer | 11 |

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Investment Case

Germanos is the **leading independent telecom and electronic accessories retailer** in Greece, with 295 stores, holding approximately 40% market share in new mobile phone connections (at end December 2003). The Group is currently in the process of re-organization seeking to withdraw from non-profit activities and focus on its retail business capitalizing on its brand name, international expansion and battery manufacturing. We expect Germanos to sustain its leading position in Greece, and at the same time maintain its growth rate due to international expansion (based on the successful business model) in countries with low telecom penetration levels, and weak competition. The **competitive advantages** of Germanos Stores are:

- 1) offering all 3 major mobile operators' services (Vodafone-Panafon, Cosmote, and Stet Hellas),
- 2) strong negotiating power due to
 - a) the broad retail chain of 295 stores in Greece
 - b) the strong brand awareness (65% Top of Mind awareness),
- 3) offering the most important fixed-line telephony operator services (OTE-ISDN and Tellas),
- 4) product diversification, covering all brand names with regard to telecom hardware, the entire range of accessories, electronic goods, and Internet,
- 5) coverage of customer needs for services (i.e. telecom hardware repair).

The revenue growth of Germanos' stores is highly dependent on the Greek and the International cellular growth rate. At the end of December 2002, total telephony revenues accounted for approximately 53.5% of total Group turnover, increased by 18.06% y-o-y. This strong annual growth is attributed to the high number of new connections that were realized during 2002 in Greece from Cosmote and Stet Hellas.

Revenues from the Greek cellular market

The fact that the cellular penetration growth rates will slow down is expected to affect Germanos' telecom revenues, mostly due to lower new connection earnings. However, Germanos, through its strong negotiating power, managed to receive from operators a pre-agreed portion of a subscriber's monthly bill that joined their

3

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networks through its stores. Overall, total telephony revenues are expected to increase due to:

**Germanos' Portion
on Airtime Revenues**

| | Contract | Prepaid |
|-------------|----------|---------|
| Vodafone | 13% | 3.5% |
| Cosmote | 13% | 3.5% |
| Stet Hellas | 16% | 5% |

- 1) the expected uptrend of ARPU that will positively affect Airtime Revenues,
- 2) the sale of fixed-line telephony hardware and services (the Company has already agreed to sell OTE ISDN operation, as well as Tellas and Forthnet services),
- 3) customer drift as competition intensifies among operators through special offers and subsidies,
- 4) number portability (it is expected to start on 1/1/04),
- 5) the introduction of 3rd generation mobile telephony that will boost the sale of mobile hardware and will gradually add to airtime revenues.

However, the increase of telephony revenues will not exceed the Group's total turnover growth, representing approximately 46.7% of the total turnover at end 2005 from 53.5% currently.

Exploit opportunities from the alternative fixed line telephony market

The signing of a commercial agreement with the most promising alternative fixed line operator Tellas expands the range of services that Germanos stores offer. Its retail network is expected to generate approximately 30% of Tellas connections. In addition, under the terms of the agreement Germanos earns, apart from the connection fee, blended airtime revenue of 9%.

Fixed and Mobile Group Airtime Revenue Breakdown

| (in euro mn) | 2002 | 2003 P | 2004 P | 2005 P |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Group Airtime Revenues | | | | |
| From Contract Customers | 30.50 | 40.88 | 47.48 | 55.13 |
| From Prepaid | 6.70 | 10.22 | 15.83 | 21.44 |
| From Fixed line | 0.00 | 0.72 | 2.16 | 4.32 |
| Total Group Airtime Revenues | 37.2 | 51.8 | 65.5 | 80.9 |

Source: VRS Estimates

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Explore current business concept geographically

The Group is already operating through chain outlets in Poland, Bulgaria, Romania, FYROM, and Cyprus. Revenues from international commercial operations (currently only wholesale revenues for products supplied to Germanos stores abroad) accounted for approximately 10% of total turnover at end-Dec 2002. The Group is not generating significant earnings from international activities due to the low cellular penetration in these countries. The establishment of larger chains and expectations for higher cellular penetration in these countries are anticipated to benefit the Group's future results. Poland appears to be the most important target for Germanos, due to its high-income levels and fast convergence with the European economies. Germanos has an aggressive plan for expanding its retail network in Poland (targeting over 300 stores by year-end 2005 from 146 currently) and in Romania (targeting 70 stores by year-end 2003). We estimate that the stake of international commercial activity revenues will exceed 50% of the total by the end of fiscal 2005.

Retail Network of Germanos Group

| | 2000 | 2001 | 2002 | 2003 Target |
|--------------|------------|------------|------------|-------------|
| Greece | 190 | 257 | 279 | 300 |
| Poland | 54 | 90 | 110 | 160 |
| Romania | 30 | 41 | 58 | 70 |
| Bulgaria | 9 | 25 | 41 | 50 |
| FYROM | 2 | 2 | 14 | 20 |
| Cyprus | 11 | 11 | 17 | 20 |
| TOTAL | 296 | 426 | 519 | 620 |

Source: Germanos & VRS Estimates

Solid growth of the traditional autonomous energy sector

The traditional autonomous energy sector of Germanos is currently representing approximately 7.6% of total Group's turnover with the trend showing a steady increase in the next 5-year period. Industrial revenues are expected to increase on a 5-year CAGR of 17% representing approximately 10% of total Group turnover by the end of fiscal 2006. **Germanos is a leading battery manufacturer in Greece owning the largest, and most modern and efficient plant in the Balkans**, while the sector affords significant opportunities in the future. Germanos is already

5

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supplying the Greek State with special batteries for submarines each one costing € 4.4 mn (it supplies 2 batteries for each submarine). Backlog orders for this unit amount to approximately €230 mn, while the Group has a long-term contact with the German HDW shipyard to provide submarine batteries internationally. In addition, Germanos' industrial complex Sunlight signed a cooperation agreement with the German Atlas Elektronik (one of the top in the world in the field of naval weapon systems), for the development of battery systems for a new type of torpedoes. The agreement exceeds initially €100 mil., and has duration of over 10 years.

Turnover Breakdown

| (in €mn) | 2002 | % of Total | 2003 P | % of Total | 2004 P | % of Total | 2005 P | % of Total |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| RETAIL | | | | | | | | |
| 1. MOBILE TELEPHONY | | | | | | | | |
| Total Airtime Revenues | 37.2 | 6.13% | 51.6 | 7.13% | 65.5 | 7.93% | 80.9 | 8.78% |
| Total Connection Fees | 179.7 | 29.62% | 195.3 | 26.97% | 198.82 | 24.08% | 203.31 | 22.06% |
| Total Target Bonus | 29.9 | 4.93% | 38.1 | 5.26% | 39.8 | 4.82% | 36.6 | 3.97% |
| Handset Revenues | 53.0 | 8.74% | 58.0 | 8.02% | 62.8 | 7.61% | 69.1 | 7.49% |
| Accessories | 18.8 | 3.10% | 21.90 | 3.02% | 23.70 | 2.87% | 26.07 | 2.83% |
| Service | 5.7 | 0.94% | 7.18 | 0.99% | 9.05 | 1.10% | 11.04 | 1.20% |
| TOTAL MOBILE REVENUES | 324.3 | 53.46% | 372.1 | 51.40% | 399.6 | 48.40% | 427.0 | 46.32% |
| y-o-y growth | | | 14.75% | | 7.38% | | 6.86% | |
| 2. PRODUCTS | | | | | | | | |
| Electronic Goods-H/W internet | 49.50 | 8.16% | 58.41 | 8.07% | 68.92 | 8.35% | 79.26 | 8.60% |
| Retail Batteries | 6.50 | 1.07% | 7.67 | 1.06% | 9.05 | 1.10% | 10.41 | 1.13% |
| TOTAL PRODUCT SALES | 56.0 | 9.23% | 66.1 | 9.13% | 78.0 | 9.44% | 89.7 | 9.73% |
| y-o-y growth | | | 18.00% | | 18.00% | | 15.00% | |
| RETAIL REVENUES | 380.30 | 62.69% | 438.22 | 60.53% | 477.57 | 57.84% | 516.65 | 56.05% |
| y-o-y growth | | | 15.23% | | 8.98% | | 8.19% | |
| 3. INDUSTRIAL & DEFENCE | | | | | | | | |
| Total Sales from Industrial Batteries | 46.2 | 7.62% | 62.37 | 8.61% | 77.96 | 9.44% | 93.56 | 10.15% |
| 4. WHOLESALE | | | | | | | | |
| Total Wholesale Revenues | 157.7 | 26.00% | 189.24 | 26.14% | 217.63 | 26.36% | 243.74 | 26.44% |
| TOTAL SALES CORE | 584.20 | 96.31% | 689.83 | 95.28% | 773.15 | 93.64% | 853.95 | 92.64% |
| y-o-y growth | | | 18.08% | | 12.08% | | 10.45% | |
| Other Sales | 22.4 | 3.69% | 34.2 | 4.72% | 52.5 | 6.36% | 67.8 | 7.36% |
| TOTAL GROUP SALES | 606.60 | | 724.03 | | 825.65 | | 921.75 | |
| y-o-y growth | | | 19.36% | | 14.04% | | 11.64% | |

Source: VRS Estimates

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Profitable investment from the 24% equity stake in Hellenic Duty Free Shops

Germanos increased its equity participation in HDFFS to 24.7% (Germanos and Follie hold a controlling stake in the company) and will consolidate the subsidiary through the equity method. We expect HDFFS to contribute approximately €15 mn in Group's 2003 profits (income from the consolidation and the one-of dividend from fiscal 2002). However, the acquisition affects equity negatively by €85 mn due to consolidation differences. In the coming years, the consolidation of HDFFS' income will benefit Germanos' profit (it is expected to add more than €11 mn in fiscal 2004).

EBITDA margins will slightly improve in the future

In the next 3-year period, we do not expect Germanos consolidated EBITDA margin to exceed 12% (fiscal 2003 EBITDA margin is expected to settle at 10.68%), while we see the Net Income margin remaining close to the 6.50% region. The positive and negative factors that affect margins are discussed below:

Margins will be negatively affected by international expansion. Most of the countries Germanos expands its operations appear attractive and are expected to add to the total Group turnover significantly, representing in the long term at least 20% of total turnover. However, Germanos adopts a low tariff policy, while operating expenses remain high, keeping margins tight, at least up to 2005. In addition, revenues from airtime and connection fees that generate the highest EBITDA margin will gradually represent a lower stake in the total turnover.

The other sectors Germanos Group is active in, are expected to produce better margins and balance out any negative effect from international operations in the next 2 years. From fiscal 2005 and on, we expect international operations (mostly in Poland and Bulgaria) to produce higher margins. In addition, EBITDA margin will be affected positively by the improvement of the Group's storage capacity (Germanos is constantly seeking to increase revenue per store ratio), and the steady growth of industrial operations that also work on high margins.

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Valuation based on DCF Method

Evaluating our projections on the DCF valuation method we end up on a fair value of €862.82 mn or €21.72 per share.

| VALUATION | | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Assumptions | 2003 P | 2004 P | 2005 P | 2006 P | 2007 P | L-T Assum. |
| Free Cash Flow | -66,159 | 17,637 | 26,189 | 39,119 | 43,481 | 68,313 |
| Accumulated Present Value | -62,145 | -46,655 | -25,272 | 4,192 | 34,181 | |
| Residual Value | | | | | | 1,310,505 |
| Present Value of Residual Value | | | | | | 903,866 |
| Valuation Results | | | | | | |
| Present Value of Future Cash Flows | 34,181 | | | | | |
| Present Value of Residual Value | 903,866 | | | | | |
| Less: Net Debt (fiscal 2003) | 180,222 | | | | | |
| Plus: Participations (fiscal 2003) | 105,000 | | | | | |
| Value of Firm (€,000) | 862,824 | | | | | |
| Value of Share (€) | 21.72 | | | | | |

| WACC | L-T Assum. | | | | | |
|----------------------|-------------------|-------------|-------------|-------------|-------------|-------------|
| Cost of Capital | 6.5% | 6.7% | 7.0% | 7.3% | 7.7% | 7.7% |
| Risk Free Rate | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% |
| Beta Factor | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Market risk Premium | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Debt / Debt + Equity | 49.8% | 45.5% | 40.5% | 34.3% | 27.8% | 27.8% |
| Cost of Debt | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% |
| Tax Rate | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |

Sensitivity Analysis for Fair Value

| | | WACC | | | | |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Parameters | | 7.50% | 8.00% | 8.16% | 9.00% | 9.50% |
| Growth | 1.50% | 19.61 | 19.14 | 18.48 | 17.78 | 16.94 |
| | 2.00% | 21.18 | 20.67 | 19.96 | 19.21 | 18.30 |
| | 2.50% | 23.05 | 22.49 | 21.72 | 20.91 | 19.92 |
| | 3.00% | 25.31 | 24.70 | 23.86 | 22.97 | 21.89 |
| | 3.50% | 28.11 | 27.44 | 26.51 | 25.52 | 24.33 |

Source: VRS Projections

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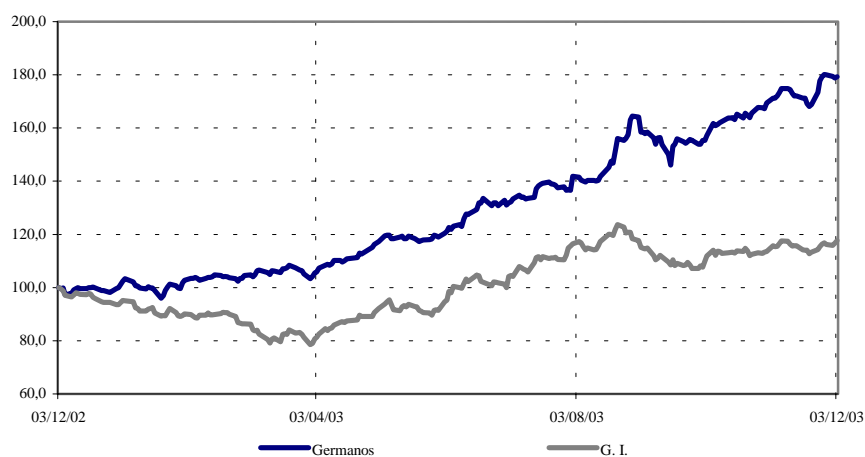
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Valuation Outlook

| | Data as of Dec. 3 rd | 2002 | 2003P | 2004P | 2005P |
|------------------------------|---------------------------------|--------|--------|--------|--------|
| Price (in €) | 19.68 | | | | |
| Shares Outstanding | 39,722,320 | | | | |
| Market Capitalization (in €) | 781,735,258 | | | | |
| EPS (in €) | | 0.86 | 1.16 | 1.26 | 1.40 |
| Book Value / Share (x) | | 6.65 | 5.22 | 6.03 | 6.94 |
| EV (in €mn) | | 805.3 | 969.5 | 966.8 | 955.5 |
| P/E (a.t.& m.i.) | | 22.76x | 16.92x | 15.62x | 14.06x |
| P/BV | | 2.96x | 3.77x | 3.26x | 2.84x |
| P/Cash Flow | | 14.74x | 11.64x | 10.92x | 9.81x |
| EV/EBITDA | | 12.33x | 12.91x | 11.15x | 9.95x |
| EV/Sales | | 1.33x | 1.34x | 1.17x | 1.04x |
| Dividend / Share (in €) | | 0.38 | 0.41 | 0.44 | 0.49 |
| Dividend Yield | | 1.93% | 2.07% | 2.24% | 2.49% |

Source: VRS Estimates

Share Price Performance vs General Index (base = 100, Period 52 Weeks)



9

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BALANCE SHEET

(in €.,000)

| | 2001 A | 2002 A | 2003 P | 2004 P | 2005 P |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Formation Expenses | 15,754 | 7,900 | 10,869 | 13,766 | 15,361 |
| Net Fixed Assets | 141,755 | 163,214 | 162,956 | 167,349 | 170,258 |
| Participation & Long-term Receiv. | 38,322 | 17,272 | 105,000 | 110,250 | 115,763 |
| Total Fixed Assets | 180,076 | 180,485 | 267,956 | 277,599 | 286,020 |
| y-o-y change | | 0.2% | 48.5% | 3.6% | 3.0% |
| Inventory | 75,809 | 56,467 | 66,051 | 75,137 | 83,941 |
| y-o-y change | | -25.5% | 17.0% | 13.8% | 11.7% |
| Trade Debtors | 146,020 | 158,950 | 188,447 | 214,896 | 239,908 |
| y-o-y change | | 8.9% | 18.6% | 14.0% | 11.6% |
| Other Receivables | 29,140 | 20,137 | 23,893 | 27,081 | 30,418 |
| Cash & Marketable Securities | 47,734 | 32,136 | 25,778 | 22,251 | 21,411 |
| Total Current Assets | 298,704 | 267,688 | 304,169 | 339,366 | 375,678 |
| y-o-y change | | -10.4% | 13.6% | 11.6% | 10.7% |
| Transitory Accounts | 5,478 | 7,751 | 7,979 | 8,000 | 8,000 |
| TOTAL ASSETS | 500,013 | 463,824 | 590,974 | 638,731 | 685,059 |
| Share Capital | 11,850 | 12,711 | 12,711 | 12,711 | 12,711 |
| Reserves & Retained Earnings | 40,916 | 45,864 | 75,896 | 108,426 | 144,576 |
| Other Equity Accounts | 216,095 | 205,548 | 118,815 | 118,415 | 118,415 |
| Total Shareholder Funds | 268,861 | 264,124 | 207,422 | 239,553 | 275,702 |
| y-o-y change | | -1.8% | -21.5% | 15.5% | 15.1% |
| Provisions | 1,580 | 51 | 724 | 826 | 922 |
| Long Term Liabilities | 8,857 | 2,164 | 125,000 | 125,000 | 125,000 |
| y-o-y change | | -75.6% | 5676.9% | 0.0% | 0.0% |
| Short Term Debt | 58,564 | 46,559 | 81,000 | 74,852 | 62,674 |
| Liab. for Taxes, Social Sec. | 20,025 | 20,591 | 27,500 | 31,250 | 35,500 |
| Trade Creditors | 108,813 | 99,449 | 120,506 | 137,084 | 153,145 |
| Other Short-term Liabilities | 33,233 | 30,742 | 28,671 | 30,016 | 31,965 |
| Total Short-term Liabilities | 220,634 | 197,340 | 257,676 | 273,202 | 283,285 |
| y-o-y change | | -10.6% | 30.6% | 6.0% | 3.7% |
| Total Liabilities | 229,491 | 199,504 | 382,676 | 398,202 | 408,285 |
| Transitory Accounts | 81 | 146 | 150 | 150 | 150 |
| TOTAL LIABILITIES | 500,013 | 463,824 | 590,974 | 638,731 | 685,059 |

Source: Company Financials & VRS Projections

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| PROFIT & LOSS ACCOUNT | | | | | |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| (in €,000) | | | | | |
| | 2001 A | 2002 A | 2003 P | 2004 P | 2005 P |
| Turnover | 506,390 | 606,631 | 724,035 | 825,654 | 921,750 |
| y-o-y change | | 19.8% | 19.4% | 14.0% | 11.6% |
| Cost of Goods Sold | 370,339 | 448,871 | 535,744 | 609,447 | 680,854 |
| Gross Operating Profit | 136,051 | 157,760 | 188,291 | 216,207 | 240,896 |
| y-o-y change | | 16.0% | 19.4% | 14.8% | 11.4% |
| Other Income | 3,858 | 4,528 | 3,396 | 3,464 | 3,533 |
| Total Operating Costs | 109,720 | 96,979 | 116,570 | 132,930 | 148,402 |
| EBITDA | 50,216 | 65,308 | 75,117 | 86,740 | 96,028 |
| EBITDA Margin | 9.92% | 10.77% | 10.37% | 10.51% | 10.42% |
| y-o-y change | | 30.1% | 15.0% | 15.5% | 10.7% |
| Depreciation | 20,026 | 17,378 | 18,464 | 19,259 | 22,379 |
| EBIT | 30,189 | 47,931 | 56,653 | 67,481 | 73,649 |
| EBIT Margin | 5.96% | 7.90% | 7.82% | 8.17% | 7.99% |
| y-o-y change | | 58.8% | 18.2% | 19.1% | 9.1% |
| Financial Results | 2,720 | -624 | 1,738 | -6,466 | -6,014 |
| Extraordinary Results | 4,936 | -1,427 | 3,080 | 5,569 | 6,358 |
| Earnings Before Tax | 37,845 | 45,880 | 61,471 | 66,584 | 73,993 |
| EBT Margin | 7.47% | 7.56% | 8.49% | 8.06% | 8.03% |
| Taxes | 12,236 | 11,625 | 15,368 | 16,646 | 18,498 |
| Minority Interest | -3,947 | -90 | -99 | -109 | -120 |
| Net Income | 29,556 | 34,345 | 46,202 | 50,047 | 55,615 |
| Net Income Margin | 5.84% | 5.66% | 6.38% | 6.06% | 6.03% |
| y-o-y change | | 16.2% | 34.5% | 8.3% | 11.1% |

Source: Company Financials & VRS Projections

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